



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 0-31659

**NOVATEL WIRELESS, INC.**

*(exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction  
or incorporation or organization)*

**9360 Towne Centre Drive, San Diego, California**  
*(Address of principal executive offices)*

**86-0824673**

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

**92121**  
*(zip code)*

**Registrant's telephone number, including area code: (858) 320-8800**

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

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, par value \$.001 per share**

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

The number of shares of the Registrant's common stock outstanding as of February 20, 2002 was 58,046,906.

The aggregate market value of the voting common stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on February 20, 2002 as reported by the Nasdaq National Market, was approximately \$26,615,000. For the purposes of this calculation, shares owned by officers, directors (and their affiliates) and 5% or greater shareholders, based on Schedule 13G filings, have been excluded. This exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the Registrant. The Registrant has not issued any non-voting stock.

**Documents Incorporated by Reference**

The Registrant's Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated by reference into Part III of this Form 10-K to the extent stated herein.

Certain exhibits filed with the Registrant's prior registration statements and reports on Forms 10-K, S-1, S-3, S-8 and 8-K.

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

### **Forward Looking Statements**

This report contains forward-looking statements based on our current expectations, assumptions, estimates and projections about Novatel Wireless and our industry. These forward-looking statements involve risks and uncertainties. Novatel Wireless’ actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, as more fully described in this section and elsewhere in this report. For a detailed discussion of these risks and uncertainties, see “Business — Business Risks and Uncertainties” section of this Form 10-K. Novatel Wireless undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

### **Trademarks**

The Novatel Wireless logo, Minstrel<sup>TM</sup>, Minstrel III<sup>TM</sup>, Minstrel IIIc<sup>TM</sup>, Minstrel V<sup>TM</sup>, Minstrel Plus<sup>TM</sup>, Minstrel S<sup>TM</sup>, Minstrel 540<sup>TM</sup>, Merlin<sup>TM</sup>, Sage<sup>TM</sup>, Lancer<sup>TM</sup>, Lancer 3W<sup>TM</sup>, Expedite<sup>TM</sup>, MissionONE<sup>TM</sup>, NWIDirect and Viking<sup>TM</sup> are trademarks of Novatel Wireless. Minstrel, Sage and NWIDirect are registered with the U.S. Patent and Trademark Office. All other brands, products and company names mentioned herein are trademarks of their respective holders

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### **Item 1. Business**

#### **Overview**

We are a provider of wireless data access solutions, including wireless data modems and software for use with handheld computing devices and portable personal computers. We deliver innovative and comprehensive solutions that enable businesses and consumers to access personal, corporate and public information through e-mail, enterprise networks and the Internet. We also offer wireless data modems and custom engineering services for hardware and systems integration services to our customers to facilitate use of our products.

We have a strong history of designing innovative wireless access products. We designed and delivered the first products to enable wireless connectivity for the Palm Family of handheld computing devices. We have successfully developed and are continuing to develop solutions that enable our customers to wirelessly access data utilizing a wide range of mobile computing devices across a broad range of wireless data network technologies. Our current product portfolio includes the following:

- The Minstrel Family of Wireless Handheld Modems, for handheld computing devices;
- The Merlin Family of Wireless Type II PC Card Modems for portable and desktop PCs and handheld computing devices;
- The Sage Wireless Modems for portable and desktop PCs;
- The NRM-6812 and Expedite Family of Wireless OEM Modems for custom integration with computers and other devices; and
- The Lancer 3W Family of Ruggedized Wireless Modems for vehicle-mounted applications.

Our core modem technology is easily customized to address a broad range of vertical applications. Our customers include wireless telecommunications operators such as Sprint, Verizon Wireless, Voicestream and MMO2 (formerly BT Cellnet). We also have OEM customers such as, @Road and Airlink and we have entered into strategic technology and development relationships within the wireless communications industry with TTP Communications, Nortel Networks, Sprint PCS, Dell, VoiceStream and Verizon Wireless. We also sell our products through domestic and international distributors such as Hugh Symons, Asia Wireless, Ingram Micro, Global Wireless Data, Brightpoint and Cellcom.

#### **Product Benefits**

##### ***Breadth of Wireless Access Products***

Our products enable both handheld computing devices and portable PCs to access the Internet and enterprise networks wirelessly. We also produce wireless modems which enable connections to a broad range of appliances for vertical applications. We are developing additional capabilities for emerging wireless networks in order to afford our customers maximum flexibility in choosing their wireless data access solutions.

##### ***Price Performance Leadership***

We have designed our products to provide high levels of performance and functionality at an attractive price to drive widespread adoption among users. We use software solutions where others still use hardware and we build our products around a common core hardware and software platform.

##### ***Productivity***

Our products improve productivity by enabling handheld computing devices and portable PCs to be continuously connected to the Internet and enterprise networks with a focus on ease-of-use and real-time access to e-mail, messaging, online content and critical personal and professional information. Our products for handheld computing devices also enable wireless synchronization to enable users to backup and access personal and professional data from remote locations. These features allow mobile professionals to access and manage data even while they are away from traditional work settings, thereby significantly increasing their productivity.

***Customized Solutions***

Our technology platform enables us to provide wireless data solutions for a wide range of specialized applications and to adapt our products to specific customer needs. We enable our OEM customers to provide their clients with tailored solutions for vertical market applications such as securities trading, public safety, transportation, retail and point-of-sale terminals. Our engineering group assists with the integration of our wireless products to provide comprehensive solutions to our customers.

**Our Strategy**

Our objective is to be the leading global provider of wireless data access products. The key elements of our strategy are to:

***Extend Our Technology Leadership***

We intend to continue developing higher speed integrated wireless data access solutions to capitalize on the expansion of global wireless data access technologies. We plan to develop new modem technologies based on evolving wireless data standards and to offer customers a comprehensive range of wireless access products for mobile computing devices. We also intend to continue to apply our technological expertise to reduce the overall size, weight, cost and power consumption of our products, while increasing their capabilities and performance.

***Drive Widespread Adoption of Our Products and Increased Market Penetration***

We intend to drive widespread adoption of our products through increased global marketing activities, strategic pricing and expansion of our international sales team, networks and sales distribution networks. We believe these efforts will increase our revenue and our brand recognition. Our product pricing is an important part of this strategy and we will adjust our prices to ensure market penetration by offering value to our customers.

***Expand and Develop Strategic Relationships***

We plan to build and expand on strategic relationships to improve the design and functionality of our wireless access products and gain market share. We intend to establish and maintain relationships with a strategic focus on:

- Wireless communications companies, and laptop and PDA manufacturers such as our existing relationships with Dell, Symbol, Sprint, MMO2 (formerly BT Cellnet), Monet and VoiceStream, to extend our platform and expand distribution of our products;
- Distribution companies including Brightpoint, Asia Wireless and Hugh Symons;
- Software applications companies, such as our existing relationships with Certicom, FusionOne, Inc. AvantGo, Inc., Puma Technologies, Inc., JP Systems, Inc., Aether Systems, Inc., Openwave and Infowave Software, Inc. to offer a wide array of value-added applications for our customers; and
- Technology companies, such as our existing relationships TTP Communications Ltd. to accelerate the time to market and expand the capabilities of our new products.

***Continue to Target Key Vertical Markets***

We market our products to key vertical industry segments by offering them products that increase productivity, reduce costs and create operational efficiencies. We are currently working with, among others, Marconi in vending system monitoring, KeyCorp in retail/ point of sale, @Road in vehicle tracking and Symbol in inventory control. We believe that continuing improvements in wireless computing technologies will create additional vertical markets and more applications for our products.

**Products**

We currently offer a variety of wireless data access solutions to OEMs, VARs, systems integrators, wireless telecommunications operators, enterprise, mobile professionals and consumers. We offer Type II PC Card modems for portable personal computers and Windows Pocket PC mobile computing devices which operate on GSM/ GPRS, CDMA and CDPD data wireless networks.

The following table lists our principal product lines and applications:

Product	Application
<b>Wireless PC Cards and Modems</b>	
• Merlin Wireless PC Card Modem for GSM/GPRS	• Portable and desktop PCs
• Merlin Wireless PC Card Modem for CDPD	• Portable and desktop PCs
• Merlin Wireless PC Card Modem for CDMA	• Portable and desktop PCs
• Sage® Wireless Serial Modem for CDPD	• Portable and desktop PCs
<b>OEM Products for CDPD</b>	
• Expedite™ Wireless Embedded Modem	• point of sale terminals, automated teller machines, vehicle tracking
• NRM-6812 Wireless Embedded Modem	• utility monitoring, vending system monitoring
<b>Wireless Cradle Devices for CDPD</b>	
• Minstrel III™ Wireless Handheld Modem	• Palm III handheld device
• Minstrel V™ Wireless Handheld Modem	• Palm V handheld device
• Minstrel 500 Wireless Handheld Modem	• Palm 500 handheld device
• Minstrel S™ Wireless Springboard™ Modem	• Handspring handheld device

**Wireless PC Cards and Modems**

Our Merlin Wireless PC Card Modem, which was designed for Windows 95/98/2000/ NT/ Pocket PC computers, allows mobile professionals and consumers to send and receive e-mail, and to connect wirelessly to their enterprise networks and to the Internet.

Merlin G100™ is a single band (1900) wireless PC Card modem based on GSM/ GPRS technology. Slightly larger than a credit card, Merlin G100 slides inside a computer's Type II PC Card slot, providing access to email, corporate databases and the Internet at maximum speeds up to 53.6 kbps in GPRS coverage areas and 14.4 kbps in GSM coverage areas. With user-friendly wireless modem manager software, the Merlin G100 is compatible with a wide range of laptops, handheld devices and operating systems including Microsoft Windows 98, 2000, Millennium Edition, XP and Pocket PC operating systems.

The Merlin G201™ is a dual band (900/1800) wireless PC Card modem based on GSM/ GPRS technology. Like the Merlin G100, the Merlin G201™ is slightly larger than a credit card, slides inside a computer's Type II PC Card slot and provides access to email, corporate databases and the Internet at maximum speeds up to 53.6 kbps over GPRS and 14.4 kbps over GSM. Equipped with a robust removable antenna to enhance portability, the Merlin G201 also enables Short Messaging Service (SMS) capabilities allowing users to send and receive text messages for quick person-to-person or group chats from their laptop or handheld device.



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The Merlin G300™ Series enables access to 900/1800/1900 GSM and GPRS networks globally. The Merlin G300 Series PC Card enables wireless data at speeds up to 53.6 kbps over GPRS networks for a range of applications, including Internet, email, and corporate database access, as well as wireless data transfer over circuit switched GSM networks, SMS, fax, and voice applications.

The Merlin C201™ is a single band (1900 MHz) wireless PC card modem based on CDMA2000 1X technology. Like the Merlin G100 and G201, the Merlin C201™ is also slightly larger than a credit card and slides inside your Type II PC Card slot. The Merlin C201 provides access to email, corporate databases and the Internet at maximum speeds up to 153.6 kbps in CDMA2000 1X coverage areas and 14.4 kbps in IS-95A coverage areas. Equipped with a built-in antenna for maximum network coverage and enhanced portability, the Merlin C201 enables Short Messaging Service (SMS) capabilities allowing users to send and receive text messages for quick person-to-person or group chats from their laptop or handheld devices.

Our Sage Wireless Modem is a self-powered, external, wireless modem for desktop PCs. The key strengths of Sage include its low price, extended battery life and versatility. Sage provides its users with wireless access to e-mail, enterprise networks and the Internet. Sage is also well suited for fixed installations, particularly in situations where telephone lines are unavailable or inconvenient.

### ***OEM Products***

The Expedite Wireless Embedded Modem for CDPD offers 0.6-watt full-duplex wireless modem capabilities with minimal power requirements and a form factor almost four times smaller than its predecessor. The Expedite's 3.6 volt power supply has an extended battery life and is compatible with more integrated products. The Expedite is currently used in numerous applications, including wireless telemetry monitoring, inventory monitoring, point-of-sale terminals, automated teller machines and automated vehicle location and tracking. The Expedite is also priced below comparable products offered by our competitors, making it extremely attractive to OEMs, VARs and systems integrators that require wireless CDPD solutions. The Expedite's small form factor, standards-based interfaces and adherence to specifications, together with its simple design, make it easy for OEM customers to incorporate a wireless CDPD solution into their existing or new product lines.

The forerunner of the Expedite for CDPD, the NRM-6812 Wireless Embedded Modem has a wider temperature range and differing voltage levels than the Expedite, making it preferable for certain types of wireless applications such as oil and gas telemetry and vehicle tracking.

With their exclusive Uniface design, the Expedite G301 (Triband GPRS) and Expedite C100/ C200 (CDMA 1XRTT) OEM modules use packet switching techniques to deliver machine-to-machine communication at data rates up to 153.6 kbps over the global GPRS and CDMA 1XRTT networks. With the same suite of protocols as the Merlin PC card line, a wide option of communication standards are supported for both packet and circuit switched network coverage areas. With very aggressive low power and Sleep Modes, battery powered remote devices can be well supported. One of the industry's smallest form factors and standard connectorization, mounting and command interfaces between protocol technologies allows a host device to be designed once and easily configured to use the technology appropriate to the area of deployment. The Over-the-Air-Download feature helps reduce life cycle cost and keep all products operating at peak performance by allowing firmware upgrades without having to recall the unit. These key features make it a compelling choice for wireless data applications.

### ***Wireless Cradle Devices***

Our Minstrel Family of wireless data modems adds two-way communications capability to the Palm Family of handheld computing devices, the Handspring Family of handheld computing devices and private labeled derivatives. The Minstrel wireless "cradles" maintain the key advantages of these devices: size, ease-of-use, synchronization and customization. Minstrel provides users with complete portable access to enterprise networks, e-mail and the Internet without the limitation of wired connections. Minstrel can also be used with most third-party software developed for the Palm Family of handheld computing devices.

**Our Technology Focus**

In addition to developing products based on the technology standards mentioned above, we have developed and continue to build on the following key technology areas:

*Advanced Radio Frequency Design.* Advanced Radio Frequency (RF) design is the key technology that determines the performance of wireless devices. We have specialized in the 800/900 MHz designs for analog and digital cellular, packet data and spread spectrum systems. Our proprietary RF technology contributes to the performance, small size and low cost of products. We are currently developing the 900, 1800 and 1900 MHz RF technology for future high speed wireless systems including GPRS, CDMA, 1XRTT and 3G technologies.

*Miniaturization and System Integration.* Small systems integration is the integration of application specific integrated circuits, RF, baseband and packaging technologies. The complete wireless modem is packaged into a sub-credit card module with the advent of proprietary integrated circuit design, embedded software modem and multi-layer RF stripline technologies. We have one of the smallest wireless modems available, the only pocket-sized wireless modem for the Palm family of personal computing devices, and a Type II PC card modem. We will continue to augment the miniaturization technology, working to reduce the size and cost of current and future products.

**Customers**

Our customers include wireless telecommunications operators, distributors, wireless data content and service providers, OEM customers, professionals and consumers. The following is a representative selection of our customers:

Wireless Telecommunications Operator Customers	Distributors	OEM Customers
VoiceStream	Ingram Micro	Symbol (inventory control)
Cellcom (Middle East)	Brightpoint	AirLink
Sprint	Tech Data	@Road (vehicle tracking)
AT&T	Asia Wireless	IVI Checkmate
MicroCell	Global Wireless	Marconi
Monet	Hugh Symons	Dell
MMO2 (formerly BT Cellnet)	Go America Communications Corp	Lipman Electronic Eng.
CSL (Asia)	Aether Systems	

Hewlett Packard, Metricom, @Road and Hugh Symons accounted for 13%, 12.4%, 8.9% and 7.4% of our revenue, respectively, for the year ended December 31, 2001. OmniSky, @Road and Go America accounted for 45.4%, 8.7% and 5.6% of our revenue, respectively, for the year ended December 31, 2000. As discussed in *"Business Risks and Uncertainties — We depend upon a small number of our customers for a substantial portion of our revenue,"* Metricom filed for bankruptcy in July 2001 and Omniskey filed for bankruptcy in December 2001.

Many of our customer relationships provide us with the opportunity to expand our customer base and market reach. Among those mutually beneficial relationships that augment our sales opportunities are the following:

*Wireless Telecommunications Operators.* We work closely with our carrier customers to generate demand for our products. Our carrier customers serve as an important sales channel for our products. This approach allows us to combine our wireless data expertise with the carriers' vast end-customer relationships and broad sales reach. Our carrier customers also provide us and our customers with important services, including field trial participation, first-tier technical support, wireless data marketing

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and access to additional indirect distribution channels. To leverage these services, we provide carriers with early access to new products, technical training and co-marketing resources. Examples of our other wireless telecommunications operators include VoiceStream, Sprint and MMO2 (formerly BT Cellnet).

*Distributors.* In North America, we sell our products through dedicated distributors, which include Global Wireless Data, Ingram Micro, Tech Data, Go America Communications Corp. and Brightpoint. Our international distributors include Hugh Symons, Asia Wireless and Brightpoint-Latin America.

*OEM Customers.* Our OEM customers integrate our products into devices that they manufacture and sell to end-users through their own direct sales forces and indirect distribution channels. Our products are integrated into a broad range of devices, including but not limited to, handheld computing devices, laptops, vehicle location devices (AVLs), electric meters, vending machines, industrial equipment, wireless credit processing and point of sale (POS). Examples of our OEM customers include Symbol, Dell, @Road, AirLink, Lipman Electronic Eng. and Marconi. We build strong relationships with our OEM customers because they rely heavily on our application engineering support during the process of integrating our products into theirs.

### **Strategic Alliances**

We intend to develop and maintain strategic relationships within the wireless communications industry which complement and expand our existing distribution network and extend our technology and market reach. These arrangements include strategic technology and marketing relationships with providers of next generation wireless technology, application software developers focused on wireless products, OEM customers which integrate our products into other devices, value-added resellers, distributors, systems integrators and cellular carriers. These strategic relationships allow us to develop the most compelling wireless data products and provide us with access to additional markets, channels of distribution and increased sales opportunities. Our principal strategic alliances to date include the following:

*Nortel Networks.* Nortel Networks is a global Internet and communications leader that serves carrier, service provider and enterprise customers globally. In March 2001, we entered into a three-year agreement to jointly develop, market and offer PC Cards, cradles and OEM modules together with Nortel's software product and service offerings across all wireless technology standards, including General Packet Radio Service (GPRS) and CDMA 2000 Phase 1, or 1XRTT. We will jointly offer these solutions to telecommunications operators and corporate customers, with a geographic focus on Europe and the Pacific Rim.

*Sprint PCS.* Sprint PCS operates the largest all-digital, all-PCS, voice and data nationwide wireless network in the United States. In February 2002, we entered into a three-year agreement under which we will provide Sprint PCS with wireless PC Card modems that run on the CDMA 1XRTT network.

*Symbol Technologies, Inc.* Symbol is a manufacturer of bar code-driven data transaction systems and is engaged in the design, manufacture and marketing of bar code reading equipment, handheld computers and radio frequency (RF) data communications systems. In March 2000, we entered into a two-year agreement with Symbol to integrate our Merlin OEM CDPD modems into Symbol's radio frequency data communications systems.

*VoiceStream Wireless Corporation.* VoiceStream is a leading provider of digital wireless communications. Through a license from the FCC, VoiceStream constructs and operates Personal Communication Service (PCS) networks. In March 2000, we entered into an agreement with VoiceStream, to develop three types of wireless GPRS-PCS PC card modems for wireless mobile computing devices. The modems may be co-branded by VoiceStream. VoiceStream will also purchase our modems during the term of the agreement, which lasts until March 2003.

## Sales and Marketing

As of December 31, 2001, our sales and marketing organization consisted of 18 employees.

We sell our products using a multi-channel distribution model which includes both direct and indirect sales. In order to maintain strong sales relationships, we provide co-marketing, trade show, low-cost sales demo unit and joint press release support. In addition to our direct sales relationships with carriers and service providers, OEMs and VARs, we sell our products through the following channels:

- *Domestic Distributors.* In the North America, we sell our products through domestic distributors. As of December 31, 2001, our domestic distributors include D&H Distributing Company, Global Wireless Data, Ingram Micro, Tech Data and Brightpoint.
- *International Distributors.* We sell our products through international distributors in Latin America, Israel, Europe, the Far East and New Zealand. As of December 31, 2001, our international distributors include Hugh Symons, Bismark, Cellcom and Brightpoint-Latin America.

## Product Development

Our product development efforts are focused on developing innovative products and improving the functionality, design and performance of our existing products. We intend to continue to identify and respond to our customers' needs by introducing new product designs with an emphasis on innovations in the ease-of-use, performance, size, weight, cost and power consumption of our products. We are also currently developing technology and products for high bandwidth wireless applications to address opportunities presented by the next generation of public and private wireless networks.

Our product development effort is driven by a highly skilled and experienced team. While we have developed most new products and enhancements to existing products internally, we have also licensed technology from third parties.

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

We believe that our future success will depend, in part, on our ability to identify and respond to emerging technological trends in our target markets, develop and maintain competitive products, enhance our existing products by adding features and functionality that differentiate them from those of our competitors, and bring products to market on a timely basis. As a result, we have devoted a significant portion of our resources to product development, and we intend to continue making substantial investments in research and development.

For the year ended December 31, 2001, our research and development expense totaled \$20.8 million, excluding amortization of deferred compensation. In 2001, we capitalized \$2.3 million related to the development of our CDMA and GPRS products. Our research and development expense totaled approximately \$13.5 million for the year ended December 31, 2000 and \$3.7 million for the year ended December 31, 1999. As of December 31, 2001, we had 87 engineering and technical professionals in product development and manufacturing, which includes purchasing, fulfillment, quality assurance, quality control, reliability, technical documentation and technical publication.

## Manufacturing

We currently outsource our manufacturing to Solectron de Mexico, S.A. de C.V., a subsidiary of Solectron Corporation. Our agreement with Solectron, as extended, expires August 2002 and automatically renews for successive one-year terms unless the parties determine otherwise. Under this agreement, Solectron provides component procurement, product manufacturing, final assembly, testing, quality control, fulfillment and delivery services for us and we agree, among other things, to provide Solectron with firm purchase orders covering a minimum period of three months. We also have a written understanding with Sanmina-SCI

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Corporation that permits Sanmina the opportunity until June 2003 to bid on all our new contract manufacturing business.

Our outsourced manufacturing activity allows us to:

- focus on our core competencies;
- minimize our capital expenditures;
- participate in contract manufacturer economies of scale and achieve production scalability by adjusting to manufacturing volumes to meet changes in demand;
- access best-in-class manufacturing resources; and
- operate without dedicating space to manufacturing operations.

We believe that additional assembly line efficiencies are realized due to our product architecture and our commitment to process design. The components that make up our products are supplied by a number of vendors. Direct materials for our products consist of tooled parts such as printed circuit boards, molded plastic components, unique metal components and application-specific integrated circuits (ASICs), as well as industry-standard components such as transistors, integrated circuits, piezo-electric filters, duplexers, inductors, resistors and capacitors, many of which are similar to components used in cellular telephone handsets. Although we generally use standard components for our products and try to maintain alternative sources of supply, some components, such as printed-circuit boards, molded plastic components, unique metal components and ASICs, are purchased from suppliers for which alternative sources are not currently available in the quantities and at the prices we require.

We employ our own manufacturing staff that focuses on managing the relationship with our third-party manufacturers and particularly on design-for-manufacturing, test procedures, quality, procurement and cost optimization, production scheduling and continuous improvement. We also perform certain manufacturing related functions internally, including manufacturing engineering, quality assurance and the development of manufacturing test procedures and fixtures.

### **Government Regulation**

*Our products are subject to certain mandatory regulatory approvals.* In the United States, the FCC regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to the telephone networks. Radio frequency devices, which includes our modems, must be approved under the above regulations by obtaining FCC equipment authorization prior to being offered for sale. FCC equipment authorization is obtained by submitting a technical description of the product and report showing compliance with FCC technical standards. We have obtained from the FCC all necessary equipment authorization for all products we currently manufacture and sell.

### **Competition**

*The wireless data communications market is intense, rapidly evolving and highly competitive.* It is subject to technological changes and is significantly affected by new product introductions and the market activities of industry participants. We compete in this market on the basis of price, form factor, time to market, functionality, quality and variety of product offerings. Moreover, we expect that this market will experience several new entrants in the future. To maintain and improve our competitive position, we must continue to develop new products, expand our customer base, grow our distribution network and leverage our strategic partnerships.

Our current and prospective competitors generally fall within the following categories:

- Wireless modem manufacturers, such as Sierra Wireless, Uniden, Wavecom, NextCell, Tellus and Nokia;

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- Traditional wired modem manufacturers, such as 3Com;
- Wireless device manufacturers, such as Handspring, Palm and Research In Motion;
- Wireless handset manufacturers and next generation wireless technology providers, such as Ericsson, Motorola, and Nokia; and
- Non-CDPD private communications network providers, such as Emotiant, Bell South and Metricom.

We believe the principal competitive factors impacting the market for our products are functionality, features, performance, convenience, availability, brand and price. We believe that we compete better than many of our current competitors with respect to some or all of these factors due to the broad range of products we offer, the ease-of-use in design and engineering of our products, our ability to adapt our products to specific customer needs and our price leadership.

There can be no assurance that our current or potential competitors will not develop products comparable or superior to those developed by us or adapt more quickly to new technologies, evolving industry standards, new product introductions, or changing customer requirements. As a result, we must continuously introduce new products and educate existing and prospective customers as to the advantages of our products versus those of our competitors.

Many of our current and potential competitors have had longer operating histories and significantly greater financial, manufacturing, technical, sales, customer support, marketing and other resources, as well as greater name recognition and a larger installed products and technologies base. In addition, the global acceptance of our products could lead to increased competition as third parties develop products competitive with our own. Any of these competitors may be able to respond faster than we can to new or emerging technologies and changes in customer requirements and to devote greater resources to the development, promotion and sale of their products than we can. Our current or potential competitors may develop products comparable or superior to those that we develop or adapt more quickly than we do to new technologies, evolving industry trends or changing customer requirements.

In addition, as the wireless data communications product market develops, a number of companies with significantly greater resources than we have could attempt to increase their presence in the market by acquiring or forming strategic alliances with our competitors, resulting in increased competition.

### **Proprietary Technology**

Our software, hardware and operations rely on and benefit from an extensive portfolio of intellectual property. We currently hold 15 United States patents issued for our technology and have 31 United States patent applications pending. We also have four foreign patents issued and four foreign patent applications pending.

We own a number of trademarks and servicemarks, including Contact<sup>TM</sup>, Expedite<sup>TM</sup>, Lancer<sup>TM</sup>, Lancer 3W<sup>TM</sup>, Merlin<sup>TM</sup>, Minstrel<sup>TM</sup>, Minstrel III<sup>TM</sup>, Minstrel IIIc<sup>TM</sup>, Minstrel V<sup>TM</sup>, Minstrel Plus<sup>TM</sup>, Minstrel S<sup>TM</sup>, Minstrel 540<sup>TM</sup>, MissionONE<sup>TM</sup>, Sage®, NWIDirect® and Viking<sup>TM</sup>, each with its accompanying designs, and the Novatel Wireless logo.

We license CDMA technology from QUALCOMM, Incorporated for integration into our products. This license allows us to manufacture CDMA-based wireless modems and sell or distribute them worldwide. The license does not have a specified term and may be terminated by us or by QUALCOMM for cause or upon the occurrence of other specified events. In addition, we may terminate the license for any reason upon 60 days' prior written notice. We have also granted to QUALCOMM a nontransferable, worldwide, nonexclusive, fully paid and royalty-free license to use, in connection with wireless communications applications, certain intellectual property of ours that is used in our products which incorporate the CDMA technology licensed to us by QUALCOMM. This license allows QUALCOMM to make, use, sell or dispose of such products and the components therein.

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In October 2000, we entered into a five-year product purchase and license agreement with Intel Corporation. In connection with the agreement, under certain circumstances we will not assert our patent rights against certain Intel products which do not involve our core technology and, if we assign or sell any of our patents that pertain to certain Intel products which do not involve our core technology, we will grant Intel a nontransferable, worldwide, royalty-free license to those patents.

We primarily rely on a combination of copyright, trade secret and trademark laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology. In addition, as part of our confidentiality procedures, we generally enter into nondisclosure agreements with our employees, consultants, distributors and corporate partners and limit access to and distribution of our software, documentation and other proprietary information. It may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization, or to develop similar technology. In addition, our products are licensed in foreign countries and the laws of such countries may treat the protection of proprietary rights differently from and may not protect our proprietary rights to the same extent as do laws in the United States.

### **Employees**

As of December 31, 2001, we had a total of approximately 134 employees, including 18 in sales and marketing, 97 in engineering, manufacturing, research and development and 19 in general and administrative functions. Our future performance depends, in significant part, upon our ability to attract new personnel and retain existing personnel in key areas including engineering, technical support and sales. Competition for qualified technical personnel is intense, especially in the San Diego area where we are headquartered, and we cannot be sure that we will be successful in attracting or retaining qualified technical personnel in the future. Our employees are not represented by any collective bargaining unit, and we consider our relationship with our employees to be good.

### **Business Risks and Uncertainties**

*We have incurred significant operating losses since our inception and we expect to continue to incur significant net losses and negative cash flows.*

We have experienced operating losses and net losses in each quarterly and annual period since our inception, and we expect to continue to incur significant losses in 2002. We incurred net losses of \$3.5 million for the eight months ended December 31, 1996, \$4.5 million for the year ended December 31, 1997, \$5.5 million for the year ended December 31, 1998, \$18.5 million for the year ended December 31, 1999, \$46.9 million for the year ended December 31, 2000 and \$90.9 million for the year ended December 31, 2001. In addition, we had negative cash flows from operations of \$5.0 million for the year ended December 31, 1998, \$5.2 million for the year ended December 31, 1999, \$41.0 million for the year ended December 31, 2000 and \$55.3 million for the year ended December 31, 2001. As of December 31, 2001, we had an accumulated deficit of \$176.9 million. We expect our operating expenses and negative cash flows to continue in connection with new product introductions as we continue to attempt to expand our business, including related increases in product development, sales and marketing, research and development, manufacturing, and general and administrative expenses. We entered into and expect to continue to enter into significant customer contracts for the development and supply of our products. These contracts may place significant demands on our resources. If we are unable to increase our revenue sufficiently to offset these expenses, we will not achieve profitability and our operating losses, net losses and negative cash flows will continue.

*We have been operating only since 1996 and our historic operating results may not be an indication of future operations.*

We launched our first wireless modem in 1996 and have a limited operating history. We are subject to risks, expenses and uncertainties that young and growing companies like ours face, particularly in the evolving wireless communications market. These considerations include our ability to continue to expand our customer base, maintain our current strategic-relationships and develop new ones, deliver products associated with our

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key contracts in a profitable and timely manner, attract and retain qualified personnel and manage our growth. Because we have only recently commenced commercial sales of our products, our past results and rates of growth may not be meaningful, and they should not be relied upon as an indicator of our future performance.

***If we cannot deliver products associated with our significant contracts in a profitable and timely manner, our reputation could be harmed and our revenue and profit margins may decrease.***

Our ability to generate future revenue under many of our significant supply contracts depends upon our ability to manufacture and supply products that meet defined specifications. To realize the benefits of these agreements, we will have to manage the following risks successfully:

- We have priced these contracts on our estimate of future production costs. If we incur higher costs than anticipated, our gross margins on these contracts will decrease and these contracts may not be as profitable as anticipated.
- If we are unable to commit the necessary resources or are unable to deliver our products as required by the terms of these contracts, our customers may cancel the contracts. In that event, we might not recover any costs that we incurred for research and development, sales and marketing, production and otherwise and we may incur additional costs including contractual penalties.
- If we fail to meet a delivery deadline, or a customer determines that the products we delivered do not meet the agreed-upon specifications, we may have to reduce the price we can charge for our products, or we may be liable to pay damages to the customer.

If we are unable to successfully manage these risks or meet required deadlines in connection with one or more of our key contracts, our reputation could be harmed and our business, financial condition, results of operations and liquidity could be materially adversely affected.

***If the demand for wireless access to the Internet does not increase, our revenue will continue to decline.***

Our financial condition, results of operations and cash flows were adversely affected during 2001 as a result of overall decreases in demand in the marketplace for both wireless products and wireless access services for the transmission of data. Our management believes that this trend will continue for at least the next several quarters. If this trend continues, our financial condition will be further adversely affected. A significant amount of our revenue is generated by our products for handheld computing devices and portable PCs. In addition, certain recent models of handheld computing devices and portable PCs include internal wireless modems installed by the manufacturer which reduce the need for consumers to purchase our wireless modem products. A decrease in our cash flows or our failure to generate significant revenue from new or existing products, whether due to the purchase by more customers of handheld computing devices and PC's with wireless modems, lack of market acceptance, competition, technological change or otherwise, or the inability to reduce manufacturing or operating costs, will adversely impact our business, financial condition and results of operations.

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

The success of our business depends on the capacity, affordability and reliability of wireless data access provided by various wireless telecommunications operators. Currently, various wireless telecommunications operators such as Verizon Wireless, either directly or jointly with us, sell our products in connection with the sale of their wireless data access services to their customers. Growth in demand for wireless data access may be limited if wireless telecommunications operators cease operations, fail to offer services which customers consider valuable, fail to maintain sufficient capacity to meet demand for wireless data access, delay the expansion of their wireless networks and services, fail to offer and maintain reliable wireless network services or fail to market their services effectively. If any of these occur, or if for any other reason the demand for wireless data access fails to grow, sales of our products will decline and our business, financial condition and results of operations could be materially adversely affected.



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In addition, our future growth depends on the successful deployment of next generation wireless data networks by third parties, including those networks for which we currently are developing products. If these next generation networks are not deployed or widely accepted, or if deployment is delayed, there will be no market for the products we are developing to operate on these networks. As a result, we will not be able to recover our research and development expenses and our financial condition and results of operations and liquidity could be materially adversely affected.

***We currently rely exclusively on third-party manufacturers to produce our products, and our ability to control their operations is limited.***

We currently outsource our manufacturing to Solectron de Mexico, S.A. de C.V., a subsidiary of Solectron Corporation. We also have a written understanding with Sanmina-SCI Corporation that permits Sanmina the opportunity until June 2003 to bid on all our new contract manufacturing business. We expect to continue to depend exclusively on third-party manufacturers to produce our products in a timely fashion and at satisfactory quality levels. None of these third-party manufacturers is obligated to supply products to us for any specific quantity, except as may be provided in particular purchase orders which we submit to them from time to time. If our third-party manufacturers experience delays, disruptions, capacity constraints or quality control problems in their manufacturing operations, then product shipments to our customers could be delayed, which would negatively impact our revenues and our competitive position and reputation. The cost, quality and availability of third-party manufacturing operations are essential to the successful production and sale of our products. Our reliance on our third-party manufacturers exposes us to a number of risks, which are outside our control:

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

If we are unable to manage successfully our relationships with these third-party manufacturers, the quality and availability of our products may be harmed. If any of our third-party manufacturers stopped manufacturing our products or reduced its manufacturing capacity, we may be unable to replace the lost manufacturing capacity on a timely basis. In addition, if any of our third-party manufacturers changed the terms under which they manufacture for us, our manufacturing costs could significantly increase. We generally place orders with our third-party manufacturers at least three months prior to scheduled delivery of products to our customers. Accordingly, if we inaccurately anticipate demand for our products, we may be unable to obtain adequate quantities of components to meet our customers' delivery requirements or we may accumulate excess inventories. If one or more of these events were to occur, our business, financial condition and results of operations could be materially adversely affected by increased costs, reduced revenue and lower profit margins.

***If we fail to adopt new technology and fail to develop and introduce new products successfully, we may not be able to compete effectively.***

We operate in a highly competitive environment, characterized by rapidly changing technology and industry standards. New products based on emerging technologies or evolving industry standards may quickly render an existing product obsolete and unmarketable. Our growth and future operating results depend in part

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upon our ability to enhance existing products and introduce newly developed products that conform to prevailing and evolving industry standards, meet or exceed technological advances in the marketplace, meet changing customer requirements, achieve market acceptance and respond to our competitors' products.

The development of new products can be very difficult and requires technological innovation. The development process is also lengthy and costly. In addition, wireless communications service providers require that wireless data systems deployed on their networks comply with their own standards, which may differ from the standards of other providers. If we fail to anticipate our customers' needs and technological trends accurately or are otherwise unable to complete the development of products on time and within budgeted amounts, we will be unable to introduce new products into the market on a timely basis, if at all. If we are unsuccessful at developing and introducing new products that are appealing to consumers, we may be unable to recover our significant research and development costs and our business, financial condition and results of operations could be materially adversely affected. In addition, as we introduce new versions of our products or new products, our current customers may not require the technological innovations of our new products and may not purchase them.

To grow our revenue and achieve profitability, we must retain our current customers and develop new ones. If consumers view our competitors' products as superior to ours, or if our products are unable to meet their expectations or requirements, we may be unable to retain our existing customers or to develop new customers which would materially and adversely effect our business, financial condition and results of operations.

### ***The fluctuation of our quarterly operating results may cause our stock price to decline.***

Our future quarterly operating results may fluctuate significantly and may not meet the expectations of securities analysts or investors. If this occurs, the market price of our stock would likely decline. The following factors may cause fluctuations in our operating results:

- *Decreases in revenue or increases in operating expenses.* We budget our operating expenses based on anticipated sales, and a significant portion of our sales and marketing, research and development and general and administrative costs are fixed, at least in the short term. If revenue decreases and we are unable to reduce our operating costs quickly and sufficiently, our operating results could be materially adversely affected. We have entered into and expect to continue to enter into significant customer contracts for the development and supply of our products. We expect to incur significant research and development, sales and marketing and other costs relating to the development, manufacture and sale of these products prior to receiving revenue from these contracts, if any.
- *Product mix.* The product mix of our sales affects profit margins in any given quarter. As our business evolves and the revenue from the product mix of our sales varies from quarter to quarter, our operating results will likely fluctuate.
- *New product introductions.* As we introduce new products, the timing of these introductions will affect our quarterly operating results. We may have difficulty predicting the timing of new product introductions and the market acceptance of these new products. If products and services are introduced earlier or later than anticipated, or if market acceptance is unexpectedly high or low, our quarterly operating results may fluctuate unexpectedly. Our quarterly operating results also fluctuate because we incur substantial upfront research and development, sales and marketing, production and other costs to support new product introductions prior to the periods in which we will recognize revenue from new products.
- *Use of supply contracts with customers.* We rely on long-term supply contracts with our distributor customers. These contracts typically have minimum purchase volumes, and also typically include a non-binding, forward-looking rolling forecast and allow the customer to make certain volume changes within specified periods of time in advance of scheduled production dates. We use these forecasts for internal planning of material procurement and required manufacturing capacity, but cannot predict with certainty incoming orders or changes in forecasts. Our operating results may fluctuate as a result

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of deviations from forecasted amounts, the timing of substantial orders, decreases in orders, failure to fulfill orders, possible delays or shortages in component supplies, or possible delays in the manufacture or shipment of current or new products.

- *Lengthy sales cycle.* In addition, the length of time between the date of initial contact with a potential customer and the execution of a contract may take several months, and is subject to delays over which we have little or no control. The sale of our products is subject to delays from our customers' budgeting, approval and competitive evaluation processes that typically accompany significant information technology purchasing decisions. For example, customers frequently begin by evaluating our products on a limited basis and devote time and resources to testing our products before they decide whether or not to purchase a product. We commit substantial time and resources to educate potential customers on the use and benefits of our products. Customers may also defer orders as a result of anticipated releases of newer or enhanced products by us or our competitors. As a result, our ability to anticipate the timing and volume of sales to specific customers is limited, and the delay or failure to complete one or more large transactions could cause our operating results to vary significantly from quarter to quarter.

We believe that quarter-to-quarter comparisons of our operating results will not necessarily be meaningful in predicting our future performance. If we do not achieve our expected revenue, it is possible that our operating results will fall below the expectations of market analysts or investors in some future quarter or quarters. Our failure to meet these expectations would likely adversely affect the trading price of our common stock.

### ***We depend upon a small number of our customers for a substantial portion of our revenue.***

A significant portion of our revenue comes from a small number of customers. Our top ten customers for the year ended December 31, 2001 accounted for approximately 66.6% of our revenue. Hewlett Packard, Metricom, @Road and Hugh Symons accounted for 13%, 12.4%, 8.9% and 7.4% of our revenue, respectively, for the year ended December 31, 2001. OmniSky, @Road and Go America accounted for 45.4%, 8.7% and 5.6% of our revenue, respectively, for the year ended December 31, 2000. We expect that a small number of customers will continue to account for a substantial portion of our revenue. Our business was impacted adversely by the bankruptcy of Metricom, which filed for bankruptcy in July 2001 and the bankruptcy of OmniSky, which filed for bankruptcy in December 2001. If there is a downturn in the business of one or more of these customers, if one or more of these customers files for bankruptcy or becomes insolvent, if we are unable to continue to retain their business, or if we are unable to diversify our customer base, our revenue may decline.

### ***We depend on sole source suppliers for some of our components, and our product availability and sales would be harmed if these suppliers are not able to meet our demand and alternative sources are not available.***

Our products contain a variety of components, many of which are procured from single suppliers. These components include both tooled parts and industry-standard parts, many of which are used in cellular telephone handsets. Currently, some components and certain integrated circuits are in short supply worldwide due to the explosive growth in demand for cellular-telephone handsets. If the shortage of these components or any other key components persists or worsens, we may not be able to deliver sufficient quantities of our products to satisfy demand. The cost, quality and availability of components are essential to the successful production and sale of our products. Some of these components come from sole or single source suppliers for which alternative sources may not be available. If suppliers are unable to meet our demand for sole source components and if we are unable to obtain an alternative source or if the price for a substitute is prohibitive, our ability to maintain timely and cost-effective production of our products would be seriously harmed.

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

A key element of our business strategy is to penetrate new markets by developing new products through strategic alliances with leading companies. We are currently investing, and plan to continue to invest, significant resources to develop these relationships. We believe that our success in penetrating new markets for our products will depend in part on our ability to maintain these relationships and to cultivate additional or alternative relationships. We cannot assure you that we will be able to develop additional strategic alliances,

that existing relationships will be successful in achieving their purposes or that strategic partners will not form competing arrangements.

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

Our success in the future depends in part on the continued contribution of our executive, technical, engineering, sales, marketing, manufacturing and administrative personnel. Recruiting and retaining skilled personnel, including software and hardware engineers, is highly competitive, especially in the San Diego area. Most of our senior management and other key personnel are not bound by employment agreements. If we are not able to attract or retain qualified personnel in the future, or if we experience delays in hiring required personnel, particularly qualified engineers, we will not be able to maintain and expand our business.

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

As part of our business strategy, we intend to review on an ongoing basis acquisition opportunities that we believe would be advantageous to the development of our business. While we have no current agreements or current discussions with respect to any acquisitions, we may acquire businesses, products, or technologies in the future. If we make any acquisitions, we could take any or all of the following actions, any one of which could adversely affect our business, financial condition, results of operations and the price of our common stock:

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

Acquisitions also entail numerous risks, including: difficulties in assimilating acquired operations, products and personnel; unanticipated costs; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which we have limited or no prior experience; and potential loss of key employees from either our preexisting business or the acquired organization. We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future, and our failure to do so could harm our business and operating results.

***Our future results could be harmed by risks associated with international sales and operations.***

We plan to expand our international sales and marketing activities in the future. We have limited experience in marketing, selling, distributing and manufacturing our products and services internationally. For the years ended December 31, 2000 and 2001, approximately 7% and 16%, respectively, of our revenue was derived from international accounts. As we expand international sales, we expect to become subject to a number of risks, which may increase our costs, lengthen our sales cycle and require significant management attention. These risks associated with doing business internationally generally include:

- changes in foreign currency exchange rates;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets, and changes in diplomatic and trade relationships;
- less effective protection of intellectual property;
- trade protection measures and import or export licensing requirements;

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- potentially negative consequences from changes in tax laws;
- increased expenses associated with customizing products for foreign countries;
- unexpected changes in regulatory requirements resulting in unanticipated costs and delays;
- longer collection cycles and difficulties in collecting accounts receivable; and
- difficulty in managing widespread sales and research and development operations.

Our sales and invoices are currently denominated in U.S. dollars. In the future, however, we may record sales and invoice customers in the applicable local foreign currency. If that occurs, we may be exposed to international currency fluctuations.

***The wireless communications market is highly competitive and we may be unable to compete effectively.***

We compete in the wireless communications markets. The markets for wireless data access products are highly competitive and we expect competition to increase. Many of our competitors or potential competitors have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They also may devote greater resources than we do to the development, promotion and sale of their products.

Many of our competitors have more extensive customer bases and broader customer relationships and industry alliances that they could leverage to establish relationships with many of our current and potential customers. These companies also have significantly more established customer support and professional services organizations. In addition, these companies may adopt aggressive pricing policies or offer more attractive terms to customers, may bundle their competitive products with broader product offerings and may introduce new products and enhancements. Current and potential competitors may establish cooperative relationships among themselves or with third parties to enhance their products. As a result, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

Our wireless communications products compete with a variety of devices, including wireless modems, traditional wired modems, wireless handsets, wireless handheld computing devices and other wireless devices. Our current and potential competitors include:

- wireless modem manufacturers, such as Sierra Wireless, Wavecom, Option, NextCell and Tellus;
- traditional wired modem manufacturers, such as 3Com and Xircom;
- wireless device manufacturers, such as Handspring, Palm and Research in Motion (BlackBerry);
- wireless handset manufacturers and next generation wireless technology providers, such as Ericsson, Motorola, Kyocera and Nokia; and
- non-CDPD private communications network providers, such as Emotiant and Bell South.

We expect our competitors to continue to improve the performance of their current products and to introduce new products, services and technologies. Successful new product introductions or enhancements by our competitors could reduce our sales and the market acceptance of our products, cause intense price competition and make our products obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing, and customer support. We cannot be sure that we will have sufficient resources to make these investments or that we will be able to make the technological advances necessary to remain competitive. Increased competition could result in price reductions, fewer customer orders, reduced margins and loss of our market share. Our failure to compete successfully could seriously harm our business, financial condition and results of operations.

***Our products may contain errors or defects, which could decrease their market acceptance.***

Our products are technologically complex and must meet stringent user requirements. We must develop our software and hardware products quickly to keep pace with the rapidly changing and technologically advanced wireless communications market. Products as sophisticated as ours may contain undetected errors or defects, especially when first introduced or when new models or versions are released. Our products may not be free from errors or defects after commercial shipments have begun, which could result in the rejection of our products, damage to our reputation, lost revenues, diverted development resources, and increased customer service and support costs and warranty claims.

***We could incur substantial costs defending our intellectual property from infringement or a claim of infringement.***

Our success depends in large part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks and trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We may be required to spend significant resources to monitor and police our intellectual property rights. Before we do so, we may not be able to detect infringement and we may lose competitive position in the market. Intellectual property rights also may be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share. The unauthorized use of our technology by competitors could have a material adverse effect on our ability to sell our products in some markets.

Although we are not currently involved in any intellectual property litigation, we may be a party to litigation in the future either to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. These claims and any resulting litigation could subject us to significant liability for damages and could cause our proprietary rights to be invalidated. Litigation, regardless of the merits of the claim or outcome, would likely be time-consuming and expensive to resolve and would divert management time and attention away from the operation of our business. Any potential intellectual property litigation could also force us to do one or more of the following:

- stop using the challenged intellectual property and refrain from selling our products or services that incorporate it;
- obtain a license to use the challenged intellectual property or to sell products or services that incorporate it, which license may not be available on reasonable terms, or at all; and
- redesign those products or services that are based on or incorporate the challenged intellectual property.

If we are forced to take any of the foregoing actions, we may be unable to manufacture and sell our products, and our business, financial condition and results of operations may be materially adversely affected.

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

Our products must comply with government regulations. For example, in the United States, the Federal Communications Commission (the "FCC") regulates many aspects of communications devices, including radiation of electromagnetic energy, biological safety and rules for devices to be connected to the telephone networks. Radio frequency devices, which include our modems, must be approved under the above regulations by obtaining equipment authorization from the FCC prior to being offered for sale. Additionally, we cannot anticipate the effect that changes in government regulations may have on our ability to develop products in the future. Failure to comply with existing or evolving government regulations or to obtain timely regulatory approvals or certificates for our products could materially adversely affect our business, financial condition and results of operations. An inability or delay in obtaining FCC authorization could result in a decline in future revenue.

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***Terrorist attacks have contributed to economic instability in the United States; continued terrorist attacks, war or other civil disturbances could lead to further economic instability and depress our stock price.***

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks have caused instability in the global financial markets, and have contributed to downward pressure on stock prices of United States publicly traded companies, such as us. This instability has resulted in a slowdown in the employment sector as companies assessed the impact of the attacks on their operations and on their employment needs. These attacks may lead to armed hostilities or to further acts of terrorism and civil disturbances in the United States or elsewhere, which may further contribute to economic instability in the United States and could have a material adverse effect on our business, financial condition and operating results.

### **Item 2. Properties**

Our principal executive offices are located in San Diego, California where we lease approximately 20,000 square feet under a lease that expires in July 2005. We also lease approximately 10,000 square feet in San Diego under a lease that expires in March of 2005, and 23,912 square feet in Carlsbad, California previously utilized for distribution purposes under a lease that expires in August 2003. We have subleased 9,416 square feet of said facilities. In addition, we lease approximately 42,319 square feet in Calgary, Alberta, Canada for our research and development organization under a lease that expires in September 2007. In San Diego, Carlsbad and Calgary, we have 10,132, 14,496 and 19,702 square feet of idle facilities, respectively. We also lease space in various geographic locations primarily for sales and support personnel or for temporary facilities.

### **Item 3. Legal Proceedings**

**Litigation.** We are from time to time party to various legal proceedings arising in the ordinary course of business. We are not a party to any legal proceedings, which, if adversely determined, would have a material adverse effect on our business, financial condition and results of operations.

**Class Action.** The Company and certain of its officers and directors were sued along with the underwriters of our initial public offering in a suit filed November 20, 2001 in United States District Court for the Southern District of New York. We were recently served with the complaint and have not appeared in the action. The complaint alleges that the defendants violated federal securities laws by issuing and selling common stock pursuant to our initial public offering without disclosing to investors that some of the underwriters in the offering, including the lead underwriters, had solicited and received undisclosed and excessive commissions from certain investors. Similar lawsuits have been filed with respect to a large number of companies, which completed their initial public offerings in 1999 and 2000. The progress and possible settlement of the litigation will depend heavily on the coordinated progress of all of the related lawsuits that have been filed in the Southern District of New York, including certain test cases against selected issuers. We believe that the claims alleged in the lawsuit are primarily directed at the underwriters of our initial public offering and, as they relate to us, are without merit. We intend to defend the lawsuit vigorously.

**Litigation Settlement.** In 2001 Sanmina Corporation (now known as Sanmina-SCI Corporation) ("Sanmina") filed suit against us in Santa Clara County Superior Court seeking approximately \$27 million for breach of contract under a contract manufacturing arrangement. We reached a settlement with Sanmina to end any and all disputes and litigation arising from the claims and signed a settlement agreement and mutual general release (the "Settlement"). Under the Settlement, which became effective on January 28, 2002, we paid Sanmina \$1,300,000 and issued them 5,000,000 shares of common stock. As part of this issuance, we also agreed to repurchase, at Sanmina's option, up to 2,000,000 of these shares at a price of \$0.80 per share. Sanmina exercised this option and we repurchased the shares for \$1,600,000 on February 14, 2002. In addition, we agreed to accept delivery of inventory held by Sanmina and make payments totaling \$5 million throughout 2002 (\$1 million of which was paid in January 2002) and \$4 million throughout 2003 and up to an additional \$2 million in the event we fail to make any of the agreed upon payments. A second priority security interest that Sanmina holds in our assets in the amount of \$4 million secures these payments. If we fail to make payments when due to Sanmina, the entire remaining balance owed would become due and payable, which would adversely impact our financial position. All the inventory that we have agreed to accept under the

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Settlement is related to our CDPD products. Based on our estimates of future CDPD sales, certain of the inventory that we have agreed to accept was determined to be excess and, accordingly, these purchase commitments were recorded as liabilities with a corresponding charge to cost of revenue in 2001.

*Preference Claim.* On February 22, 2002, Metricom, Inc. filed a claim in bankruptcy court regarding an alleged \$4.3 million preferential transfer for payments that Metricom made to us during the 90-day period prior to Metricom's July 2001 filing for bankruptcy under Chapter 11 of the Bankruptcy Code (See Notes 2 and 3 to the Consolidated Financial Statements). Metricom is attempting to avoid the alleged preferential transfer and to force us to return these payments to Metricom. We have not received any correspondence from the bankruptcy court handling Metricom's bankruptcy filing regarding Metricom's claim. We believe we are entitled to retain the payments we received from Metricom because we received them in the ordinary course of business and because following our receipt of payment, we shipped additional modems and advanced additional credit to Metricom, thereby providing new value to Metricom. We are in the early stages of investigating this claim and intend to vigorously defend against it. We believe, based in part on advice from legal counsel, that this claim will be resolved without a material adverse impact on our financial position and liquidity. However, a finding in Metricom's favor for the claimed amount would have a material adverse impact on our financial position and liquidity.

#### **Item 4. *Submission of Matters to a Vote of Security Holders***

Not Applicable.

## **PART II**

#### **Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters***

Our common stock is traded on the Nasdaq National Market under the symbol "NVTL." The following table sets forth the high and low sale prices of our common stock as reported on Nasdaq, without retail mark-up, mark-down or commissions, since November 16, 2000, the date the shares of our common stock commenced trading:

	High	Low
<b>2001</b>		
First quarter	\$15.69	\$1.75
Second quarter	\$ 5.83	\$1.87
Third quarter	\$ 3.20	\$0.32
Fourth quarter	\$ 1.91	\$0.29
<b>2000</b>		
Fourth quarter, since November 16, 2000 (the date our shares commenced trading on Nasdaq)	\$16.25	\$7.94

On February 20, 2002 the closing price per share of our common stock was \$.96, as reported by Nasdaq. At February 20, 2002 there were approximately 118 holders of record of our common stock. No cash dividends were declared or paid in 2001.

We currently intend to retain all available funds for use in our business, and do not anticipate paying any cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the board of directors may deem relevant.



**Item 6. Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with our consolidated Financial Statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this annual report. The selected consolidated statement of operations data presented below for each of the years ended December 31, 2001, 2000 and 1999, and the balance sheet data at December 31, 2001 and 2000 are derived from our consolidated financial statements that have been included elsewhere in this annual report. The consolidated statements of operations data for the years ended December 31, 1998 and 1997 and the balance sheet data at December 31, 1999, 1998 and 1997 are derived from audited consolidated financial statements not included in this annual report.

**Years Ended December 31,**

	1997	1998	1999	2000	2001
(in thousands, except share and per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Revenue	\$ 3,354	\$ 5,378	\$ 9,556	\$ 61,154	\$ 43,643
Cost of revenue	1,856	3,433	11,955	59,588	77,439
Gross margin	1,498	1,945	(2,399)	1,566	(33,796)
Operating expenses:					
Research and development	1,995	2,333	3,717	13,488	20,836
Sales and marketing	2,058	2,685	4,480	18,262	12,262
General and administrative	1,944	2,496	4,443	5,027	7,837
Restructuring and asset impairment charges					7,050
Amortization of deferred stock compensation		115	220	12,833	10,360
Total operating expenses	5,997	7,629	12,860	49,610	58,345
Loss from operations	(4,499)	(5,684)	(15,259)	(48,044)	(92,141)
Other income (expense) net	23	178	(3,210)	1,120	1,264
Net loss	\$ (4,476)	\$ (5,506)	\$ (18,469)	\$ (46,924)	\$ (90,877)
Net loss applicable to common stockholders	\$ (4,979)	\$ (6,657)	\$ (19,873)	\$ (50,776)	\$ (91,038)
Net loss per common share:					
Basic and diluted	\$ (0.51)	\$ (0.69)	\$ (2.04)	\$ (3.24)	\$ (1.67)
Weighted average shares outstanding	9,711,630	9,711,630	9,728,421	15,654,079	54,393,881

**December 31,**

	1997	1998	1999	2000	2001
(in thousands)					
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 1,927	\$ 3,497	\$ 25,455	\$ 66,826	\$29,229
Working capital	937	3,383	15,769	67,479	15,227
Total assets	3,879	6,184	38,118	110,824	59,909
Long-term obligations, net of current portion			106	205	4,171
Convertible and redeemable preferred stock	6,724	14,812	43,805		161
Stockholders’ equity (deficit)	(1,100)	(14,625)	(31,128)	79,222	25,427

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

The following comments should be read in conjunction with the consolidated financial statements and notes contained elsewhere in this annual report. See "Business Risks and Uncertainties" for risks and uncertainties that could cause our future financial condition and results of operations to differ materially from historical financial conditions and operating results. See also the discussion below under the caption "Industry Trends and Other Factors Influencing Future Results of Operations."

**Overview**

We are a provider of wireless data access solutions. Since our inception in April 1996, we have been focused on the development and commercialization of two-way wireless data communications technologies. We launched our NRM-6812 OEM module in September 1996, our Sage and first Minstrel products in 1997, our Minstrel III Wireless Modem and Expedite Wireless Modem in April 1999 and our Merlin Type II Wireless Modem in August 1999. In addition, we announced our Minstrel V Wireless Modem for the Palm V handheld computing device in October 1999, our Lancer 3W Modem in April 2000, the Minstrel 540 for the HP Jornada Pocket PC in October 2000, the Minstrel S for the Handspring™ Visor™ in October 2000 and the Merlin Wireless PC Card for Metricom's 128 kbps Ricochet network in November 2000. We announced various new products in 2001, including the Minstrel m500 for the Palm m500, the Merlin G100™, the Merlin G201™, the Merlin G301™, the Merlin C201™, and the Expedite G301™.

Since our inception, we have incurred substantial costs to develop our technology and products, to recruit and train personnel for our product development, sales and marketing and professional services departments, and to establish our administrative infrastructure. Historically, our operating expenses have exceeded the revenue generated by our products and services. As a result, we have incurred net operating losses in each quarter since our inception and have an accumulated deficit of \$176.9 million as of December 31, 2001. In addition, we have experienced significant fluctuations in our number of employees from 56 as of December 31, 1998 to over 315 during fiscal 2001 and decreased to 134 as of December 31, 2001.

*Revenue.* We generate revenue from the sale of wireless modems to wireless telecommunications operators, wireless data content and service providers, resellers and OEM customers. We also generate revenue from product activation services we provide prior to shipping, although this source of revenue has not been significant through December 31, 2001. Revenue from product sales and services, which includes product activation, is recognized upon the later of transfer of title or upon shipment of the product to the customer or upon rendering product activation services, if applicable. Revenue from long-term supply contracts is recognized as products are shipped to customers. We record deferred revenue for cash payments received from customers in advance of product shipment. We grant price protection provisions to certain customers and we track pricing and other terms offered to customers buying similar products to assess compliance with these provisions. To date, the Company has not incurred material price protection expenses. We establish reserves for estimated product returns and warranty allowances in the period in which revenue is recognized.

*Cost of Revenue.* Our cost of revenue typically consists of material components, labor for system assembly and testing, product activations, technical support, warranty costs, royalties and overhead expenses. We currently outsource our manufacturing operations to third parties to minimize our capital expenditures and to benefit from contract manufacturer economies of scale.

*Gross Margin.* Our overall gross margin, or revenue less cost of revenue, may fluctuate from quarter to quarter as a result of the availability and costs of components, shifts in product mix, the proportion of direct and indirect sales, anticipated decreases in average selling prices and our ability to manage manufacturing costs.

We have reported negative gross margins for 1999 and the first half of 2000, since our margins were at or near break-even levels based on contracted purchase and sales prices, and our cost of revenue includes costs to support operations well in excess of our revenue and units processed in anticipation of future growth. We consider these excess capacity costs to be a period expense rather than a capitalizable inventory cost, and we account for them accordingly. We had positive gross margins during the second half of 2000. This is primarily

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due to increased sales volume and changes in product mix and the introduction of additional contract manufacturers with lower costs. In 2001, gross margins were negative as a result of decreased sales volumes and due to significant charges for excess and obsolete inventory.

*Research and Development.* Our research and development expenses consist of employee compensation, related personnel expenses, consultant fees and prototype expenses related to the design, development, testing and enhancement of our products. Our research and development costs are expensed as incurred. However, software development costs are capitalized after technological feasibility has been obtained. We believe that continued investment in research and development is critical to achieving our strategic product development and cost reduction objectives and, as a result, expect these expenses to continue to increase in absolute dollars in the future.

*Sales and Marketing.* Our sales and marketing expenses consist of employee compensation, sales commissions and related expenses for personnel engaged in marketing, sales and field service support and advertising and promotional materials.

*General and Administrative.* Our general and administrative expenses consist of employee compensation and related personnel expenses, recruiting and relocation expenses, professional and consulting fees, and other general corporate expenses.

*Stock-Based Compensation Expense.* We recorded cumulative deferred compensation expense of \$29.9 million as a result of stock options granted below fair value through December 31, 2001. This amount represents the difference between the exercise price of these stock option grants and the estimated fair value of the underlying common stock at the time of grant. Of this amount, we have amortized approximately \$23.6 million through December 31, 2001. We currently estimate that the remaining stock compensation expense from options granted or issued from our inception in April 1996 through December 31, 2001 will be \$4.1 million in 2002, \$1.7 million in 2003 and \$500,000 in 2004 assuming no cancellations or additional stock option grants below fair market value. This expense has no impact on our cash flows. With respect to the amortization of stock-based compensation, we are using the attribute method prescribed by FASB Interpretation No. 28 and SFAS 123.

### **Industry Trends and Other Factors Influencing Future Results of Operations**

Our consolidated results of operations may be adversely affected in 2002 and in future years by various factors outside of our control, including decreases in the demand for wireless technology products and decreases in demand for wireless access services for the transmission of data.

*Revenue.* Our consolidated results of operations depends upon, among other things:

- our ability to maintain and increase our sales volumes with existing customers;
- our ability to attract new customers for our product offerings;
- the demand for wireless technology access services and wireless technology products, including PDAs; and
- the ongoing financial condition of our existing customers and suppliers.

We have entered into, and expect to continue to enter into, significant customer contracts for the development and supply of our products. These contracts may place significant demands on our resources. As a result, we expect research and development, sales and marketing and other costs relating to the development, manufacture and sale of our products to increase. We also expect to continue to incur these expenses in periods prior to recognizing revenue from these contracts.

Our financial condition, results of operations and cash flows were adversely affected during the year ended December 31, 2001 by decreases in demand for wireless products. Our business was particularly impacted adversely by the bankruptcy of Metricom, which filed in July 2001. Sales to Metricom accounted for 16.8% of our revenue for the first six months of 2001 and 12.4% for the year ending December 31, 2001. Our business was also impacted adversely by the bankruptcy of OmniSky, which filed for bankruptcy in December 2001.

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Sales to Omnisky accounted for 45.4% and 3.3% of our revenue for the years ending December 31, 2000 and 2001. Our failure to generate significant revenue from new or existing products, whether due to lack of market acceptance, competition, technological change or otherwise, or the inability to reduce manufacturing and/or operating costs, will further adversely impact our business, financial condition and results of operations.

We cannot predict with any certainty whether we will be able to maintain or improve upon our historical sales volumes with our existing customers, or whether we will be able to attract new customers for our wireless technology products. A continued decrease in demand for the services of our wireless service customers, could lead to a decrease in the demand for our wireless products used by these customers, ultimately adversely impacting our revenue, results of operations and cash flows.

*Operating Costs and Expenses.* As discussed in Item I, "Business — Manufacturing," through calendar 2001, we experienced relatively tight supply of various components, including printed circuit boards, molded plastic components, unique metal components and ASICs. We purchase these components from suppliers for which alternative sources have not been currently available in the quantities and at the prices that we require. We cannot predict whether we will continue to experience limited supplies of certain components used in our manufacturing process. If the availability of these or other components used in the manufacture of our products was to decrease, or if the prices for these components was to increase significantly, our operating costs and expenses could be adversely affected.

We continue to monitor and focus on reducing our operating costs and expenses and, as a result of our restructuring efforts, we have reduced our operating costs and expenses. If our operating costs and expenses were to increase significantly, our financial condition, results of operations and cash flows could be adversely affected.

## Results of Operations

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

	Years Ended December 31,		
	1999	2000	2001
	(as a percent of revenue)		
Revenue	100.0%	100.0%	100.0%
Cost of revenue	125.1	97.4	177.4
Gross margin	(25.1)	2.6	(77.4)
<b>Operating expenses:</b>			
Research and development	38.9	22.1	47.7
Sales and marketing	46.9	29.9	28.1
General and administrative	46.5	8.2	18.0
Restructuring and asset impairment charges			16.2
Amortization of deferred stock compensation	2.3	21.0	23.7
Total operating expenses	134.6	81.2	133.7
Loss from operations	(159.7)	(78.6)	(211.1)
Interest income	0.5	1.9	3.7
Interest expense	(34.2)	(0.1)	(0.8)
Other, net	0.1		
Net loss	(193.3)%	(76.8)%	(208.2)%

**Year Ended December 31, 2001 Compared to Year Ended December 31, 2000**

*Revenue.* Revenue for 2001 decreased \$17.6 million, or 29%, to \$43.6 million compared to \$61.2 million for 2000. For the year ended December 31, 2001, sales of our PC cards increased by \$13.9 million, while sales of our cradle products decreased by \$30.2 million and OEM product sales decreased by \$1.3 million. The overall decrease in products is due to the industry wide decrease in demand for wireless products and decrease in demand for wireless access services for the transmission of data during 2001 compared to 2000. New products contributed \$12.1 million with the introduction of the Minstrel 540 Wireless Modem for the HP Jornada Pocket PC in October 2000, the Minstrel S for the Handspring TM Visor TM in October 2000, the Merlin Wireless PC Card for Metricom's 128 kbps Ricochet network in November 2000, the Minstrel m500 for the Palm m500 in July 2001, the G101 and G201 PC card for the GPRS network in November 2001 and the C200 PC card for the CDMA network in November 2001. Sales of existing products decreased by \$29.6 million.

*Cost of Revenue.* Our cost of revenue for 2001 increased \$17.9 million, or 30%, to \$77.4 million compared to \$59.6 million in 2000. The increase in cost of revenue was primarily the result of \$34.5 million of charges relating to excess and obsolete inventory recorded during 2001. Our inventory levels were increased to support estimated future sales demand. Such sales demand has not yet materialized and as a result of uncertain future demand, we recorded a charge against inventory for the amount estimated to be excess and obsolete. Other increases in cost of revenue are attributable to sales of new products (approximately \$7.8 million), offset by a decrease in costs associated with the production and sales of existing products (approximately \$24.4 million). See Note 5 in the consolidated financial statements.

*Gross Margin.* Our gross margin for 2001 decreased by \$35.4 million to negative \$33.8 million compared to \$1.6 million in 2000. Excluding the \$34.5 million charge for excess and obsolete inventory, our gross margins for 2001 decreased by \$900,000 to \$700,000 compared to \$1.6 million in 2000.

*Research and Development.* Our research and development expenses for 2001 increased \$7.3 million, or 54%, to \$20.8 million compared to \$13.5 million in 2000 in connection with the introduction of these new products during fiscal 2001. The increase was due to an increase in personnel expenses of approximately \$3.1 million, an increase in research supplies and expendable equipment of approximately \$2.9 million, an increase in depreciation and facility overhead expenses of approximately \$2.6 million, an increase in outside consulting services of approximately \$1.0 million, an increase in travel costs of approximately \$300,000, offset by non-recurring engineering customer reimbursements of approximately \$500,000. During the second quarter of 2001, the Company reached technological feasibility with regards to certain software development activities and subsequently capitalized approximately \$2.3 million during year ended December 31, 2001 compared to none in 2000.

*Sales and Marketing.* Sales and marketing expenses for 2001 decreased \$6.0 million, or 33%, to \$12.3 million compared to \$18.3 million in 2000. The decrease was the result of a decrease in advertising and marketing costs of \$3.3 million and a decrease in facility overhead expenses of approximately \$700,000, decrease in travel costs of approximately \$200,000, offset by an increase in personnel expenses of approximately \$500,000, an increase in consulting and outside services of approximately \$100,000 and an increase of \$100,000 to support new products and to expand distribution channels. In addition, included in sales and marketing expense in 2000 is a one-time non-cash charge of approximately \$2.3 million for the beneficial conversion feature relating to preferred stock issued to a qualified institutional buyer in a private offering. Concurrent with this private offering, the Company entered into a product purchase and licensing agreement with the same investor.

*General and Administrative.* General and administrative expenses for 2001 increased \$2.8 million, or 56%, to \$7.8 million compared to \$5.0 million in 2000. This increase was due an increase in facility and overhead expenses of approximately \$2.4 million, an increase in insurance expenses of approximately \$600,000, a decrease in the foreign currency exchange gains of approximately \$400,000, an increase in professional fees of approximately \$200,000 and an increase in other general expenses of approximately \$300,000, offset by a decrease in personnel expenses of approximately \$1.1 million. This change in foreign

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currency translation was the result of a gain of approximately \$200,000 in 2001 compared to a gain of approximately \$500,000 in 2000.

*Restructuring and Asset Impairment Charges.* Restructuring and asset impairment charges for the year ended December 31, 2001 amounted to \$7.0 million as a result of the implementation of our operational restructuring plan (see Note 2 in the accompanying consolidated financial statements). These costs are made up of personnel termination benefits approximating \$2.2 million, facility lease termination and other closure costs of approximately \$2.6 million and approximately \$2.2 million of asset impairments.

*Amortization of deferred stock compensation.* Amortization of deferred stock compensation for 2001 decreased \$2.4 million to \$10.4 million compared to \$12.8 million in 2000. This decrease is due to the Company's use of the attribute method for deferred compensation originating in fiscal 2000 and a reduction in gross deferred compensation for stock option cancellations in 2001 totaling \$1.5 million.

*Interest Income.* Interest income for 2001 increased \$400,000 to \$1.6 million compared to \$1.2 million in 2000. The increase was due to income from the investment of proceeds from our initial public offering completed in November 2000.

*Interest Expense.* Interest expense of \$43,000 for 2000 relates to the interest charges on capital leases. Interest expense of \$330,000 for 2001 relates to the interest charges on our bank line of credit and interest charges on capital leases.

*Net Loss.* The net loss for 2001 increased \$44.0 million, or 94%, to \$90.9 million compared to \$46.9 million in 2000.

### **Year Ended December 31, 2000 Compared to Year Ended December 31, 1999**

*Revenue.* Revenue for 2000 increased \$51.6 million, or 540%, to \$61.2 million compared to \$9.6 million for 1999. As more fully described in Footnote 12 to the Consolidated Financial Statements, on June 30, 2000, Omnisky Corporation became one of our related parties. Included in this increase is revenue from OmniSky Corporation of \$27.8 million and \$24.2 million for the year and six months ended December 31, 2000, respectively. In 2000, sales of our cradle products increased by \$38.8 million, OEM product sales increased by \$11.3 million and PC card sales increased by \$1.5 million. Sales of existing products, including the Minstrel V Wireless Modem introduced in October 1999, increased by \$39.8 million. The overall increase in product sales is due to the increase in the demand for wireless products. New products contributed to the overall sales increases by \$11.8 million with the introduction of the Minstrel 540 Wireless Modem for the HP Jornada Pocket PC in October 2000, the Minstrel S for the Handspring™ Visor™ in October 2000 and the Merlin Wireless PC Card for Metricom's 128 kbps Ricochet network in November 2000.

*Cost of Revenue.* Our cost of revenue for 2000 increased \$47.6 million, or 398%, to \$59.6 million compared to \$12.0 million in 1999. The increase in cost of revenue was primarily the result of increased sales of existing products (approximately \$33.1 million), costs associated with the production and sales of new products (approximately \$8.9 million) and costs associated with increasing our operating capacity (approximately \$5.6 million).

*Gross Margin.* Our gross margin for 2000 increased by \$4.0 million, or 166%, to \$1.6 million compared to negative \$2.4 million in 1999.

*Research and Development.* Our research and development expenses for 2000 increased \$9.8 million, or 263%, to \$13.5 million compared to \$3.7 million in 1999. The increase was due to an increase in personnel expenses of \$4.9 million, an increase in depreciation and facility overhead expenses of \$1.7 million, an increase in research supplies and expendable equipment of approximately \$1.3 million, an increase in outside consulting services of approximately \$900,000 and an increase in other expenses relating to projects in development of \$1.0 million.

*Sales and Marketing.* Sales and marketing expenses for 2000 increased \$13.8 million, or 308%, to \$18.3 million compared to \$4.5 million in 1999. The increase was the result of additional personnel expenses of

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\$3.9 million, expanded advertising and marketing expenses of \$2.7 million, a \$2.0 million increase in spending for participation in trade shows and \$2.9 million to support new products and expand distribution channels.

*General and Administrative.* General and administrative expenses for 2000 increased \$600,000, or 13%, to \$5.0 million compared to \$4.4 million in 1999. This increase was primarily due to an increase in personnel expense of approximately \$1.3 million and an increase in legal and accounting expenses of approximately \$500,000, offset by a change in foreign currency translation of approximately \$1.2 million. This change in foreign currency translation was the result of a gain of approximately \$660,000 in 2000 compared to a loss of approximately \$540,000 in 1999.

*Amortization of deferred stock compensation.* Amortization of deferred stock compensation for 2000 increased \$12.6 million to \$12.8 million compared to \$220,000 in 1999. This increase is due to significant stock options issued during 2000, resulting in gross deferred compensation of \$30.3 million. Refer to Footnote 9 for a complete discussion of stock option activity.

*Interest Income.* Interest income for 2000 increased \$1.1 million to \$1.2 million compared to \$47,000 in 1999. The increase was due to income on the proceeds from the Series C financing which closed on December 31, 1999, the proceeds from the Series D financing which closed in June and July of 2000 and the proceeds from our initial public offering.

*Interest Expense.* Interest expense amounted to \$3.3 million for 1999 due to the non-cash charges we incurred in connection with the convertible subordinated debentures that we issued and sold in 1999 and the related common stock warrants issued in connection with those debentures. Interest expense of \$43,000 for 2000 relates to the interest charges on capital leases.

*Net Loss.* The net loss for 2000 increased \$28.4 million, or 154%, to \$46.9 million compared to \$18.5 million in 1999.

### **Liquidity and Capital Resources**

We believe that our available cash reserves, which include proceeds from the Series A Redeemable and Convertible Preferred Stock financing in December 2001, together with our operating cash flows and available borrowings under our revolving line of credit will be sufficient to fund operations and to meet our working capital needs and anticipated capital expenditures through fiscal 2002. There can be no assurance that we will become profitable or generate positive cash flows. If we fail to significantly increase revenues and reduce costs, we will continue to experience losses and negative cash flows from operations. Consequently, we may be required to seek additional financing in the future. We cannot predict with any certainty as to if or when we might need to seek additional financing, however, management believes such financing will not be required before 2003. If we need additional financing there can be no assurance that such financing will be available on acceptable terms or at all.

We funded our operations primarily through sales of our equity securities and the issuance of debt instruments, and to a lesser extent, capital lease arrangements and borrowings under our line of credit. To date, gross proceeds from these transactions have totaled approximately \$176.5 million, including gross proceeds from our initial public offering in November 2000 of \$56 million, the exercise of the underwriters over-allotment option in December 2000 of \$8.2 million and gross proceeds from the Series A Redeemable and Convertible Preferred Stock financing in December 2001 of approximately \$27.2 million. At December 31, 2001, we had approximately \$29.2 million in cash and cash equivalents.

For the years ended December 31, 1999, 2000 and 2001, we used net cash in operating activities of \$5.2 million, \$41.0 million and \$55.3 million, respectively. Our operating activities included major uses of cash to fund our 2001 net loss of \$90.9 million. During the year ended December 31, 2001, we used cash by decreasing accounts payable by \$11.5 million, increasing inventories by \$9.6 million, decreasing accrued expenses by \$2.8 million and we made cash payments under our restructuring accrual of \$2.8 million, offset by cash generated from decreasing accounts receivable by \$8.0 million and decreasing prepaid expenses and other assets by \$2.0 million. Non-cash operating activities for the year ended December 31, 2001 included \$16.2 million of inventory write-offs, a \$10.4 million charge for deferred compensation expenses related to stock options issued to employees, a \$2.2 million of asset impairment charges and depreciation and amortization expense of \$4.7 million.

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Our net cash used in investing activities in 2001 was \$10.3 million, which was for purchases of property and equipment of \$5.9 million, capitalized software development costs of \$2.2 million and purchases of intangibles of approximately \$2.2 million. Our net cash used in investing activities in 1999 and 2000 was \$600,000 and \$11.4 million, respectively, and was also primarily for purchases of property and equipment. These capital expenditures were primarily investments for equipment to test our products and to support our business.

Cash provided from financing activities consists primarily of net proceeds from the sale of Series A Redeemable and Convertible Preferred Stock of \$25.9 million, from borrowings on our line of credit of \$1.6 million and the exercise of stock options and warrants of approximately \$500,000, was \$28.0 million for the year ending December 31, 2001. For the years ended December 31, 2000 and 1999, net proceeds from financial activities amounted to \$93.8 million and \$27.7 million, respectively.

In November 2001, we entered into a credit facility with Silicon Valley Bank, Commercial Finance Division, which allows us to borrow up to the lesser of \$10 million at any one time outstanding or 80% of eligible accounts receivable balances. This credit facility bears interest at prime plus 2% (6.75% at December 31, 2001), is secured by substantially all our assets and expires in November 2002. As of December 31, 2001, \$1.6 million of borrowings were outstanding under this facility.

We anticipate capital expenditures and software licenses of between \$2 million and \$4 million over the course of the next twelve months. We may raise additional funds to finance the further expansion of our business, finance unexpected expenditures, continue to develop new products and enhancements to our current products, or acquire technologies or businesses, including strategic alliances and joint ventures. Additional financing may not be available when needed, on favorable terms, or at all.

On February 22, 2002, Metricom, Inc. filed a claim in Bankruptcy Court regarding an alleged \$4.3 million preferential transfer for payments that Metricom made to us during the 90-day period prior to Metricom's July 2001 filing for bankruptcy under Chapter 11 of the Bankruptcy Code (See Notes 2 and 3 to the Consolidated Financial Statements). Metricom is attempting to avoid the alleged preferential transfer and to force us to return these payments to Metricom. We have not received any correspondence from the bankruptcy court handling Metricom's bankruptcy filing regarding Metricom's claim. We believe we are entitled to retain the payments we received from Metricom because we received them in the ordinary course of business and because following our receipt of the payment, we shipped additional modems and advanced additional credit to Metricom, thereby providing new value to Metricom. We are in the early stages of investigating this claim and intend to vigorously defend against it. We believe, based in part on advice from legal counsel, that this claim will be resolved without a material adverse impact on our financial position and liquidity. However, a finding in Metricom's favor for the claimed amount would have a material adverse impact on our financial position and liquidity.

### **Related Parties**

We sell products to Airlink Communications, Inc. ("Airlink"), a wireless software infrastructure business, which integrates our modems into their products. Airlink's Chairman of the Board is also a member of our Board of Directors and a stockholder. Sales to Airlink were \$1,746,000 for the year ended December 31, 2001. Receivables from Airlink amounted to \$778,000 as of December 31, 2001. In May 2001, we entered into an agreement with Airlink for the payment for products sold to them. Specifically, Airlink will pay \$1.6 million for product purchases under terms of a promissory note with the first payment of \$300,000, plus accrued interest due September 1, 2001, and the remaining principal balance due over eight equal monthly installments, plus accrued interest, with the final payment due May 1, 2002. The note bears interest at prime plus 3% (7.75% at December 31, 2001) and is secured by all of Airlink's assets. Airlink's Chairman of the Board has also personally guaranteed this promissory note. We have sold similar products to other parties at unit prices similar to those under our arrangement with Airlink.

In September 2001, we entered into an agreement with Airlink for the payment of \$1.1 million for products shipped to Airlink during September 2001. In December 2001, Airlink returned \$750,000 of the products shipped to Airlink during September 2001. At December 31, 2001, the receivable from Airlink was \$375,000. In accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in



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Financial Statements” we will record revenue under this agreement when the collection of the receivable becomes reasonably assured. No revenues were recorded in 2001. Subsequent to December 31, 2001, no payments have been received under this agreement.

On June 30, 2000, Aether Capital, LLC, purchased \$20 million of our Series D convertible preferred stock. Aether Capital, LLC is the investment arm of Aether Systems, Inc., which is the sole member of Aether Capital, LLC. David S. Oros, one of our directors, who joined our board in July 2000, serves as Chairman, Chief Executive Officer and President of Aether Systems, Inc. Mr. Oros is also a director of OmniSky Corporation, in which Aether Systems, Inc. is an investor. As a result of this capital transaction, OmniSky Corporation, a one-time significant customer, became a related party and we commenced recording sales to OmniSky as “Revenue — Related Parties” in the third quarter of 2000. Sales to OmniSky amounted to \$1,901,000 for the year ended December 31, 2001 and \$27,771,000 and \$24,207,000 for the year and six months ended December 31, 2000, respectively. Receivables from OmniSky Corporation amounted to \$143,000 as of December 31, 2001, which has been fully reserved, as a result of their bankruptcy filing in December 2001.

In December 2001, we entered into a software license, maintenance and support agreement with Aether Systems. Under this agreement, we purchased a software license from them for \$870,000 and a one-year maintenance and support service agreement for \$130,000. In January 2002, we paid \$500,000 under this agreement, with the remaining \$500,000 due in April 2002.

We have hired an entity to provide technical support services for \$16,000 per month. Our Chairman and Chief Executive Officer is a board member and a security holder of this entity. Our payments made to this entity during the year ended December 31, 2001 were \$62,000.

During 2001, we made payments of approximately \$169,000 to Centurion Wireless Technologies Inc. (“Centurion”) in connection with the purchase of certain wireless modems. Centurion is a portfolio company of Cornerstone Equity Investors, LLC (“Cornerstone”). Two of Cornerstone’s managing directors serve on our board and Cornerstone is a stockholder of ours.

### **Recent Accounting Pronouncements**

In June 2001, the FASB issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 142 requires the use of a non-amortization approach to account for goodwill and other intangible assets with indefinite lives. In addition, SFAS No. 142 requires that acquired intangible assets be separately identified and amortized over their individual useful lives. We were required to adopt these statements beginning January 1, 2002. The adoption of these standards did not have an impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 but retains SFAS No. 121’s fundamental provisions for recognition and measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting and reporting provisions of Accounting Principles Board (“APB”) Opinion No. 30 for segments of a business to be disposed of but retains APB Opinion No. 30’s requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 became effective for us beginning January 1, 2002. Adoption of SFAS No. 144 as of January 1, 2002 did not have a material impact on our financial position or results of operations.

During 2000, the Emerging Issues Task Force issued EITF No. 00-25, “Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products,” addressing the statement of operations classification of consideration from a vendor to an entity that purchases the vendor’s products for resale. This standard will be adopted for the quarter ending March 31, 2002. We are currently assessing the impact, if any, of these issues on its consolidated financial statements.

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

We generally place our cash and short-term investments in high-credit quality instruments, primarily U.S. Government obligations and corporate obligations with contractual maturities of less than one year. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our investments and therefore, impact our cash flows and results of operations. We do not expect any material loss from our cash or cash equivalents and therefore believe that our potential interest rate exposure is not material; however, these investments are subject to interest rate risk. The Company's credit facility and related interest cost on borrowings is affected by variations in the U.S. prime rate of interest. As of December 31, 2001, we had \$1.6 million of borrowings outstanding under our line of credit. A 2% change in the prime rate would result in additional annual interest of \$32,000 based on the \$1.6 million outstanding under the line of credit at December 31, 2001. We do not currently enter into foreign currency hedge transactions or other derivative instruments. For the year ending December 31, 2001, we had a foreign currency gain of approximately \$150,000 recorded in general and administrative expenses related to our Canadian subsidiary. Revenues generated outside the United States, as a percentage of total revenues were 16% in 2001 and 7% in 2000. Fluctuations in foreign exchange rates could impact future operating results.

**Item 8. Financial Statements and Supplementary Data**

The index to our Consolidated Financial Statements and the Report of Independent Public Accountants appears in Part IV of this annual report.

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

Not Applicable.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

(a) *Identification of Directors.* The information under the caption "Election of Directors," appearing in the Proxy Statement to be filed for the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

(b) *Identification of Executive Officers.* The information under the caption "Certain Information with Request to Executive Officers," appearing in the Proxy Statement to be filed for the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

(c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption "Compliance with Federal Securities Laws," appearing in the Proxy Statement to be filed for the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

**Item 11. Executive Compensation**

The information under the heading "Executive Compensation and Other Information" appearing in the Proxy Statement to be filed for the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

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

The information under the headings "Principal Stockholders" appearing in the Proxy Statement to be filed for the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions**

The information under the headings "Principal Stockholder Certain Relationships and Related Transactions," appearing in the Proxy Statement to be filed for the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

**PART IV****Item 14. Exhibits, Financial Statement Schedules and Reports On Form 8-K**

## (a) 1. Index to Consolidated Financial Statements

See Index to Consolidated Financial Statements and financial statement schedules.

## (a) 2. Index to Financial Statement Schedules

The following Financial Statement Schedules for the years ended December 31, 2001, 2000 and 1999 should be read in conjunction with the Consolidated Financial Statements, and related notes thereto.

Schedule	Page
Schedule II — Valuation and Qualifying Accounts	62

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or notes thereto.

## (a) 3. Exhibits

The following Exhibits are filed as part of, or incorporated by reference into, this Report on Form 10-K:

Exhibit Number	Description
3.1(1)	Certificate of Incorporation.
3.2(4)	Certificate of Designation of Series A Convertible Preferred Stock.
3.3(1)	Bylaws.
4.1(2)	Specimen Common Stock Certificate.
4.2(4)	Specimen Series A Convertible Preferred Stock Certificate.
4.3(4)	Form of Common Stock Purchase Warrant.
4.4(5)	Warrant to Purchase Stock, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank
4.5(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series B Convertible Preferred Stock
4.6(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series C Convertible Preferred Stock
4.7(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series C Debentures
4.8(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series D Convertible Preferred Stock
10.1(3)	1997 Stock Incentive Plan, as Amended and Restated.
10.2	2000 Stock Incentive Plan, as Amended and Restated.
10.3(3)	2000 Employee Stock Purchase Plan.
10.4(2)	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among Novatel Wireless, Inc. and some of its stockholders.
10.5(2)	Amended and Restated Investors' Rights Agreement, dated as of June 30, 2000, by and among Novatel Wireless, Inc. and some of its stockholders.
10.6(2)	Form of Indemnification Agreement between Novatel Wireless, Inc. and each of its officers and directors.
10.7(5)	Loan and Security Agreement, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank.
10.8(5)	Silicon Valley Bank Registration Rights Agreement, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank.

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<b>Exhibit Number</b>	<b>Description</b>
10.9	Silicon Valley Bank Antidilution Agreement, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank.
10.10(2)	Real Property Sublease dated as of July 7, 2000, by and between Sicom Inc. (formerly Gensia Sicom, Inc.) and Novatel Wireless, Inc., for 9360 Towne Centre Drive, San Diego, California.
10.11(2)	Real Property Lease, dated as of February 1, 1997, by and between Novatel Wireless Technologies Ltd. and Sun Life Assurance Company of Canada, for 6715 8th St., N.E., Calgary, Alberta.
*10.12(2)	Employment Agreement, dated as of July 24, 2000, by and between Novatel Wireless, Inc. and John Major.
*10.13(2)	Employment Agreement, dated as of August 21, 1996, by and among Novatel Wireless, Inc., Novatel Wireless Technologies Ltd. and Ambrose Tam.
10.14	Form of Change of Control Letter Agreement, dated as of May 11, 2001, by and between Novatel Wireless, Inc. and several executives of Novatel Wireless, Inc.
10.15(2)	Standard Manufacturing Agreement, dated as of August 8, 2000, by and between Novatel Wireless, Inc. and Solectron de Mexico, S.A. de C.V.
10.16(2)	First Amendment to Employment Agreement, dated as of September 22, 2000, by and among Novatel Wireless, Inc., Novatel Wireless Technologies Ltd. and Ambrose Tam.
10.17	Settlement Agreement and Mutual General Release, dated as of January 12, 2002 by and between Novatel Wireless, Inc. and Sanmina-SCI Corporation and Sanmina Canada ULC.
10.18	Security Agreement, dated as of January 12, 2002 executed by Novatel Wireless, Inc. in favor of Sanmina-SCI Corporation.
21(1)	Subsidiaries of Novatel Wireless, Inc.
23.1	Consent of Arthur Andersen LLP, Independent Public Accountants.
24	Power of Attorney (See signature page).

- (1) Incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2000.
- (2) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended.
- (3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-53692), filed January 12, 2001.
- (4) Incorporated by reference to the Company's current report on Form 8-K, filed January 18, 2002.
- (5) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-81190), filed January 22, 2002, as amended.

\* Management contract or compensation plan or arrangement.

(b) Reports on Form 8-K

Current reports on Form 8-K, filed January 18, 2002 and February 6, 2002.

### **Supplemental Information**

No Annual Report to Stockholders or Proxy materials have been sent to stockholders as of the date of this report. The Annual Report to Shareholders and Proxy material will be furnished to the Company's stockholders subsequent to the filing of this report and the Company will furnish such material to the Securities and Exchange Commission at that time.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVATEL WIRELESS, INC.

By: /s/ JOHN E. MAJOR

---

John E. Major  
*Chairman and Chief Executive Officer*

Date: March 4, 2002

**POWER OF ATTORNEY**

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ JOHN E. MAJOR</p> <hr/> <p>John E. Major</p>	Chairman and Chief Executive Officer (Principal Executive Officer)	March 4, 2002
<hr/> <p>/s/ MELVIN L. FLOWERS</p> <hr/> <p>Melvin L. Flowers</p>	Senior Vice President, Finance, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 4, 2002
<hr/> <p>/s/ ROBERT GETZ</p> <hr/> <p>Robert Getz</p>	Director	March 4, 2002
<hr/> <p>/s/ PENG K. LIM</p> <hr/> <p>Peng K. Lim</p>	Director	March 4, 2002
<hr/> <p>/s/ DAVID S. OROS</p> <hr/> <p>David S. Oros</p>	Director	March 4, 2002

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> /s/ MARK ROSSI <hr/>	Director	March 4, 2002
Mark Rossi <hr/>		
/s/ STEVEN SHERMAN <hr/>	Director	March 4, 2002
Steven Sherman <hr/>		

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOVATEL WIRELESS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	As of December 31,	
	2000	2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 66,826,000	\$ 29,229,000
Accounts receivable, net of allowance for doubtful accounts of \$253,000 (2000) and \$294,000 (2001)	8,093,000	6,706,000
Accounts receivable — related parties (Note 12)	7,446,000	778,000
Inventories	13,123,000	6,470,000
Prepaid expenses and other	3,388,000	2,194,000
	98,876,000	45,377,000
Property and equipment, net	8,986,000	7,744,000
Intangible assets, net	2,260,000	6,596,000
Other assets	702,000	192,000
	\$110,824,000	\$ 59,909,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 23,829,000	\$ 12,321,000
Accrued expenses	5,390,000	2,261,000
Current portion of inventory purchase commitments (Notes 2 and 5)		11,749,000
Line of credit		1,560,000
Restructuring accrual		1,764,000
Deferred revenues	1,996,000	336,000
Current portion of capital lease obligations	182,000	159,000
	31,397,000	30,150,000
Long-term inventory purchase commitments (Notes 2 and 5)		4,000,000
Capital lease obligations, net of current portion	205,000	171,000
Convertible and redeemable Series A preferred stock, 27,172 (2001) shares issued and outstanding (Notes 2 and 9)		161,000
Commitments and contingencies (Notes 2, 3 and 11)		
Stockholders' equity:		
Preferred stock, par value \$.001, 15,000,000 shares authorized (Notes 2 and 9)		
Common stock, par value \$.001, 350,000,000 shares authorized, 53,800,830 (2000) and 54,643,762 (2001) shares issued and outstanding	54,000	55,000
Additional paid-in capital	183,300,000	208,649,000
Deferred stock compensation	(18,234,000)	(6,341,000)
Accumulated deficit	(85,898,000)	(176,936,000)
	79,222,000	25,427,000
	\$110,824,000	\$ 59,909,000

See accompanying notes to consolidated financial statements.



## NOVATEL WIRELESS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	1999	2000	2001
Revenue	\$ 9,556,000	\$ 36,947,000	\$ 39,996,000
Revenue — related parties (Note 12)		24,207,000	3,647,000
<b>Total revenue</b>	<b>9,556,000</b>	<b>61,154,000</b>	<b>43,643,000</b>
Cost of revenue	11,955,000	37,113,000	74,671,000
Cost of revenue — related parties		22,475,000	2,768,000
<b>Total cost of revenue</b>	<b>11,955,000</b>	<b>59,588,000</b>	<b>77,439,000</b>
<b>Gross margin</b>	<b>(2,399,000)</b>	<b>1,566,000</b>	<b>(33,796,000)</b>
Operating costs and expenses:			
Research and development	3,717,000	13,488,000	20,836,000
Sales and marketing(**)	4,480,000	18,262,000	12,262,000
General and administrative	4,443,000	5,027,000	7,837,000
Restructuring charges			7,050,000
Amortization of deferred stock compensation(*)	220,000	12,833,000	10,360,000
<b>Total operating costs and expenses</b>	<b>12,860,000</b>	<b>49,610,000</b>	<b>58,345,000</b>
<b>Operating loss</b>	<b>(15,259,000)</b>	<b>(48,044,000)</b>	<b>(92,141,000)</b>
Other income (expense):			
Interest income	47,000	1,156,000	1,598,000
Interest expense	(3,267,000)	(43,000)	(332,000)
Other income (expense), net	10,000	7,000	(2,000)
<b>Net loss</b>	<b>\$(18,469,000)</b>	<b>\$(46,924,000)</b>	<b>\$(90,877,000)</b>
Per share data (Note 9):			
Net loss applicable to common stockholders	\$(19,873,000)	\$(50,776,000)	\$(91,038,000)
Weighted average shares used in computation of basic and diluted net loss per common share	9,728,421	15,654,079	54,393,881
<b>Basic and diluted net loss per common share</b>	<b>\$ (2.04)</b>	<b>\$ (3.24)</b>	<b>\$ (1.67)</b>
(*) Amortization of deferred stock compensation is related to the following expense elements:			
Cost of revenue		\$ 370,000	\$ 1,884,000
Research and development		430,000	1,068,000
Sales and marketing		419,000	1,039,000
General and administrative	\$ 220,000	11,614,000	6,369,000
	<b>\$ 220,000</b>	<b>\$ 12,833,000</b>	<b>\$ 10,360,000</b>

(\*\*) Sales and marketing expense in 2000 includes a \$2,283,000 one-time non-cash charge for the beneficial conversion feature relating to the 434,782 Preferred Series D shares issued for \$5.75 at a discount of \$5.25 in October 2000

See accompanying notes to consolidated financial statements.

NOVATEL WIRELESS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance, January 1, 1999.			9,711,630	\$10,000	\$ 775,000	\$ (161,000)	\$ (15,249,000)	\$(14,625,000)
Additional paid-in capital from stock options exercised			41,250		30,000			30,000
Deferred compensation for stock options issued					859,000	(859,000)		
Amortization of deferred compensation						220,000		220,000
Accretion of dividends on minority interest in NWT							(286,000)	(286,000)
Accretion of dividends on convertible and redeemable preferred stock of NWI							(1,096,000)	(1,096,000)
Amortization of offering costs for convertible and redeemable preferred stock							(22,000)	(22,000)
Imputed value of warrants issued with convertible subordinated debentures					3,120,000			3,120,000
Net loss							(18,469,000)	(18,469,000)
Balance, December 31, 1999.			9,752,880	10,000	4,784,000	(800,000)	(35,122,000)	(31,128,000)
Issuance of convertible preferred stock, net of issuance costs	6,326,932	\$ 6,000			38,087,000			38,093,000
Exercise of stock options and warrants			1,232,537	1,000	951,000			952,000
Deferred compensation for stock options issued					30,267,000	(30,267,000)		
Amortization of deferred compensation						12,833,000		12,833,000
Accretion of dividends on minority interest in NWT							(197,000)	(197,000)
Accretion of dividends on convertible and redeemable preferred stock of NWI							(3,146,000)	(3,146,000)
Amortization of offering costs for convertible and redeemable preferred stock							(509,000)	(509,000)
Issuance of common stock in initial public offering, net of issuance costs			8,025,000	8,000	57,195,000			57,203,000
Conversion of convertible and redeemable preferred stock upon the initial public offering			28,463,481	29,000	52,016,000			52,045,000
Conversion of convertible preferred stock upon the initial public offering	(6,326,932)	(6,000)	6,326,932	6,000				
Net loss							(46,924,000)	(46,924,000)
Balance, December 31, 2000.			53,800,830	54,000	183,300,000	(18,234,000)	(85,898,000)	79,222,000
Exercise of stock options and warrants			642,145	1,000	503,000			504,000
Deferred compensation adjustment for stock options cancelled					(1,533,000)	1,533,000		
Amortization of deferred compensation						10,360,000		10,360,000
Shares issued under employee stock purchase plan			200,787		171,000			171,000
Accretion of dividends on Series A convertible and redeemable preferred stock							(50,000)	(50,000)
Imputed value of beneficial conversion feature relating to the issuance of series A convertible and redeemable preferred stock					21,338,000			21,338,000
Imputed value of warrants issued in conjunction with Series A convertible and redeemable preferred stock					4,512,000			4,512,000
Accretion of imputed value assigned to the beneficial conversion feature on Series A convertible and redeemable preferred stock and related common stock warrants							(105,000)	(105,000)
Amortization of offering costs for series A convertible and redeemable preferred stock							(6,000)	(6,000)
Imputed value of warrants issued in conjunction with obtaining line of credit					358,000			358,000
Net loss							(90,877,000)	(90,877,000)
Balance, December 31, 2001.		\$	54,643,762	\$55,000	\$208,649,000	\$ (6,341,000)	\$(176,936,000)	\$ 25,427,000

See accompanying notes to consolidated financial statements.

## NOVATEL WIRELESS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1999	2000	2001
Cash flows from operating activities:			
Net loss	\$(18,469,000)	\$(46,924,000)	\$(90,877,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	672,000	1,853,000	4,713,000
Provision for bad debt	137,000	72,000	41,000
Inventory write-offs			16,210,000
Asset impairments			2,241,000
Compensation for stock options issued below fair value	220,000	12,833,000	10,360,000
Compensation for warrants issued in conjunction with convertible subordinated debentures	3,120,000		
Amortization of deferred financing costs in conjunction with line of credit			30,000
Non-cash sales and marketing expense for beneficial conversion feature		2,283,000	
Changes in assets and liabilities:			
Accounts receivable	(875,000)	(6,820,000)	1,346,000
Accounts receivable — related party		(7,446,000)	6,668,000
Inventories	(8,782,000)	(3,685,000)	(9,557,000)
Prepaid expenses and other	(256,000)	(2,908,000)	1,522,000
Other assets	(54,000)	(648,000)	510,000
Accounts payable	10,391,000	12,269,000	(11,508,000)
Accrued expenses	576,000	4,218,000	(2,837,000)
Inventory purchase commitment			15,749,000
Restructuring accrual			1,764,000
Deferred revenues	8,134,000	(6,138,000)	(1,660,000)
Net cash used in operating activities	(5,186,000)	(41,041,000)	(55,285,000)
Cash flows from investing activities:			
Purchases of property and equipment	(880,000)	(9,170,000)	(5,887,000)
Purchases of licensed technologies		(2,260,000)	(2,188,000)
Capitalized software development costs			(2,265,000)
Net change in short-term investments	296,000		
Net cash used in investing activities	(584,000)	(11,430,000)	(10,340,000)
Cash flows from financing activities:			
Proceeds from borrowings on line of credit			1,560,000
Net proceeds from issuance of convertible and redeemable preferred stock	24,625,000		25,850,000
Net proceeds from issuance of convertible preferred stock		35,810,000	
Proceeds from exercise of stock options and warrants	30,000	952,000	504,000
Proceeds from shares issued under the employee stock purchase plan			171,000
Proceeds from issuance of convertible subordinated debentures	3,120,000		
Net proceeds from initial public offering		57,203,000	
Payments under capital lease obligation	(47,000)	(123,000)	(57,000)
Net cash provided by financing activities	27,728,000	93,842,000	28,028,000
Net increase (decrease) in cash and cash equivalents	21,958,000	41,371,000	(37,597,000)
Cash and cash equivalents, beginning of period	3,497,000	25,455,000	66,826,000
Cash and cash equivalents, end of period	\$ 25,455,000	\$ 66,826,000	\$ 29,229,000

## NOVATEL WIRELESS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Year Ended December 31,		
	1999	2000	2001
Supplemental disclosures of non-cash investing and financing activities:			
Conversion of convertible subordinated debentures and related accrued interest into Series C convertible and redeemable preferred stock	\$3,250,000		
Conversion of convertible and redeemable preferred stock into shares of common stock upon the initial public offering		\$52,045,000	
Accretion of dividends on minority interest	286,000	197,000	
Accretion of dividends on convertible and redeemable preferred stock	1,096,000	3,146,000	\$ 50,000
Amortization of offering costs for convertible and redeemable preferred stock	22,000	509,000	6,000
Deferred compensation for stock options issued	859,000	30,267,000	
Deferred compensation adjustment for stock options cancelled			1,533,000
Accretion of imputed value assigned to the beneficial conversion feature on Series A convertible and redeemable preferred stock and related common stock warrants			105,000
Cashless exercise of warrants			150,000
Property and equipment acquired under capital lease obligations	234,000	323,000	
Warrants granted in connection with line of credit, net			328,000
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 7,000	\$ 44,000	\$ 222,000

See accompanying notes to consolidated financial statements.

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. The Company**

Novatel Wireless, Inc., a Delaware corporation (the "Company") was founded in 1996 and is headquartered in San Diego, California. The Company is a provider of wireless data communications access solutions, including wireless data modems and software for use with handheld computing devices and portable personal computers that allow businesses and consumers to access personal, corporate and public information through email, enterprise networks and the Internet. The Company also offers its wireless data modems and custom engineering services for hardware integration projects in a wide range of vertical applications.

The Company's subsidiaries include wholly owned Novatel Wireless Solutions, Inc., incorporated in Delaware, and wholly owned Novatel Wireless Technologies Ltd. ("NWT"), incorporated in Alberta, Canada.

**2. Recent Operational Developments**

*Operational Overview*

The Company is subject to a number of risks and uncertainties associated with companies at a similar stage of maturity, has only a limited operating history and the revenue and income potential of our business and markets are unproven. Further, the markets for wireless Internet products and services are relatively new and rapidly evolving both technologically and competitively. Market demand for our products has not yet generated sufficient revenues to cover our operating costs. Consequently, the Company has recorded net losses in each year since its inception and had an accumulated deficit of \$176.9 million at December 31, 2001. The Company incurred net losses of \$18.5 million, \$46.9 million and \$90.9 million and negative cash flows from operations of \$5.2 million, \$41.0 million and \$55.3 million for the years ended December 31, 1999, 2000 and 2001, respectively. The negative cash flows from operations in 2001 were funded primarily using the proceeds received from the Company's initial public offering, which was completed in November 2000.

The Company's financial condition, results of operations and cash flows were adversely affected during fiscal 2001 as a result of slowing demand for wireless products. The Company's business was particularly impacted adversely by the bankruptcy of Metricom in July 2001. Sales to Metricom accounted for 16.8% of our revenue for the first six months of 2001 and 12.4% for the year ending December 31, 2001. Additionally, the Company's business was impacted adversely by the bankruptcy of OmniSky, which filed for bankruptcy in December 2001. Sales to OmniSky accounted for 45.4% and 3.3% of the Company's revenue for the years ending December 31, 2000 and 2001. Based on current assessments of economic conditions in the Company's market sector, the Company projects that additional losses will be incurred during 2002. As a result, the Company determined during 2001 that it was necessary to obtain additional equity financing.

In this regard, in December 2001, the Company successfully raised aggregate net proceeds of approximately \$25.9 million, net of fees to the placement agent and offering costs, from the issuance of 27,172 shares of Series A Convertible and Redeemable Preferred Stock ("Series A Preferred Stock"), which are convertible into 35,288,311 Common Shares. Warrants to acquire 10,586,484 Common Shares (the "Investor Warrants") were issued in conjunction with the Series A Preferred Stock shares (See Note 9).

Late in 2001 and continuing in the first quarter of 2002, the Company began developing a plan to further reduce operating costs and to reverse the declining trend in the Company's revenues. The plans to reduce costs are primarily related to reductions in our costs of revenue as well as employee separations and reducing other operating expenses. The Company's plan to increase revenues is dependent on sales of the Company's recently introduced GRPS and CDMA product lines. Management believes that the Company's plan to increase revenues, decrease costs and carefully manage the proceeds received from the Series A Private Placement and from borrowings under the Company's line of credit should result in sufficient cash to fund operations and satisfy the Company's working capital requirements and anticipated capital expenditures through fiscal 2002. The Company's failure to generate significant revenue from new or existing products, whether due to lack of

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

market acceptance, competition, technological change or otherwise, or the inability to reduce manufacturing and/or operating costs, will further adversely impact the Company's business, financial condition and results of operations.

There can be no assurance that the plans discussed above will be successful or that the Company will become profitable or generate positive cash flows. If the Company fails to significantly increase revenues and reduce costs, it will continue to experience losses and negative cash flows from operations. Consequently, we may be required to seek additional financing in the future. We cannot predict with any certainty as to if or when we might need to seek additional financing, however, management believes such financing will not be required before 2003. If we need additional financing there can be no assurance that such financing will be available on acceptable terms or at all.

***Sanmina Settlement***

In October 2001 Sanmina Corporation (now known as Sanmina-SCI Corporation) ("Sanmina") filed suit against the Company in Santa Clara County Superior Court seeking approximately \$27 million of claims for breach of contract under a contract manufacturing arrangement. The Company reached a settlement with Sanmina to end any and all disputes and litigation arising from the claims and signed a settlement agreement and mutual general release (the "Settlement"). Under the Settlement, which became effective on January 28, 2002, the Company made a cash payment to Sanmina of \$1,300,000 and issued to Sanmina 5,000,000 shares of common stock. As part of this issuance, the Company also granted to Sanmina the right to obligate the Company to repurchase up to 2,000,000 of the shares of common stock at a price of \$0.80 per share (See Note 3). In addition, the Company agreed to take delivery of inventory held by Sanmina and make payments totaling \$5 million throughout 2002 (\$1 million of which was paid in January 2002) and \$4 million throughout 2003 and up to an additional \$2 million in the event the Company fails to make any of the agreed upon payments. Additionally, if the Company fails to make payments when due to Sanmina, the entire remaining balance owed will become due and payable, which would adversely impact the Company's financial position. Sanmina holds a second priority security interest in the Company's assets in the amount of \$4 million, which secures these payments to Sanmina. All of the inventory to be received by the Company under this settlement is related to the Company's CDPD products. Based on management's estimates of future CDPD sales, certain of the inventory to be received under the purchase commitment was determined to be excess and, accordingly, the purchase commitments were recorded as liabilities with a corresponding charge to cost of revenue sold in 2001.

***Restructuring Charges and Asset Impairment***

As a result of the economic slowdown in the Company's industry sector, in the first quarter of 2001, the Company announced and began implementing an operational restructuring plan to reduce its operating costs and streamline its organizational structure. As a result of this plan, the Company recorded a restructuring charge of \$3.9 million during the first quarter of 2001 and additional charges of \$919,000 during the third quarter of 2001. The restructuring plan provided for the reduction of employee staff, consultants and temporary labor, resulting in severance payments and other employee related expenses of approximately \$2.2 million. During 2001, there were 183 employee separations. The restructuring also provided for the closure of the Company's fulfillment and distribution facility. This function has been transitioned to one of the Company's contract manufacturers. As a result of the closure of facilities, the restructuring charge includes \$2.6 million of the impairment for assets that will no longer be used and facility lease termination and other closure costs. In the fourth quarter of 2001, the Company recorded a \$1.9 million impairment charge primarily for assets no longer being utilized as a result of headcount reductions and \$332,000 charges to facility closing costs.

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table displays the activity and balances of the restructuring reserve from March 31, 2001 to December 31, 2001. The Company expects to utilize the entire reserve balance by the end of fiscal 2003.

Type of Cost	January 1, 2001	Additions	Asset Disposals	Cash Payments	December 31, 2001
Employee separations	\$	\$2,200,000		\$(2,016,000)	\$ 184,000
Facility closings		2,961,000	\$ (608,000)	(773,000)	1,580,000
Asset impairments		1,899,000	(1,899,000)		
	\$	\$7,060,000	\$(2,507,000)	\$(2,789,000)	\$1,764,000

The Company determined that certain components in inventory had also been adversely impacted by the slowing economy. Accordingly, during 2001, the Company recorded charges totaling \$34.5 million for excess and obsolete raw material components and finished goods, of which approximately \$11.5 million was recorded in the fourth quarter (See Note 5). In accordance with Emerging Issues Task Force 96-9, "Classification of Inventory Markdowns and Other Costs Associated with a Restructuring," all inventory adjustments are classified in "Cost of revenue" in the accompanying consolidated statements of operations.

### 3. Subsequent Events

Sanmina exercised its right to obligate the Company to repurchase up to 2,000,000 of the shares of common stock at a price of \$0.80 per share (See Note 2) and the Company repurchased the 2,000,000 shares for \$1,600,000 on February 14, 2002.

On February 22, 2002, Metricom Inc. filed a claim in bankruptcy court regarding an alleged \$4,300,000 preferential transfer for payments made to the Company by Metricom during the 90 day period prior to Metricom's July 2001 filing for bankruptcy under Chapter 11 of the Bankruptcy Code (See Note 2). Metricom is attempting to avoid the alleged preferential transfer and to force the Company to return these payments to Metricom. The Company has not received any correspondence from the bankruptcy court handling Metricom's bankruptcy filing regarding Metricom's claim. The Company believes that it is entitled to retain the payments received from Metricom because they were received in the ordinary course of business and because following the Company's receipt of the payment, it shipped additional modems and advanced additional credit to Metricom, thereby providing new value to Metricom. The Company is in the early stages of investigating this claim and intends to vigorously defend itself against such claim. Management believes, based in part on advice from legal counsel, that this claim will be resolved without a material adverse impact on the Company's financial position and liquidity. However, a finding in Metricom's favor for the claimed amount would have a material adverse impact on the Company's financial position and liquidity.

### 4. Summary of Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of Novatel Wireless, Inc. and its wholly owned subsidiaries Novatel Wireless Solutions, Inc. and NWT. NWT became wholly owned in September 2000 when the holder of NWT Series A and Series B preferred shares exchanged all of its NWT shares for shares of the Company's Series A and Series B Preferred Stock (See Note 7). Prior to such exchange, NWT was 50% owned by the Company. NWT was consolidated prior to the share exchange because the Company had financial and managerial control over NWT and had the ability to unilaterally obtain a majority share ownership position and voting control. The other shareholder in NWT was a passive investor with no operational influence, no veto voting rights and no obligation to fund NWT's operations. Refer to Note 7 for further discussion of NWT.

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

All significant intercompany transactions and balances are eliminated in consolidation. Certain reclassifications have been made to amounts included in the prior years' financial statements to conform to the presentation for the year ended December 31, 2001.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, expenses and disclosures of contingent assets and liabilities. Actual results could differ from these estimates. Significant estimates include inventory valuation, the use of option pricing models to establish values of equity instruments, long – lived assets and restructuring accruals.

***Revenue Recognition***

The Company's revenue has been generated from the sale of wireless modems to wireless telecommunications operators, wireless data content and service providers, resellers and OEM customers. Revenue from product sales and development services is recognized upon the later of transfer of title or upon shipment of the product to the customer or upon rendering services. Revenues from long-term supply contracts are recognized as products are shipped to customers over the period of the contract. The Company records deferred revenue for cash payments received from customers in advance of product shipments. The Company grants price protection provisions to certain customers and tracks pricing and other terms offered to customers buying similar products to assess compliance with these provisions. To date, the Company has not incurred material price protection expenses. The Company establishes reserves for estimated product returns and warranty allowances in the period in which revenue is recognized.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 summarizes the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB No. 101 became effective during the fourth quarter of fiscal 2000. Management adopted the provisions of SAB No. 101 which did not have a material impact on the Company's financial position or results of operations.

***Research and Development Costs***

Research and development costs are expensed as incurred.

***Warranty Costs***

The Company accrues warranty costs based on estimates of future warranty related repairs or rework of products and services. The Company's warranty policy generally provides one or two-year coverage for product following the date of purchase. The Company's policy is to accrue the estimated cost of warranty coverage at the time the sale is recorded. In estimating its future warranty obligations the Company considers various relevant factors, including the Company's stated warranty policies and practices, the historical frequency of claims, and the cost to replace or repair its products under warranty. During 2001, 2000 and 1999, the Company recorded a warranty provision of \$0, \$439,000 and \$132,000, respectively.

***Cash and Cash Equivalents***

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. Cash and cash equivalents consist of money market and mutual funds and are carried at market, which approximates cost.



NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

***Inventories***

Inventories are stated at the lower of cost (first-in, first-out method) or market.

***Property and Equipment***

Property and equipment are stated at cost and depreciated primarily using the straight-line method. Test equipment, computer equipment and purchased software, furniture and fixtures and product tooling are depreciated over lives between two and five years and leasehold improvements are depreciated over the shorter of the related lease period or useful life.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments that extend the useful lives of existing property and equipment are capitalized and depreciated. Upon retirement or disposition of property and equipment, related cost and accumulated depreciation amounts are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of operations.

***Software Development Costs***

Software development costs for products sold (primarily firmware embedded in the Company's products) incurred after technological feasibility is established are capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Capitalized software development costs are amortized when products are available for general release to customers, over the estimated useful lives of the products, currently five years.

***Intangible Assets***

Intangible assets include non-exclusive and perpetual worldwide software technology licenses and software development costs. License costs and software development costs are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 7 years and are amortized as the software product licenses are used in the Company's products sold.

***Long-Lived Assets***

The Company periodically evaluates the carrying value of the unamortized balances of its long-lived assets to determine whether any impairment of these assets has occurred or whether any revision to the related amortization periods should be made. This evaluation is based on management's projections of the undiscounted future cash flows associated with each class of asset. If management's evaluation indicates that the carrying values of these assets were impaired, such impairment is recognized by a reduction of the applicable asset carrying value to its estimated fair value and expensed through operations. (See Note 2 for fiscal 2001 Asset Impairment discussions)

***Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method of accounting for deferred income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

***Stock-Based Compensation***

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for costs of stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Additionally, the Company discloses the pro forma effect on net loss and related per share amounts as if the fair-value method prescribed by SFAS No. 123 had been used to account for its stock-based employee compensation (See Note 9). The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and related interpretations.

***Computation of Net Loss Per Share***

SFAS No. 128, "Earnings Per Share," requires companies to compute basic and diluted per share data for all periods for which a statement of operations is presented. Basic net loss per share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares that were outstanding during the period. Diluted earnings per share is computed by giving effect to all potentially dilutive securities that were outstanding for the periods presented. Potentially dilutive securities consisting of options, warrants, convertible and redeemable minority interest and convertible and redeemable preferred stock were not considered in the calculation of diluted earnings per share, as their impact would be antidilutive. For the periods presented, there is no difference between basic and diluted net loss per share. The difference between net loss and net loss applicable to common stockholders consists of accretion of dividends on minority interest, accretion of dividends on convertible and redeemable preferred stock and amortization of offering costs for convertible and redeemable preferred stock.

***Foreign Currency Translation***

Monetary balance sheet accounts of the Company's Canadian subsidiary are translated from Canadian dollars into U.S. dollars at the exchange rate in effect at the balance sheet date, non-monetary balance sheet accounts are translated at historical rates and revenue and expense accounts are translated using an average exchange rate during the period of recognition. The functional currency of the Canadian subsidiary is the U.S. dollar, thus translation gains and losses are reflected in operations. Exchange gains and losses arising from transactions denominated in foreign currencies are recorded using the actual exchange differences on the date of the transaction and are reflected in operations.

***Fair Value of Financial Instruments***

The carrying amounts of the Company's cash, accounts receivable, accounts payable and accrued expenses approximate their fair value due to their short-term nature. The Company performs credit evaluations of key customers and management believes it is not exposed to significant credit risk on its accounts receivable in excess of established reserves. The carrying amount of the line of credit approximate fair value based on borrowing rates currently available to the Company. The fair value of the beneficial conversion on the Series A preferred stock and related common stock warrants issued were determined using the closing price of the Company's common stock at the date of issuance.

***Comprehensive Income***

SFAS No. 130, "Comprehensive Income," requires that all items recognized under accounting standards as components of comprehensive income be reported with the same prominence as other financial statements. The Company has no items requiring separate display of comprehensive income.

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Segment Information**

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires public companies to report financial and descriptive information about their reportable operating segments. The Company identifies its operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. The Company operates in a single business segment consisting of the development, manufacture and sale of wireless Internet products.

**Recent Accounting Pronouncements**

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 142 requires the use of a non-amortization approach to account for goodwill and other intangible assets with indefinite lives. In addition, SFAS No. 142 requires that acquired intangible assets be separately identified and amortized over their individual useful lives. The Company was required to adopt these statements beginning January 1, 2002. The adoption of these standards did not have an impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 but retains SFAS No. 121's fundamental provisions for recognition and measurement of impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30 for segments of a business to be disposed of but retains APB Opinion No. 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 became effective for the Company beginning January 1, 2002. Adoption of SFAS No. 144 as of January 1, 2002 did not have a material impact on the Company's financial position or results of operations.

During 2000, the Emerging Issues Task Force issued EITF No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products", addressing the statement of operations classification of consideration from a vendor to an entity that purchases the vendor's products for resale. This standard will be adopted for the quarter ending March 31, 2002. The Company is currently assessing the impact, if any, of these issues on its consolidated financial statements.

**5. Financial Statement Details****Inventories**

Inventories consist of the following:

	December 31,	
	2000	2001
Finished goods	\$ 4,503,000	\$4,533,000
Raw materials and components	8,620,000	1,937,000
	<u>\$13,123,000</u>	<u>\$6,470,000</u>

During the year ending December 31, 2001, the Company recorded charges to write off \$34.5 million of excess and obsolete inventory as discussed below. During the first quarter of 2001, the Company recorded a charge to write-off \$6 million of raw material components and finished goods that were considered excess or obsolete. This charge primarily related to certain excess and obsolete inventory on hand.

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the second quarter of 2001, the Company recorded a charge to write-off \$13 million of raw material components and finished goods that were considered excess or obsolete. Approximately \$5.3 million of this charge related to products shipped to Metricom, which filed for bankruptcy subsequent to shipment and prior to making payment, as well as inventory on hand for future shipments to Metricom and inventory purchase commitments for future shipments to Metricom. In addition, approximately \$4.3 million of this charge related to excess and obsolete inventory on hand and the remaining \$3.4 million of this charge related to excess and obsolete inventory under purchase commitments with Sanmina.

During the third quarter of 2001, the Company recorded a charge to write-off \$4 million of raw material components and finished goods on hand that are considered excess or obsolete.

During the fourth quarter of 2001, the Company recorded a charge to write-off \$11.5 million of raw material and finished goods that were considered excess. Approximately \$5.6 million of this charge related to an inventory obligation incurred as part of the settlement of the Company's lawsuit with Sanmina (See Note 2). In addition, approximately \$4.3 million of this charge related to excess and obsolete inventory on hand and the remaining \$1.6 million of this charge related to excess and obsolete inventory under purchase commitments.

**Property and Equipment**

Property and equipment consists of the following:

	December 31,	
	2000	2001
Test equipment	\$ 4,511,000	\$ 8,143,000
Computer equipment and purchased software	4,728,000	6,184,000
Furniture and fixtures	1,331,000	1,433,000
Product tooling	1,099,000	1,534,000
Leasehold improvements	926,000	554,000
	<u>12,595,000</u>	<u>17,848,000</u>
Less — accumulated depreciation and amortization	(3,609,000)	(10,104,000)
	<u>\$ 8,986,000</u>	<u>\$ 7,744,000</u>

Depreciation expense was \$672,000, \$1,853,000 and \$4,596,000 for the years ended December 31, 1999, 2000 and 2001, respectively. Impairment charges were \$2.2 million in 2001 (See Note 2). At December 31, 2000 and 2001, assets held under capital leases had a net book value of \$380,000 and \$262,000, respectively net of accumulated amortization of \$170,000 and \$391,000, respectively.

**Intangible Assets**

Intangible assets consists of the following:

	December 31,	
	2000	2001
Software technology licenses	\$2,260,000	\$4,448,000
Capitalized software development costs	2,260,000	2,265,000
	<u>2,260,000</u>	<u>6,713,000</u>
Less — accumulated amortization	(117,000)	(117,000)
	<u>\$2,260,000</u>	<u>\$6,596,000</u>

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Accrued Expenses**

Accrued expenses consist of the following:

	December 31,	
	2000	2001
Payroll and related	\$1,575,000	\$1,329,000
Sales taxes	945,000	5,000
Product warranty	675,000	262,000
Insurance policy premiums	773,000	
Professional fees	491,000	150,000
Reserve for product returns	127,000	204,000
Other	804,000	311,000
	<u>\$5,390,000</u>	<u>\$2,261,000</u>

**6. Line of Credit**

In November 2001, the Company entered into a credit facility with a bank, which allows the Company to borrow up to the lesser of \$10 million or 80% of eligible accounts receivable balances. This credit facility bears interest at prime plus 2% (6.75% at December 31, 2001), is secured by substantially all assets of the Company and expires in November 2002. As of December 31, 2001, \$1.6 million of borrowings were outstanding under this facility. In connection with this facility, the Company issued 560,810 warrants to purchase shares of the Company's common stock at an exercise price of \$0.74. The value of the warrants totaling \$358,000 is being amortized as deferred financing costs over the term of the facility. These warrants expire on November 29, 2008.

**7. Convertible and Redeemable Minority Interest**

Minority interest consisted of 3,755,394 Series A convertible and redeemable preferred shares "Series A shares" and 640,842 Series B convertible and redeemable preferred shares "Series B shares" of NWT at December 31, 1999.

In 1996 and 1997, the Company issued 3,755,394 Series A shares and 281,688 Series B shares to accredited investors in private placements. Proceeds from these financings were approximately \$3,066,000.

In 1998, the Company issued 359,154 Series B shares to accredited investors in a private placement. Proceeds from the financing were approximately \$510,000, or \$1.42 per share. The Company also caused its subsidiary, NWT, to issue warrants to purchase a total of 134,682 shares of NWT common stock at an exercise price of \$1.42 on or prior to April 24, 2003.

Each of NWT's preferred stockholders were entitled to receive, from funds legally available, a cumulative annual dividend of 8% per annum based on their respective purchase price upon any liquidation, dissolution or winding up of the affairs of NWT, redemption, or when declared by the Board of Directors, provided that, upon optional or automatic conversion of the preferred shares, all accrued and unpaid dividends are forfeited. Dividends on these shares of \$286,000 and \$197,000 for the years ended December 31, 1999 and 2000, respectively, have been recorded in the accompanying consolidated financial statements.

In September 2000, the NWT Series A and Series B holders exchanged their NWT Series A and Series B shares on a one-for-one basis into NWI Series A preferred and Series B preferred shares. These shares were subsequently converted into shares of common stock on a one-for-one basis upon the initial public

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

offering in November 2000 (see Note 3) and the accrued dividends were forfeited and as such, reclassified to Additional Paid-in Capital. Additionally, the NWT warrants were exchanged for NWI warrants.

**8. Convertible and Redeemable Preferred Stock**

In December 2001, the Company received aggregate net proceeds of approximately \$25.9 million, net of fees to the placement agent and offering costs, from the issuance of 27,172 shares of Series A Convertible and Redeemable Preferred Stock (“Series A Preferred Stock”), which are convertible into Common Shares (35,353,402 as of December 31, 2001). Warrants to acquire 10,586,484 Common Shares (the “Investor Warrants”) were issued in conjunction with the Series A Preferred Stock shares. All of the securities sold in the 2001 Private Placement were sold solely to accredited investors, as defined in Rule 501 of Regulation D pursuant to the Securities Act of 1933, as amended.

The conversion price per common share of \$0.77 represents a 13.5% discount from the average quoted per share price of the common stock for the 20 trading-day period ending December 12, 2001, the day the commitment letter for the offering of the Series A Preferred Stock was executed. On the date of issuance of the Series A Preferred Stock the difference between the conversion price per common share and the closing price of the Company’s common stock amounted to \$0.45 per share. As a result of this difference, the Company recorded the sale of preferred stock and issuance of warrants measured at fair value pursuant to the guidance in SFAS No. 123 and EITF 00-19. The Company used the fair value method in determining the value of the beneficial conversion feature at the date of issuance of approximately \$21.4 million. Pursuant to SFAS 123, the Company measured the fair value of the warrants issued in conjunction with the Series A Preferred Stock at the date of issuance to be approximately \$4.5 million. The terms of the Series A Preferred Stock include a redemption feature effective on the seventh anniversary of the issuance (December 2008) and a conversion discount from fair market value of the common stock at the time of issuance. Accordingly, the value of the discount plus the value of the detachable warrants will be ratably accreted as dividends during the seven-year period until the redemption rights are effective, or immediately in the period in which conversion occurs.

In 1999 and until the Company’s IPO in November 2000, the Company had three classes of convertible and redeemable preferred stock as follows.

	December 31, 1999
Convertible and redeemable preferred stock, Series A, par value \$.001, 16,500,000 shares authorized, 6,791,571 shares issued and outstanding	\$ 5,870,000
Convertible and redeemable preferred stock, Series B, par value \$.001, 7,500,000 shares authorized (485,241 non-voting), 6,252,843 shares issued and outstanding	10,060,000
Convertible and redeemable preferred stock, Series C, par value \$.001, 16,500,000 shares authorized, 11,022,831 shares issued and outstanding	27,875,000
	<u>\$43,805,000</u>

In 1996 and 1997, the Company issued 6,791,571 shares of Series A convertible and redeemable preferred stock “Series A” and 1,126,761 shares of Series B convertible and redeemable preferred stock “Series B” to accredited investors in private placements. Net proceeds from these financing were approximately \$6,322,000.

In 1998, the Company issued 5,126,082 shares of Series B to accredited investors in a private placement. Net proceeds from the financing were approximately \$7,197,000.

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In December 1999, the Company issued 11,022,831 shares of Series C convertible and redeemable preferred stock "Series C" to accredited investors in a private placement at a price of \$2.78 per share. Net proceeds from the financing were approximately \$27,875,000, including conversion of subordinated debentures of \$3,120,000 (See Note 9) and related accrued interest of \$130,000 after deducting offering costs and placement agent's commissions of approximately \$2,768,000.

The holders of the Series A, Series B and Series C were entitled to receive, from funds legally available, a cumulative annual dividend of 8% of the purchase price upon any liquidation, dissolution or winding up of the affairs of the Company, upon redemption, or when declared by the Board of Directors, provided that upon optional or automatic conversion of the shares of preferred stock all accrued and unpaid dividends were to be forfeited. Dividends on these shares of \$1,096,000 and \$3,146,000 for the years ended December 31, 1999 and 2000, respectively, have been recorded in the accompanying consolidated financial statements.

Upon the closing of the initial public offering in November 2000, all shares of the Company's preferred stock were converted into shares of the Company's common stock on a one-for-one basis and the accrued dividends were forfeited and as such, reclassified to Additional Paid-in Capital.

**9. Stockholders' Equity**

The Company is authorized to issue 350,000,000 shares of common stock, par value \$.001 and 15,000,000 shares of preferred stock, par value \$.001. Common shares are voting shares and have equal rights in the event of liquidation. In connection with the Series A Preferred Stock financing in December 2001 (See Note 2), the Company issued 27,172 shares of Series A Preferred Stock, which are convertible into 35,353,402 Common Shares at December 31, 2001. However, because the Series A Preferred Stockholders have the right to require the Company to redeem the shares on the seventh anniversary of the issuance (December 2008), the shares are not included as a component of stockholders' equity. The holders of Series A Preferred Stock will be entitled to notice of any meeting of stockholders of the Company and will vote together with the holders of common stock as a single class upon any matter submitted to the stockholders for a vote, on an as-converted basis as of the record date of such vote or upon the date of such written consent, as the case may be.

In August 2000, the Company's Board of Directors approved a three-for-one stock split. The effects of this stock split have been retroactively reflected for all periods presented.

***Initial Public Offering***

In November 2000, the Company completed its initial public offering transaction, raising approximately \$57.2 million, net of offering costs of approximately \$7 million, upon the issuance of 8,025,000 shares of the Company's common stock. On the closing of this transaction, all classes of previously outstanding preferred stock converted into shares of common stock of the Company on a one-for-one basis.

***Series D Convertible Preferred Stock***

In June and July of 2000, the Company issued 5,892,150 shares of Series D convertible preferred stock at \$5.75 per share to accredited investors in a private placement. Net proceeds from the financing amounted to approximately \$33.3 million, net of offering costs of approximately \$541,000. The Company also issued warrants to purchase a total of 1,178,400 shares of its common stock at an exercise price of \$3.79, as adjusted, expiring June 30, 2005.

In October 2000, the Company issued 434,782 shares of Series D convertible preferred stock at \$5.75 per share to a qualified institutional buyer in a private placement. Net proceeds from the financing amounted to approximately \$2.5 million. The per share price represents a discount of \$5.25 compared to the fair value on the date of issuance. Concurrently, the Company entered into a product purchase and licensing agreement with the same investor. As a result of this transaction, the Company recorded the sale of the preferred stock

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

measured at fair value pursuant to the guidance in SFAS No. 123 and EITF 98-5. The discount of approximately \$2.3 million for the beneficial conversion has been recorded as a one-time charge in sales and marketing expense during the fourth quarter of 2000.

*Convertible Subordinated Debentures*

On June 24, 1999 and July 15, 1999, the Company issued convertible subordinated debentures to accredited investors in the total principal amount of \$3,120,000 bearing interest at the rate of 8% per annum. The Company also issued warrants to purchase a total of 3,930,006 shares of its common stock and 750,000 shares of common stock of NWT at an exercise price of \$0.67 per share (See Note 7). Of these warrants, 4,650,621 expire on June 24, 2004 and 29,385 expire on July 15, 2004. Concurrently with the closing of the preferred stock financing in December 1999, all of the subordinated debentures, and the accrued and unpaid interest of approximately \$130,000, were converted into shares of preferred stock at a conversion price of \$2.78 per share.

*Warrants*

Each of the Company and NWT have issued warrants to purchase shares of the Company's and NWT's capital stock to various investors and lenders as approved by their respective boards of directors.

A summary of warrant activity is as follows:

	December 31,					
	1999		2000		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
<b>NWI Warrants</b>						
Outstanding, beginning of year	2,344,815	\$1.42	8,494,890	\$1.56	10,542,090	\$1.96
Granted	6,150,075	1.61	2,168,715	3.51	11,147,294	1.18
Exercised			(121,515)	1.41	(237,497)	1.16
Outstanding, end of year	8,494,890	\$1.56	10,542,090	\$1.96	21,451,887	\$1.18
<b>NWT Warrants</b>						
Outstanding, beginning of year	240,315	1.42	990,315	0.85		
Granted	750,000	0.67				
Cancelled			(990,315)	0.85		
Outstanding, end of year	990,315	\$0.85				

In connection with the Series A Preferred Stock financing in December 2001 (See Note 3), the Company issued to the purchasers of the Series A Preferred Stock warrants exercisable for the purchase of 10,586,484 newly-issued shares of common stock. These warrants may be exercised at \$1.20 per share at any time up to December 21, 2005. The Company estimated the fair market value of these warrants at the date of issuance to be \$4,512,000, which will be ratably accreted in dividends over a seven year period until the redemption rights on the Series A redeemable convertible preferred stock are effective, or immediately in the period in which conversion of the Series A Preferred Stock into shares of common stock occurs.



NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the November 2001 line of credit facility (See Note 6), the Company issued warrants to buy 560,810 shares of common stock. These warrants may be exercised at \$0.74 per share at any time up to expiration on November 29, 2008. Using the fair value method, the Company determined that the value of these warrants at the date of issuance was \$358,000, which will be amortized over the term of the facility. These warrants carry a cashless exercise feature and accordingly, the warrants will be accounted for using the variable method.

In connection with the Series D financing in 2000 (See Note 3), the Company issued warrants to purchase 1,178,400 shares of common stock of the Company. These warrants may be exercised at \$3.79 per share, adjusted per warrant terms, at any time up to June 30, 2005. The Company determined the fair value of these warrants at the date of issuance was nominal and, accordingly, no value has been assigned to them.

In connection with the Series C financing in 1999 (See Note 8), the Company issued warrants to purchase 2,148,639 shares of common stock of the Company. These warrants may be exercised at \$1.29 per share, as adjusted, at any time up to December 31, 2004. The Company determined the fair value of these warrants at the date of issuance was nominal and, accordingly, no value has been assigned to them.

In connection with the convertible subordinated debenture transaction in 1999, the Company issued warrants to buy 3,930,006 shares of its common stock and 750,000 common shares of NWT (See Note 7). These warrants may be exercised at \$0.67 per share. Of these warrants, 4,650,621 expire on June 24, 2004 and 29,385 expire on July 15, 2004. Under the fair value method, the value of the warrants at the date of issuance was approximately \$4.3 million as the exercise price per share of common stock was less than deemed fair value per share of common stock. Accordingly, the Company allocated the gross debenture proceeds of \$3,120,000 toward the value of these warrants. This also resulted in non-cash interest expense totaling \$3,120,000 in fiscal 1999 to accrete the debt discount (resulting from the allocation of proceeds to the warrant) from the time of debenture issuance to conversion to Series C.

In connection with a 1999 line of credit financing, the Company issued warrants to buy 71,430 shares of Series C. These warrants may be exercised at \$2.10 per share, as adjusted, at any time up to expiration at December 31, 2004. The Company determined the fair value of these warrants at the date of issuance was nominal and, accordingly, no value has been assigned to them.

In connection with the Series B financing in 1997 and 1998 (See Note 8), the Company issued warrants to buy 422,535 and 1,922,280 shares of its common stock, and NWT issued warrants to buy 105,633 and 134,682 common shares of NWT, respectively (See Note 7). The NWT warrants have been exchanged for NWI warrants. These warrants may be exercised at \$1.42 per share at any time up to December 31, 2002 (for 528,168 of the warrants) and April 24, 2003 (for 2,056,962 of the warrants). The Company determined the fair value of these warrants at the date of issuance was nominal and, accordingly, no value has been assigned to them.

**Stock Option Plans**

The Company's amended and restated 1997 stock option plan (the "1997 Plan") for employees authorizes the granting of options for up to 12,000,000 shares of the Company's common stock. Generally, options are to be granted at prices equal to at least 100% of the fair value of the stock on the date of grant, expire not later than ten years from the date of grant and vest ratably over a four-year period following the date of grant. From time to time, as approved by the Company's Board of Directors, options with differing terms have also been granted. The 1997 Plan provides that any shares issued come from the Company's authorized but unissued or reacquired common stock.

In July 2000, the Company's Board of Directors approved the 2000 Stock Incentive Plan (the "2000 Plan") authorizing the granting of options for up to 16,500,000 shares of the Company's common stock, including the 12,000,000 shares authorized under the 1997 Plan, plus an automatic annual increase, to be

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

added on the first day of the fiscal year beginning in 2001, equal to the lesser of (a) 0.5% of the outstanding shares on the last day of the prior fiscal year, (b) 1,500,000 shares, or (c) such lesser number of shares as may determined by the Board in its sole discretion. The Company implemented the 2000 Plan upon the effective date of the initial public offering in November 2000 (See Note 3). Options under the 2000 Plan issue, vest and expire on the same terms as the 1997 Plan.

A summary of stock option activity is as follows:

	Options Outstanding	Options Available for Grant	Weighted Average Exercise Price Per Share
Options outstanding, January 1, 1999	3,420,000	468,150	\$0.80
New authorized options		2,111,850	
Granted	852,000	(852,000)	\$0.95
Exercised	(41,250)		\$0.71
Cancelled	(198,750)	198,750	\$0.78
Options outstanding, December 31, 1999	4,032,000	1,926,750	\$0.83
New authorized options		10,500,000	
Granted	8,816,443	(8,816,443)	\$6.19
Exercised	(1,111,022)		\$0.68
Cancelled	(1,286,601)	1,286,601	\$1.28
Options outstanding, December 31, 2000	10,450,820	4,896,908	\$5.31
New authorized options		1,500,000	
Granted	2,542,500	(2,542,500)	\$2.63
Exercised	(414,860)		\$0.91
Cancelled	(3,441,586)	3,441,586	\$5.02
Options outstanding December 31, 2001	9,136,874	7,295,994	\$4.93
Exercisable, December 31, 1999.	1,327,752		\$0.66
Exercisable, December 31, 2000.	2,018,766		\$3.02
Exercisable, December 31, 2001.	3,831,044		\$4.67

Additional information relating to stock options outstanding and exercisable at December 31, 2001, summarized by exercise price is as follows:

Range of Exercise Prices	Outstanding Weighted Average			Exercisable Weighted Average	
	Shares	Life (Years)	Exercise Price	Shares	Exercise Price
\$ 0.42 - 2.67	2,996,705	8.26	\$ 1.25	1,069,618	\$ 1.05
\$ 2.75 - 6.04	3,593,669	8.59	\$ 4.96	2,023,760	\$ 5.00
\$ 7.50 - 9.63	1,763,625	8.79	\$ 8.33	530,541	\$ 8.18
\$11.00 - 12.88	782,875	8.81	\$11.19	207,125	\$11.06
	9,136,874			3,831,044	

The Company amortizes stock-based employee compensation over the vesting periods of the related options using the attribute method prescribed by FASB Interpretation No. 28 and SFAS No. 123. Under this

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

method, each vested tranche of options is accounted for as a separate option grant awarded for services. Accordingly, the compensation expense is recognized over the period during which the services are provided. This method results in higher compensation expense in the earlier vesting periods of the related options.

In August 2000, the Company granted options to employees to purchase 1,941,150 shares of common stock at an exercise price of \$7.50 per share. In connection with these grants, the Company recorded \$6,794,000 of gross deferred stock compensation.

In July 2000, the Company granted options to employees to purchase 3,948,243 shares of common stock at an exercise price of \$5.00 per share. In connection with these grants, the Company recorded \$22,350,000 of gross deferred stock compensation. Additionally, \$659,000 of gross deferred compensation expense related to 65,625 options was recorded for the extension of the vesting period related to a terminated employee. In July 2000, the Company appointed a new Chief Executive Officer, and granted this officer options to purchase 3,036,543 shares of common stock at an exercise price of \$5.00 per share. The options vest and become exercisable as follows: 607,308 options were immediately exercisable; 379,569 options became exercisable on July 24, 2001; 379,569 options vest and become exercisable on July 24, 2002; and 303,654 options vest and become exercisable on each July 24 of 2001, 2002, 2003 and 2004. In addition, 455,481 options vested and became exercisable upon the closing of the Company's IPO. The remaining 911,700 options granted in July 2000 vest over a four-year period, with 25% of the options vesting each year from the date of grant.

In April and May 2000, the Company granted options to employees to purchase 907,950 shares of common stock at an average price of \$3.33 per share. In connection with this grant, the Company recorded \$169,000 of gross deferred stock compensation.

In February 2000, the Company granted options to purchase 375,000 shares of common stock at an exercise price of \$1.67 per share. In connection with this grant, the Company recorded \$295,000 of gross deferred stock compensation.

In 1999, the Company issued options to employees to purchase an aggregate of 852,000 shares of the Company's common stock at an exercise price of \$0.95 per share. On the grant dates the deemed fair value of a share of common stock was in excess of \$0.95 per share. Accordingly, the Company recognized gross deferred compensation related to these grants of \$859,000.

Amortization of stock-based compensation was \$220,000, \$12.8 million and \$10.4 million for the periods ended December 31, 1999, 2000 and 2001, respectively. The Company expects to amortize \$4.1 million in 2002, \$1.7 million in 2003 and \$500,000 in 2004, assuming no cancellations or additional stock option grants below deemed fair value.

As permitted, the Company has adopted the disclosure only provisions of SFAS No. 123. Accordingly, no compensation expense, except as specifically described above, has been recognized for employee stock option plans. Had compensation expense been determined based on the fair values at the dates of grant for the years ended December 31, 1999, 2000 and 2001 consistent with the provisions of SFAS No. 123, the Company's net loss per share would have been reported as the pro forma amounts indicated below:

	Year Ended December 31,		
	1999	2000	2001
Net loss applicable to common stockholders, as reported	\$(19,873,000)	\$(50,776,000)	\$(91,038,000)
Net loss applicable to common stockholders, pro forma	\$(20,201,000)	\$(53,587,000)	\$(97,728,000)
Net loss per share, as reported	\$ (2.04)	\$ (3.24)	\$ (1.67)
Net loss per share, pro forma	\$ (2.08)	\$ (3.42)	\$ (1.80)

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of these option grants were estimated on the date of grant using an option-pricing model with the following weighted-average assumptions: zero dividend yield; risk-free interest rates between 5.00% and 6.45%; volatility of 77% (2000) and 104% (2001) and expected lives of four to five years.

The option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models also require the input of highly subjective assumptions. Because the Company's employee stock-based compensations plans have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect fair value estimates, the Company believes that existing option valuation models do not necessarily provide a reliable single measure of the fair value of awards from the plans.

**Employee Stock Purchase Plan**

In July 2000, the Company's Board of Directors approved the 2000 Employee Stock Purchase Plan "ESPP". The Company implemented the ESPP upon the completion of the initial public offering in November 2000 (See Note 3). The ESPP, subject to certain limitations, permits eligible employees of the Company to purchase common stock through payroll deductions of up to 10% of their compensation. The Company has approved a plan which provides for the issuance of 1,500,000 shares of common stock under the ESPP, plus an automatic annual increase, to be added on the first day of the fiscal year beginning in 2001, equal to the lesser of (a) 0.5% of the outstanding shares on the last day of the prior fiscal year, (b) 270,000 shares, or (c) such lesser number of shares as may be determined by the Board in its sole discretion. If purchases of stock through the plan deplete this supply, the Company will limit, suspend or discontinue purchases under the plan until additional shares of stock are available. During 2001, the Company sold 200,787 shares under this plan and received \$171,000 in cash.

**Common Shares Reserved for Future Issuance**

The Company has reserved shares of common stock for future issuance as follows:

	December 31, 2001
Stock options outstanding	9,136,874
Stock options available for future grant	7,295,994
Stock warrants outstanding	21,451,887
Conversion of Series A Preferred Stock	35,353,402
Shares available under the Employee Stock Purchase Plan	1,299,213
	<hr/>
Total reserved shares for issuance of common stock	74,537,370

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Net Loss Applicable to Common Stockholders*

A reconciliation of the net loss applicable to common stockholders is as follows:

	Year Ended December 31,		
	1999	2000	2001
Net loss	\$(18,469,000)	\$(46,924,000)	\$(90,877,000)
Adjustments to net loss used in computing basic and diluted net loss applicable to common stockholders:			
Accretion of dividends on convertible and redeemable preferred stock	(1,096,000)	(3,146,000)	(50,000)
Accretion of dividends on minority interest	(286,000)	(197,000)	
Amortization of offering costs for convertible and redeemable preferred stock	(22,000)	(509,000)	(6,000)
Accretion of imputed value assigned to the beneficial conversion feature of Series A convertible and redeemable preferred stock and related common stock warrants			(105,000)
Net loss applicable to common stockholders	\$(19,873,000)	\$(50,776,000)	\$(91,038,000)

**10. Income Taxes**

The Company's deferred tax assets and liabilities consist of the following:

	December 31	
	2000	2001
Current deferred taxes:		
Accounts receivable reserve	\$ 86,000	\$ 109,000
Accrued expenses	1,131,000	1,173,000
Inventory reserve		10,922,000
Other	208,000	133,000
Deferred tax asset – current	1,425,000	12,337,000
Valuation allowance	(1,425,000)	(12,337,000)
Net current deferred taxes		
Long-term deferred taxes:		
Depreciation and amortization	1,420,000	866,000
Deferred revenue	164,000	171,000
Research and development costs	205,000	125,000
Net operating loss and credit carryforwards	18,898,000	38,016,000
Deferred tax asset — noncurrent	20,687,000	39,178,000
Valuation allowance	(20,687,000)	(39,178,000)
Net long-term deferred taxes		
Net deferred income taxes	\$	\$

Management has established a valuation allowance against its net deferred tax assets due to the uncertainty surrounding the realization of such assets.

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At December 31, 2001, the Company has U.S. federal net operating loss carryforwards of approximately \$94.6 million, which expire at various dates through 2021. The Company has California net operating loss carryforwards of approximately \$27.3 million, which expire at various dates through 2011. The Company has Arizona net operating loss carryforwards of approximately \$2.3 million, which expire at various dates through 2006. In addition, the Company has Canadian net operating loss carryforwards of approximately \$6.3 million, which do not expire. As a result of ownership changes (as defined by Section 382 of the Internal Revenue Code), which occurred in 1996, 1999, and 2000, tax loss carryforwards generated prior to November 2000 have been limited to a total of approximately \$37.2 million, of which approximately \$21.1 million can be utilized per year in years subsequent to December 31, 2001. Any additional ownership changes may further limit the utilization of net operating loss carryforwards.

The provision for income taxes reconciles to the amount computed by applying the statutory federal income tax rate to income before provision for income taxes as follows:

	Year Ended December 31,		
	1999	2000	2001
Federal tax provision, at statutory rate	\$(6,464,000)	\$(16,424,000)	\$(30,898,000)
State tax, net of federal benefit	(543,000)	(1,364,000)	(2,154,000)
Change in valuation allowance	5,636,000	11,447,000	29,401,000
Interest expense on convertible Subordinated debentures	1,279,000		
Deferred compensation		5,262,000	4,144,000
Customer acquisition costs		936,000	
Other	92,000	143,000	(493,000)
	\$	\$	\$

11. Commitments and Contingencies

*Operating and Capital Leases*

The Company leases its office space and certain equipment under non-cancelable operating and capital leases. Rental expense under operating leases in fiscal 1999, 2000 and 2001 was approximately \$517,000, \$1,223,000 and \$1,428,000, respectively. The minimum future lease payments under non-cancelable operating leases and future minimum capital lease payments as of December 31, 2001 are:

	Operating	Capital
2002	\$1,532,000	189,000
2003	1,535,000	145,000
2004	1,373,000	40,000
2005	572,000	
2006	213,000	
Thereafter	319,000	
Total minimum lease payments	\$5,544,000	\$ 374,000
Less — amount representing interest (at rates ranging from 9.9% to 20.3%)		(44,000)
Present value of net minimum lease payments		330,000
Less — current installments of obligations under capital leases		(159,000)
Obligations under capital leases, excluding current installments		\$ 171,000

NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Royalties**

The Company is required to pay quarterly royalties for its products shipped with CDPD technology. The Company incurred royalty expenses of \$353,000, \$284,000 and \$239,000 in fiscal 1999, 2000 and 2001, respectively. The Company is also required to make royalty payments for its products shipped with CDMA technology at an amount of 6.5% of the net selling price, as defined in the royalty agreement. In 2001, the Company incurred CDMA royalty expense of \$14,000.

**Employment Agreements**

The Company has entered into an employment agreement with its Chief Executive Officer that provides for a lump sum payment equivalent to annual base salary and certain additional benefits upon termination without cause or upon a change in control of the Company. The Company also has entered into an employment agreement with its President and Chief Operating Officer that provides for compensation in the event of termination of employment or in the event of resignation within 30 days of a change in control of the Company, plus continuation of certain benefits and pro rata payment of incentive bonuses. Employment agreements with certain other key employees provide for six months salary payment in the event of termination without cause.

In May 2001, the Company entered into management retention agreements with the Company's named executive officers. The agreements entitle those employees to enumerated severance benefits if, within twenty-four months following a change of control (or at the direction of an acquirer in anticipation of such an event), the Company terminates the employee's employment other than for cause or disability or the employee terminates his employment for good reason. These severance benefits include a payment of two times the sum of the employee's annual base salary then in effect and the applicable targeted annual bonus, continued employee benefits, full acceleration of vesting of the employee's stock options, a tax equalization payment to eliminate the effects of any applicable excise tax, and the issuance to the employee of an option to purchase additional shares of the Company's common stock.

**Legal Matters**

On January 28, 2002, the Company entered into a settlement agreement with Sanmina related to claims filed in October 2001 (See Note 2). Additionally, in February 2002 the Company received a demand letter from Metricom (See Note 3).

The Company and certain of its officers and directors were sued along with the underwriters to the Company's initial public offering in a suit filed November 20, 2001 in United States District Court for the Southern District of New York. We were recently served with the complaint and have not appeared in the action. The complaint alleges that the defendants violated federal securities laws by issuing and selling common stock pursuant to the Company's initial public offering without disclosing to investors that some of the underwriters in the offering, including the lead underwriters, had solicited and received undisclosed and excessive commissions from certain investors. Similar lawsuits have been filed with respect to a large number of companies, which completed their initial public offerings in 1999 and 2000. The progress and possible settlement of the litigation will depend heavily on the coordinated progress of all of the related lawsuits that have been filed in the Southern District of New York, including certain test cases against selected issuers. We believe that the claims alleged in the lawsuit are primarily directed at the underwriters of the Company's initial public offering and, as they relate to us, are without merit. We intend to defend the lawsuit vigorously.

The Company is party to various legal matters and subject to claims in the ordinary course of business. In the opinion of management, none of these matters will have a material adverse effect on the Company's financial position or results of operations.

## NOVATEL WIRELESS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**12. Segment Information and Concentrations of Risk and Related Parties*****Segment Information***

The Company operates in the wireless data modem technology industry and all sales of the Company's products and services are made in this segment. Management makes decisions about allocating resources based on this one operating segment.

The Company has operations in the United States and Canada. The distribution of the Company's assets in the United States and Canada as of December 31, 2001 and 2000 are \$54.6 million and \$5.3 million, and \$91.6 million and \$19.2 million, respectively. For the years ended December 31, 2000 and 2001, approximately 7% and 16% of revenues were derived from international accounts.

***Concentrations of Risk and Related Parties***

Substantially all of the Company's revenues come from wireless Internet products. Any further decline in market acceptance of the Company's products or a further decline in the financial condition of the Company's existing customers may impair the Company's ability to operate effectively.

The Company sells products to Airlink Communications, Inc., ("Airlink") a wireless software infrastructure business, which integrates the Company's modems into their products. Airlink's Chairman of the Board is also a member of the Company's Board of Directors and a stockholder. Sales to Airlink were \$1,746,000 for the year ended December 31, 2001. Receivables from Airlink amounted to \$778,000 as of December 31, 2001. In May 2001, the Company and Airlink entered into an agreement for the payment of products sold to Airlink. Specifically, Airlink will pay \$1.6 million for product purchases under terms of a promissory note with the first payment of \$300,000, plus accrued interest due September 1, 2001, and the remaining principal balance due in equal installments, plus accrued interest, over eight monthly equal installments with the final payment due May 1, 2002. The note bears interest at prime plus 3% (7.75% at December 31, 2001) and is secured by all of Airlink's assets. Airlink's Chairman of the Board has also personally guaranteed this promissory note. We have sold similar products to other parties at unit prices similar to those under the Company's arrangement with Airlink.

In September 2001, the Company entered into an agreement with Airlink for the payment of \$1.1 million for products shipped to Airlink during September 2001. In December 2001, Airlink returned \$750,000 of the products shipped to Airlink during September 2001. At December 31, 2001, the receivable from Airlink was \$375,000. In accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" the Company will record revenue under this agreement when the collection of the receivable becomes reasonably assured. No revenues were recorded in 2001. Subsequent to December 31, 2001, no payments have been received under this agreement.

A significant portion of the Company's revenue comes from a small number of customers. The Company's top ten customers for the year ended December 31, 2001 accounted for approximately 66.6% of the Company's revenue. Two customers accounted for 13% and 12%, respectively, of 2001 revenues. One customer, OmniSky, accounted for 45% of the revenues for the year ended December 31, 2000. Two customers accounted for 23% and 14%, respectively, of 1999 revenues.

On June 30, 2000, Aether Capital, LLC, purchased \$20 million of the Company's Series D convertible preferred stock. Aether Capital, LLC is the investment arm of Aether Systems, Inc., which is the sole member of Aether Capital, LLC. David S. Oros, one of the Company's directors, who joined the Company's board in July 2000, serves as Chairman, Chief Executive Officer and President of Aether Systems, Inc. Mr. Oros is also a director of OmniSky Corporation, in which Aether Systems, Inc. is an investor. As a result of this capital transaction, OmniSky Corporation, a one-time significant customer, became a related party and the Company commenced recording sales to OmniSky as "Revenue-Related Parties" in the third quarter of 2000. Sales to OmniSky amounted to \$1,901,000 for the year ended December 31, 2001 and \$27,771,000 and \$24,207,000 for the year and six months ended December 31, 2000, respectively. Receivables from OmniSky Corporation amounted to \$143,000 as of December 31, 2001, which has been fully reserved.



NOVATEL WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In December 2001, the Company entered into a software license, maintenance and support agreement with Aether Capital LLC. Under this agreement, the Company purchased a software license from Aether Capital LLC for \$870,000 and a one-year maintenance and support service agreement for \$130,000. In January 2002, the Company paid \$500,000 under this agreement, with the remaining \$500,000 due in April 2002.

The Company has hired an entity to provide technical support services for \$16,000 per month. The Company's Chairman and Chief Executive Officer is a board member and a security holder of this entity. Payments made to this entity during the year ended December 31, 2001 were \$62,000.

During 2001, the Company made payments of approximately \$169,000 to Centurion Wireless Technologies, Inc., ("Centurion") in connection with the purchase of certain wireless modems. Centurion is a portfolio company of Cornerstone Equity Investors, LLC ("Cornerstone"). Two of Cornerstone's managing directors serve on the Company's board and Cornerstone is a stockholder of the Company.

**13. Retirement Savings Plan**

The Company has a defined contribution 401(k) retirement savings plan (the "Plan"). Substantially all of the Company's U.S. employees are eligible to participate in the Plan after meeting certain minimum age and service requirements. Employees may make discretionary contributions to the Plan subject to Internal Revenue Service limitations. As of December 31, 2001, there are no provisions for employer contributions to the Plan. Participants are fully vested in all contributions to the Plan.

The Company has a Registered Retirement Savings Plan for its Canadian employees. Substantially all of the Company's Canadian employees are eligible to participate in the Plan. Employees make discretionary contributions to the plan subject to local limitations. Employer contributions amounted to \$101,000, \$83,000 and \$67,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

**14. Quarterly Financial Information (Unaudited)**

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2001, 2000 and 1999.

	Quarter			
	First	Second	Third	Fourth
(in thousands, except per share amounts)				
<b>2001:</b>				
Total revenues	\$ 19,737	\$ 12,508	\$ 4,140	\$ 7,258
Gross margin	(5,184)	(12,419)	(5,268)	(10,925)
Net loss	(25,306)	(25,786)	(17,439)	(22,507)
Net loss per share	(0.47)	(0.48)	(0.32)	(0.41)
<b>2000:</b>				
Total revenues	\$ 6,837	\$ 9,094	\$ 17,477	\$ 27,746
Gross margin	(1,028)	(1,055)	521	3,128
Net loss	(7,369)	(10,769)	(15,435)	(17,203)
Net loss per share	(0.74)	(1.06)	(1.51)	(0.53)
<b>1999:</b>				
Total revenues	\$ 1,205	\$ 1,096	\$ 3,213	\$ 4,042
Gross margin	180	(656)	239	(2,162)
Net loss	(1,992)	(4,031)	(4,560)	(9,290)
Net loss per share	(0.21)	(0.41)	(0.47)	(0.95)

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To Novatel Wireless, Inc.:

We have audited the accompanying consolidated balance sheets of Novatel Wireless, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Novatel Wireless, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II — Valuation and Qualifying Accounts is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

San Diego, California

February 1, 2002

(Except with respect to the matters

discussed in Note 3, as to which the date is February 22, 2002)

## SCHEDULE II

## NOVATEL WIRELESS INC.

## Valuation and Qualifying Accounts

For the Years Ended December 31, 2001, 2000 and 1999

	Balance At Beginning of Year	Additions Charged to Operations	Deductions From Reserves	Balance At End of Year
<b>Allowance for Doubtful Accounts:</b>				
December 31, 1999	\$ 44,000	\$ 137,000		\$ 181,000
December 31, 2000	181,000	72,000		253,000
December 31, 2001	253,000	114,000	\$ 73,000	294,000
<b>Warranty Reserve:</b>				
December 31, 1999	244,000	132,000	140,000	236,000
December 31, 2000	236,000	439,000		675,000
December 31, 2001	675,000		413,000	262,000
<b>Deferred Tax Asset Valuation Allowance:</b>				
December 31, 1999	5,029,000	5,636,000		10,665,000
December 31, 2000	10,665,000	11,447,000		22,112,000
December 31, 2001	22,112,000	29,401,000		51,513,000

## EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Certificate of Incorporation.
3.2(4)	Certificate of Designation of Series A Convertible Preferred Stock.
3.3(1)	Bylaws.
4.1(2)	Specimen Common Stock Certificate.
4.2(4)	Specimen Series A Convertible Preferred Stock Certificate.
4.3(4)	Form of Common Stock Purchase Warrant.
4.4(5)	Warrant to Purchase Stock, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank
4.5(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series B Convertible Preferred Stock
4.6(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series C Convertible Preferred Stock
4.7(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series C Debentures
4.8(5)	Form of Common Stock Purchase Warrant issued in connection with the Company's Series D Convertible Preferred Stock
10.1(3)	1997 Stock Incentive Plan, as Amended and Restated.
10.2	2000 Stock Incentive Plan, as Amended and Restated.
10.3(3)	2000 Employee Stock Purchase Plan.
10.4(2)	Amended and Restated Registration Rights Agreement, dated as of June 15, 1999, by and among Novatel Wireless, Inc. and some of its stockholders.
10.5(2)	Amended and Restated Investors' Rights Agreement, dated as of June 30, 2000, by and among Novatel Wireless, Inc. and some of its stockholders.
10.6(2)	Form of Indemnification Agreement between Novatel Wireless, Inc. and each of its officers and directors.
10.7(5)	Loan and Security Agreement, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank.
10.8(5)	Silicon Valley Bank Registration Rights Agreement, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank.
10.9	Silicon Valley Bank Antidilution Agreement, dated as of November 29, 2001, by and between the Company and Silicon Valley Bank.
10.10(2)	Real Property Sublease dated as of July 7, 2000, by and between Sicom Inc. (formerly Gensia Sicom, Inc.) and Novatel Wireless, Inc., for 9360 Towne Centre Drive, San Diego, California.
10.11(2)	Real Property Lease, dated as of February 1, 1997, by and between Novatel Wireless Technologies Ltd. and Sun Life Assurance Company of Canada, for 6715 8th St., N.E., Calgary, Alberta.
*10.12(2)	Employment Agreement, dated as of July 24, 2000, by and between Novatel Wireless, Inc. and John Major.
*10.13(2)	Employment Agreement, dated as of August 21, 1996, by and among Novatel Wireless, Inc., Novatel Wireless Technologies Ltd. and Ambrose Tam.
10.14	Form of Change of Control Letter Agreement, dated as of May 11, 2001, by and between Novatel Wireless, Inc. and several executives of Novatel Wireless, Inc.
10.15(2)	Standard Manufacturing Agreement, dated as of August 8, 2000, by and between Novatel Wireless, Inc. and Solectron de Mexico, S.A. de C.V.
10.16(2)	First Amendment to Employment Agreement, dated as of September 22, 2000, by and among Novatel Wireless, Inc., Novatel Wireless Technologies Ltd. and Ambrose Tam.

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<b>Exhibit Number</b>	<b>Description</b>
10.17	Settlement Agreement and Mutual General Release, dated as of January 12, 2002 by and between Novatel Wireless, Inc. and Sanmina-SCI Corporation and Sanmina Canada ULC.
10.18	Security Agreement, dated as of January 12, 2002 executed by Novatel Wireless, Inc. in favor of Sanmina-SCI Corporation.
21(1)	Subsidiaries of Novatel Wireless, Inc.
23.1	Consent of Arthur Andersen LLP, Independent Public Accountants
24	Power of Attorney (See signature page)

- 
- (1) Incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2000.
  - (2) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 333-42570), filed November 14, 2000, as amended.
  - (3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-53692), filed January 12, 2001.
  - (4) Incorporated by reference to the Company's current report on Form 8-K, filed January 18, 2002.
  - (5) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-81190), filed January 22, 2002, as amended.
- \* Management contract or compensation plan or arrangement.

## AMENDED AND RESTATED

NOVATEL WIRELESS, INC.  
2000 STOCK INCENTIVE PLAN  
EFFECTIVE AS OF JANUARY 30, 2002

## SECTION 1. INTRODUCTION.

The Company's Board of Directors adopted the Novatel Wireless, Inc. 2000 Stock Incentive Plan on July 24, 2000 (the "Adoption Date"), and the Company's stockholders approved the Plan on September 13, 2000. The Plan is effective on the date of our initial public offering.

The purpose of the Plan is to promote the long-term success of the Company and the creation of shareholder value by offering Key Employees an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, and to encourage such selected persons to continue to provide services to the Company and to attract new individuals with outstanding qualifications.

The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Stock, Stock Units, Stock Appreciation Rights and Options (which may be Incentive Stock Options or Nonstatutory Stock Options).

The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware (except its choice-of-law provisions). Capitalized terms shall have the meaning provided in Section 2 unless otherwise provided in this Plan or the applicable Stock Option Agreement, SAR Agreement, Stock Unit Agreement or Restricted Stock Agreement.

## SECTION 2. DEFINITIONS.

(a) "AFFILIATE" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity. For purposes of determining an individual's "Service," this definition shall include any entity other than a Subsidiary, if the Company, a Parent and/or one or more Subsidiaries own not less than 50% of such entity.

(b) "AWARD" means any award of an Option, SAR, Stock Unit or Restricted Stock under the Plan.

(c) "BOARD" means the Board of Directors of the Company, as constituted from time to time.

(d) "CHANGE IN CONTROL" except as may otherwise be provided in a Stock Option Agreement, SAR Agreement, Stock Unit Agreement or Restricted Stock Agreement, means the occurrence of any of the following:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board, as a result of which fewer than one-half of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the "original directors") or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved;

(iv) Any transaction as a result of which any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least 20% of the total voting power represented by the Company's then outstanding voting securities. For purposes of this Paragraph (iii), the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude:

(A) A trustee or other fiduciary holding securities under an employee benefit plan of the Company or a subsidiary of the Company;

(B) A corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company; and

(C) The Company; or

(v) A complete liquidation or dissolution of the Company.

(e) "CODE" means the Internal Revenue Code of 1986, as amended.

(f) "COMMITTEE" means a committee consisting of one or more members of the Board that is appointed by the Board (as described in Section 3) to administer the Plan.

(g) "COMMON STOCK" means the Company's common stock.

(h) "COMPANY" means Novatel Wireless, Inc., a Delaware corporation.

(i) "CONSULTANT" means an individual who performs bona fide services to the Company, a Parent, a Subsidiary or an Affiliate other than as an Employee or Director or Non-Employee Director.

(j) "DIRECTOR" means a member of the Board who is also an Employee.

(k) "DISABILITY" means that the Key Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(l) "EMPLOYEE" means any individual who is a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "EXERCISE PRICE" means, in the case of an Option, the amount for which a Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. "Exercise Price," in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of a Share in determining the amount payable upon exercise of such SAR.

(o) "FAIR MARKET VALUE" means the market price of Shares, determined by the Committee as follows:

(i) If the Shares were traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the last trading price reported by the applicable composite transactions report for such date;

(ii) If the Shares were traded over-the-counter on the date in question and were classified as a national market issue, then the Fair Market Value shall be equal to the last trading price quoted by the NASDAQ system for such date;

(iii) If the Shares were traded over-the-counter on the date in question but were not classified as a national market issue, then the Fair Market Value shall be equal to the mean between the last reported representative bid and asked prices quoted by the NASDAQ system for such date; and

(iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Wall Street Journal. Such determination shall be conclusive and binding on all persons.



- (p) "GRANT" means any grant of an Award under the Plan.
- (q) "INCENTIVE STOCK OPTION" or "ISO" means an incentive stock option described in Code section 422(b).
- (r) "KEY EMPLOYEE" means an Employee, Director, Non-Employee Director or Consultant who has been selected by the Committee to receive an Award under the Plan.
- (s) "NON-EMPLOYEE DIRECTOR" means a member of the Board who is not an Employee.
- (t) "NONSTATUTORY STOCK OPTION" or "NSO" means a stock option that is not an ISO.
- (u) "OPTION" means an ISO or NSO granted under the Plan entitling the Optionee to purchase Shares.
- (v) "OPTIONEE" means an individual, estate or other entity that holds an Option.
- (w) "PARENT" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.
- (x) "PARTICIPANT" means an individual or estate or other entity that holds an Award.
- (y) "PLAN" means this Novatel Wireless, Inc. 2000 Stock Incentive Plan as it may be amended from time to time.
- (z) "RESTRICTED STOCK" means a Share awarded under the Plan.
- (aa) "RESTRICTED STOCK AGREEMENT" means the agreement described in Section 8 evidencing each Award of Restricted Stock.
- (bb) "SAR AGREEMENT" means the agreement described in Section 9 evidencing each Award of a Stock Appreciation Right.
- (cc) "SECURITIES ACT" means the Securities Act of 1933, as amended.
- (dd) "SERVICE" means service as an Employee, Director, Non-Employee Director or Consultant.
- (ee) "SHARE" means one share of Common Stock.
- (ff) "STOCK APPRECIATION RIGHT" OR "SAR" means a stock appreciation right awarded under the Plan.
- (gg) "STOCK OPTION AGREEMENT" means the agreement described in Section 6 evidencing each Grant of an Option.

(hh) "STOCK UNIT" means a bookkeeping entry representing the equivalent of a Share, as awarded under the Plan.

(ii) "STOCK UNIT AGREEMENT" means the agreement described in Section 8 evidencing each Award of Stock Units.

(jj) "SUBSIDIARY" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(kk) "10-PERCENT SHAREHOLDER" means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, its Parent or any of its subsidiaries. In determining stock ownership, the attribution rules of section 424(d) of the Code shall be applied.

### SECTION 3. ADMINISTRATION.

(a) COMMITTEE COMPOSITION. A Committee appointed by the Board shall administer the Plan. The Board shall designate one of the members of the Committee as chairperson. If no Committee has been approved, the entire Board shall constitute the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

With respect to officers or directors subject to Section 16 of the Exchange Act, the Committee shall consist of those individuals who shall satisfy the requirements of Rule 16b-3 (or its successor) under the Exchange Act with respect to Awards granted to persons who are officers or directors of the Company under Section 16 of the Exchange Act. Notwithstanding the previous sentence, failure of the Committee to satisfy the requirements of Rule 16b-3 shall not invalidate any Awards granted by such Committee.

The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not qualify under Rule 16b-3, who may administer the Plan with respect to Key Employees who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Key Employees and may determine all terms of such Awards.

Notwithstanding the foregoing, the Board shall constitute the Committee and shall administer the Plan with respect to all Awards granted to Non-Employee Directors.

(b) **AUTHORITY OF THE COMMITTEE.** Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take any actions it deems necessary or advisable for the administration of the Plan. Such actions shall include:

- (i) selecting Key Employees who are to receive Awards under the Plan;
- (ii) determining the type, number, vesting requirements and other features and conditions of such Awards;
- (iii) interpreting the Plan; and
- (iv) making all other decisions relating to the operation of the Plan.

The Committee may adopt such rules or guidelines, as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

(c) **INDEMNIFICATION.** Each member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Stock Option Agreement, SAR Agreement, Stock Unit Agreement or Restricted Stock Agreement, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

#### SECTION 4. ELIGIBILITY.

(a) **GENERAL RULES.** Only Employees, Directors, Non-Employee Directors and Consultants shall be eligible for designation as Key Employees by the Committee.

(b) **INCENTIVE STOCK OPTIONS.** Only Key Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, a Key Employee who is a 10-Percent Shareholder shall not be eligible for the grant of an ISO unless the requirements set forth in section 422(c)(5) of the Code are satisfied.

(c) **NON-EMPLOYEE DIRECTOR OPTIONS.** Non-Employee Directors shall also be eligible to receive Options as described in this Section 4(c) from and after the date the Board has determined to implement this provision.

(i) Each eligible Non-Employee Director shall be granted an NSO to purchase 100,000 Shares (subject to adjustment under Section 9) as a result of his or her election or appointment as a Non-Employee Director. No additional option grants shall be issued to Non-Employee Directors following the initial grant of options to purchase 100,000 Shares. All NSOs granted pursuant to this Section 4 shall vest and become exercisable provided the individual is serving as a director of the Company as of the vesting date as follows: 25% one year from the date of grant, then in 36 equal monthly installments commencing on the date one month and one year after the date of grant.

(ii) All NSOs granted to Non-Employee Directors under this Section 4(c) shall become exercisable in full in the event of Change in Control with respect to the Company.

(iii) The Exercise Price under all NSOs granted to a Non-Employee Director under this Section 4(c) shall be equal to one hundred percent (100%) of the Fair Market Value of a Share of Common Stock on the date of grant, payable in one of the forms described in Section 7.

(iv) All NSOs granted to a Non-Employee Director under this Section 4(c) shall terminate on the earlier of:

- (1) The 10th anniversary of the date of grant; or
- (2) The date ninety (90) days after the termination of such Non-Employee Director's service for any reason.

#### SECTION 5. SHARES SUBJECT TO PLAN.

(a) BASIC LIMITATION. The stock issuable under the Plan shall be authorized but unissued Shares or treasury Shares. The aggregate number of Shares reserved for Awards under the Plan shall not exceed 16,500,000.

(b) ANNUAL ADDITION. Beginning with the first fiscal year of the Company beginning after the Effective Date, on the first day of each fiscal year, Shares will be added to the Plan equal to the lesser of (i) 1,500,000 Shares, (ii) three percent (3%) of the outstanding shares in the last day of the prior fiscal year, or (iii) such lesser number of Shares as may be determined by the Board in its sole discretion.

(c) ADDITIONAL SHARES. If Awards are forfeited or terminate for any other reason before being exercised, then the Shares underlying such Awards shall again become available for Awards under the Plan. If SARs are exercised, then only the number of Shares (if any) actually issued in settlement of such SARs shall reduce the number available under Section 5(a) and the balance shall again become available for Awards under the Plan.

(d) DIVIDEND EQUIVALENTS. Any dividend equivalents distributed under the Plan shall not be applied against the number of Shares available for Awards whether or not such dividend equivalents are converted into Stock Units.

(e) LIMITS ON OPTIONS AND SARS. No Key Employee shall receive Options to purchase Shares and/or SARS during any fiscal year covering in excess of 1,000,000 Shares, or 2,000,000 Shares in the first fiscal year of a Key Employee's employment with Company.

(f) LIMITS ON RESTRICTED STOCK AND STOCK UNITS. No Key Employee shall receive Award(s) of Restricted Stock and/or Stock Units during any fiscal year covering in excess of 500,000 Shares, or 1,000,000 Shares in the first fiscal year of a Key Employee's employment with Company.

#### SECTION 6. TERMS AND CONDITIONS OF OPTIONS.

(a) STOCK OPTION AGREEMENT. Each Grant under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. A Stock Option Agreement may provide that new Options will be granted automatically to the Optionee when he or she exercises the prior Options. The Stock Option Agreement shall also specify whether the Option is an ISO or an NSO.

(b) NUMBER OF SHARES. Each Stock Option Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 9.

(c) EXERCISE PRICE. An Option's Exercise Price shall be established by the Committee and set forth in a Stock Option Agreement. To the extent required by applicable law the Exercise Price of an ISO shall not be less than 100% of the Fair Market Value (110% for 10-Percent Shareholders) of a Share on the date of Grant. In the case of an NSO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NSO is outstanding.

(d) EXERCISABILITY AND TERM. Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an ISO shall in no event exceed ten (10) years from the date of Grant. An ISO that is granted to a 10-Percent Shareholder shall have a maximum term of five (5) years. No Option can be exercised after the expiration date provided in the applicable Stock Option Agreement. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. A Stock Option Agreement may permit an Optionee to exercise an Option before it is

vested, subject to the Company's right of repurchase over any Shares acquired under the unvested portion of the Option (an "early exercise"), which right of repurchase shall lapse at the same rate the Option would have vested had there been no early exercise. In no event shall the Company be required to issue fractional Shares upon the exercise of an Option.

(e) MODIFICATIONS OR ASSUMPTION OF OPTIONS. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of Shares and at the same or a different Exercise Price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

(f) TRANSFERABILITY OF OPTIONS. Except as otherwise provided in the applicable Stock Option Agreement and then only to the extent permitted by applicable law, no Option shall be transferable by the Optionee other than by will or by the laws of descent and distribution. Except as otherwise provided in the applicable Stock Option Agreement, an Option may be exercised during the lifetime of the Optionee only or by the guardian or legal representative of the Optionee. No Option or interest therein may be assigned, pledged or hypothecated by the Optionee during his lifetime, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

(g) NO RIGHTS AS STOCKHOLDER. An Optionee, or a transferee of an Optionee, shall have no rights as a stockholder with respect to any Common Stock covered by an Option until such person becomes entitled to receive such Common Stock by filing a notice of exercise and paying the Exercise Price pursuant to the terms of such Option.

(h) RESTRICTIONS ON TRANSFER. Any Shares issued upon exercise of an Option shall be subject to such rights of repurchase, rights of first refusal and other transfer restrictions as the Committee may determine. Such restrictions shall apply in addition to any restrictions that may apply to holders of Shares generally and shall also comply to the extent necessary with applicable law.

#### SECTION 7. PAYMENT FOR OPTION SHARES.

(a) GENERAL RULE. The entire Exercise Price of Shares issued upon exercise of Options shall be payable in cash at the time when such Shares are purchased, except as follows:

(i) In the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Section 7.

(ii) In the case of an NSO granted under the Plan, the Committee may in its discretion, at any time accept payment in any form(s) described in this Section 7.

(b) SURRENDER OF STOCK. To the extent that this Section 7(b) is applicable, payment for all or any part of the Exercise Price may be made with Shares which have already been owned by the Optionee for such duration as shall be specified by the Committee. Such Shares shall be valued at their Fair Market Value on the date when the new Shares are purchased under the Plan.

(c) PROMISSORY NOTE. To the extent that this Section 7(c) is applicable, payment for all or any part of the Exercise Price may be made with a full-recourse promissory note.

(d) OTHER FORMS OF PAYMENT. To the extent that this Section 7(d) is applicable, payment may be made in any other form that is consistent with applicable laws, regulations and rules.

#### SECTION 8. TERMS AND CONDITIONS FOR AWARDS OF RESTRICTED STOCK AND STOCK UNITS.

(a) TIME, AMOUNT AND FORM OF AWARDS. Awards under this Section 8 may be granted in the form of Restricted Stock in the form of Stock Units, or in any combination of both. Restricted Stock or Stock Units may also be awarded in combination with NSOs or SARs, and such an Award may provide that the Restricted Stock or Stock Units will be forfeited in the event that the related NSOs or SARs are exercised.

(b) AGREEMENTS. Each Award of Restricted Stock or Stock Units under the Plan shall be evidenced by a Restricted Stock Agreement or Stock Unit Agreement between the Participant and the Company. Such Awards shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Committee deems appropriate for inclusion in the applicable Agreement. The provisions of the various Agreements entered into under the Plan need not be identical.

(c) PAYMENT FOR RESTRICTED STOCK OR STOCK UNIT AWARDS. Restricted Stock or Stock Units may be issued with or without cash consideration under the Plan.

(d) FORM AND TIME OF SETTLEMENT OF STOCK UNITS. Settlement of vested Stock Units may be made in the form of (i) cash, (ii) Shares or (iii) any combination of both. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution may occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed, or it may be deferred to any later date. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 10.

(e) VESTING CONDITIONS. Each Award of Restricted Stock or Stock Units shall become vested, in full or in installments, upon satisfaction of the conditions specified in the applicable Agreement. An Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or retirement or other events.

(f) ASSIGNMENT OR TRANSFER OF RESTRICTED STOCK OR STOCK UNITS. Except as provided in Section 13, or in a Restricted Stock Agreement or Stock Unit Agreement, or as required by applicable law, a Restricted Stock or Stock Unit Award granted under the Plan shall not be anticipated, assigned, attached, garnished, optioned, transferred or made subject to any creditor's process, whether voluntarily, involuntarily or by operation of law. Any act in violation of this Section 8(f) shall be void. However, this Section 8(f) shall not preclude a Participant from designating a beneficiary who will receive any outstanding Restricted Stock or Stock Unit Awards in the event of the Participant's death, nor shall it preclude a transfer of Restricted Stock or Stock Unit Awards by will or by the laws of descent and distribution.

(g) DEATH OF STOCK UNITS RECIPIENT. Any Stock Unit Award that becomes payable after the Award recipient's death shall be distributed to the recipient's beneficiary or beneficiaries. Each recipient of a Stock Unit Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the recipient's death. If no beneficiary was designated or if no designated beneficiary survives the recipient, then any Stock Unit Award that becomes payable after the recipient's death shall be distributed to the recipient's estate.

(h) TRUSTS. Neither this Section 8 nor any other provision of the Plan shall preclude a Participant from transferring or assigning Restricted Stock to (a) the trustee of a trust that is revocable by such Participant alone, both at the time of the transfer or assignment and at all times thereafter prior to such Participant's death, or (b) the trustee of any other trust to the extent approved in advance by the Committee in writing. A transfer or assignment of Restricted Stock from such trustee to any person other than such Participant shall be permitted only to the extent approved in advance by the Committee in writing, and Restricted Stock held by such trustee shall be subject to all of the conditions and restrictions set forth in the Plan and in the applicable Restricted Stock Agreement, as if such trustee were a party to such Agreement.

(i) VOTING AND DIVIDEND RIGHTS. The holders of Restricted Stock awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. A Restricted Stock Agreement, however, may require that the holders of Restricted Stock invest any cash dividends received in additional Restricted Stock. Such additional Restricted Stock shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid. Such additional Restricted Stock shall not reduce the number of Shares available under Section 5.

(j) STOCK UNIT VOTING AND DIVIDEND RIGHTS. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such



right entitles the holder to be credited with an amount equal to all cash dividends paid on one Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Prior to distribution, any dividend equivalents which are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

(k) CREDITORS' RIGHTS. A holder of Stock Units shall have no rights other than those of a general creditor of the Company. Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Stock Unit Agreement.

#### SECTION 9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

(a) SAR AGREEMENT. Each Award of a SAR under the Plan shall be evidenced by a SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SARs may be granted in consideration of a reduction in the Optionee's other compensation.

(b) NUMBER OF SHARES. Each SAR Agreement shall specify the number of Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 10.

(c) EXERCISE PRICE. Each SAR Agreement shall specify the Exercise Price. A SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

(d) EXERCISABILITY AND TERM. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. A SAR Agreement may provide for accelerated exercisability in the event of the Optionee's death, Disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's Service. SARs may also be awarded in combination with Options, Restricted Stock or Stock Units, and such an Award may provide that the SARs will not be exercisable unless the related Options, Restricted Stock or Stock Units are forfeited. A SAR may be included in an ISO only at the time of Grant but may be included in an NSO at the time of Grant or at any subsequent time, but not later than six months before the expiration of such NSO. A SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control.

(e) EXERCISE OF SARs. If, on the date when a SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion. Upon exercise of a SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall

receive from the Company (i) Shares, (ii) cash or (iii) a combination of Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Shares received upon exercise of SARs shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Shares subject to the SARs exceeds the Exercise Price.

(f) MODIFICATION OR ASSUMPTION OF SARs. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SARs or may accept the cancellation of outstanding SARs (whether granted by the Company or by another issuer) in return for the grant of new SARs for the same or a different number of Shares and at the same or a different Exercise Price. The foregoing notwithstanding, no modification of a SAR shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such SAR.

#### SECTION 10. PROTECTION AGAINST DILUTION.

(a) ADJUSTMENTS. In the event of a subdivision of the outstanding Shares, a declaration of a dividend payable in Shares, a declaration of a dividend payable in a form other than Shares in an amount that has a material effect on the price of Shares, a combination or consolidation of the outstanding Shares (by reclassification or otherwise) into a lesser number of Shares, a recapitalization, reorganization, merger, liquidation, spin-off or a similar occurrence, the Committee shall make such adjustments as it, in its reasonable discretion, deems appropriate in order to prevent the dilution or enlargement of rights hereunder in one or more of:

(i) the number of Shares available for future Awards and the per person Share limits under Section 5;

(ii) the number of Shares covered by each outstanding Award; or

(iii) the Exercise Price under each outstanding SAR or Option.

(b) PARTICIPANT RIGHTS. Except as provided in this Section 10, a Participant shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

#### SECTION 11. EFFECT OF A CHANGE IN CONTROL.

(a) MERGER OR REORGANIZATION. In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding Awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting or for their cancellation with or without consideration.

(b) ACCELERATION. The Committee may determine, at the time of granting an Award or thereafter, that such Award shall become fully vested as to all Shares subject to such Award in the event that a Change in Control occurs with respect to the Company.

SECTION 12. LIMITATIONS ON RIGHTS.

(a) RETENTION RIGHTS. Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an employee, consultant or director of the Company, a Parent, a Subsidiary or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate the Service of any person at any time, and for any reason, subject to applicable laws, the Company's Certificate of Incorporation and Bylaws and a written employment agreement (if any).

(b) STOCKHOLDERS' RIGHTS. A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by his or her Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued, except as expressly provided in Section 10.

(c) REGULATORY REQUIREMENTS. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

SECTION 13. WITHHOLDING TAXES.

(a) GENERAL. A Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with his or her Award. The Company shall not be required to issue any Shares or make any cash payment under the Plan until such obligations are satisfied.

(b) SHARE WITHHOLDING. If a public market for the Company's Shares exists, the Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Shares that he or she previously acquired. Such Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash. Any payment of taxes by assigning Shares to the Company may be subject to restrictions, including, but not limited to, any restrictions required by rules of the Securities and Exchange Commission.

SECTION 14. DURATION AND AMENDMENTS.

(a) TERM OF THE PLAN. The Plan, as set forth herein, shall become effective on the date of its adoption by the Board, subject to the approval of the Company's stockholders. No Options or SARs shall be exercisable until such stockholder approval is obtained. In the event that the stockholders fail to approve the Plan within twelve (12) months after its adoption by the Board, any Awards made shall be null and void and no additional Awards shall be made. To the extent required by applicable law, the Plan shall terminate on the date that is ten (10) years after its adoption by the Board and may be terminated on any earlier date pursuant to Section 14(b).

(b) RIGHT TO AMEND OR TERMINATE THE PLAN. The Board may amend or terminate the Plan at any time and for any reason. The termination of the Plan, or any amendment thereof, shall not affect any Award previously granted under the Plan. No Awards shall be granted under the Plan after the Plan's termination. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules.

SECTION 15. EXECUTION.

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this Plan on behalf of the Company.

NOVATEL WIRELESS, INC.

By /s/ Melvin L. Flowers

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Melvin L. Flowers  
Senior Vice President, Finance,  
Chief Financial Officer and Secretary

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SILICON VALLEY BANK  
ANTIDILUTION AGREEMENT

THIS ANTIDILUTION AGREEMENT is entered into as of November 29, 2001, by and between Silicon Valley Bank ("Purchaser") and the Company whose name appears on the last page of this Antidilution Agreement.

RECITALS

A. Concurrently with the execution of this Antidilution Agreement, the Purchaser is purchasing from the Company a Warrant to Purchase Stock (the "Warrant") pursuant to which Purchaser has the right to acquire from the Company the Shares (as defined in the Warrant).

B. By this Antidilution Agreement, the Purchaser and the Company desire to set forth the adjustment in the number of Shares issuable upon exercise of the Warrant as a result of a Diluting Issuance (as defined in Exhibit A to the Warrant).

C. Capitalized terms used herein shall have the same meaning as set forth in the Warrant.

NOW, THEREFORE, in consideration of the mutual promises, covenants and conditions hereinafter set forth, the parties hereto mutually agree as follows:

1. Definitions. As used in this Antidilution Agreement, the following terms have the following respective meanings:

(a) "Option" means any right, option, or warrant to subscribe for, purchase, or otherwise acquire common stock or Convertible Securities.

(b) "Convertible Securities" means any evidences of indebtedness, shares of stock, or other securities directly or indirectly convertible into or exchangeable for common stock.

(c) "Issue" means to grant, issue, sell, assume, or fix a record date for determining persons entitled to receive, any security (including Options), whichever of the foregoing is the first to occur.

(d) "Additional Common Shares" means all common stock (including reissued shares) issued (or deemed to be issued pursuant to Section 2) after the date of the Warrant. Additional Common Shares does not include, however, any common stock issued in a transaction described in Sections 2.1 and 2.2 of the Warrant; any common stock Issued upon conversion of preferred stock outstanding on the date of the Warrant; the Shares; or common stock Issued as incentive or in a nonfinancing transaction to employees, officers, directors, or consultants to the Company.

(e) The shares of common stock ultimately Issuable upon exercise of an Option (including the shares of common stock ultimately Issuable upon conversion or exercise of a Convertible Security Issuable pursuant to an Option) are deemed to be Issued when the Option is Issued. The shares of common stock ultimately Issuable upon conversion or exercise of a Convertible Security (other than a Convertible Security Issued pursuant to an Option) shall be deemed Issued upon Issuance of the Convertible Security.

2. Deemed Issuance of Additional Common Shares. The shares of common stock ultimately Issuable upon exercise of an Option (including the shares of common stock ultimately Issuable upon conversion or exercise of a Convertible Security Issuable pursuant to an Option) are deemed to be Issued when the Option is Issued. The shares of common stock ultimately Issuable upon conversion or exercise of a Convertible Security (other than a Convertible Security Issued pursuant to an Option) shall be deemed Issued upon Issuance of the Convertible Security. The maximum amount of common stock Issuable is determined without regard to any future adjustments permitted under the instrument creating the Options or Convertible Securities.

3. Adjustment of Warrant Price for Diluting Issuances.

3.1 Weighted Average Adjustment. If the Company issues Additional Common Shares after the date of the Warrant and the consideration per Additional Common Share (determined pursuant to Section 9) is less than the Warrant Price in effect immediately before such Issue, the Warrant Price shall be reduced, concurrently with such Issue, to a price (calculated to the nearest hundredth of a cent) determined by multiplying the Warrant Price by a fraction:

(a) the numerator of which is the amount of such common stock outstanding immediately before such Issue plus the amount of common stock that the aggregate consideration received by the Company for the Additional Common Shares would purchase at the Warrant Price in effect immediately before such Issue, and

(b) the denominator of which is the amount of common stock outstanding immediately before such Issue plus the number of such Additional Common Shares.

3.2 Adjustment of Number of Shares. Upon each adjustment of the Warrant Price, the number of Shares issuable upon exercise of the Warrant shall be increased to equal the quotient obtained by dividing (a) the product resulting from multiplying (i) the number of Shares issuable upon exercise of the Warrant and (ii) the Warrant Price, in each case as in effect immediately before such adjustment, by (b) the adjusted Warrant Price.

3.3 Securities Deemed Outstanding. For the purpose of this Section 3, all securities issuable upon exercise of any outstanding Convertible Securities or Options, warrants, or other rights to acquire securities of the Company shall be deemed to be outstanding.

4. No Adjustment for Issuances Following Deemed Issuances. No adjustment to the Warrant Price shall be made upon the exercise of Options or conversion of Convertible Securities.

5. Adjustment Following Changes in Terms of Options or Convertible Securities. If the consideration payable to, or the amount of common stock Issuable by, the Company increases or decreases, respectively, pursuant to the terms of any outstanding Options or Convertible Securities, the Warrant Price shall be recomputed to reflect such increase or decrease. The recomputation shall be made as of the time of the Issuance of the Options or Convertible Securities. Any changes in the Warrant Price that occurred after such Issuance because other Additional Common Shares were Issued or deemed Issued shall also be recomputed.

6. Recomputation Upon Expiration of Options or Convertible Securities. The Warrant Price computed upon the original Issue of any Options or Convertible Securities, and any subsequent adjustments based thereon, shall be recomputed when any Options or rights of conversion under Convertible Securities expire without having been exercised. In the case of Convertible Securities or Options for common stock, the Warrant Price shall be recomputed as if the only Additional Common Shares Issued were the shares of common stock actually Issued upon the exercise of such securities, if any, and as if the only consideration received therefor was the consideration actually received upon the Issue, exercise or conversion of the Options or Convertible Securities. In the case of Options for Convertible Securities, the Warrant Price shall be recomputed as if the only Convertible Securities Issued were the Convertible Securities actually Issued upon the exercise thereof, if any, and as if the only consideration received therefor was the consideration actually received by the Company (determined pursuant to Section 9), if any, upon the Issue of the Options for the Convertible Securities.

7. Limit on Readjustments. No readjustment of the Warrant Price pursuant to Sections 5 or 6 shall increase the Warrant Price more than the amount of any decrease made in respect of the Issue of any Options or Convertible Securities.

8. 30 Day Options. In the case of any Options that expire by their terms not more than 30 days after the date of Issue thereof, no adjustment of the Warrant Price shall be made until the expiration or exercise of all such Options.

9. Computation of Consideration. The consideration received by the Company for the Issue of any Additional Common Shares shall be computed as follows:

(a) Cash shall be valued at the amount of cash received by the Corporation. excluding amounts paid or payable for accrued interest or accrued dividends.

(b) Property. Property other than cash shall be computed at the fair market value thereof at the time of the Issue as determined in good faith by the Board of Directors of the Company.

(c) Mixed Consideration. The consideration for Additional common Shares Issued together with other property of the Company for consideration that covers both shall be determined in good faith by the Board of Directors.

(d) Options and Convertible Securities. The consideration per Additional Common Share for Options and Convertible Securities shall be determined by dividing:

(i) the total amount, if any, received or receivable by the Company for the Issue of the Options or Convertible Securities, plus the minimum amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon exercise of the Options or conversion of the Convertible Securities, by

(ii) the maximum amount of common stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) ultimately Issuable upon the exercise of such Options or the conversion of such Convertible Securities.

## 10. General.

10.1 Governing Law. This Antidilution Agreement shall be governed in all respects by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California.

10.2 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

10.3 Entire Agreement. Except as set forth below, this Antidilution Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof.

10.4 Notices, etc. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by first class mail, postage prepaid, certified or registered mail, return receipt requested, addressed (a) if to Purchaser at Purchaser's address as set forth below, or at such other address as Purchaser shall have furnished to the Company in writing, or (b) if to the Company, at the Company's address set forth below, or at such other address as the Company shall have furnished to the Purchaser in writing.

10.5 Severability. In case any provision of this Antidilution Agreement shall be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions of this Antidilution Agreement shall not in any way be affected or impaired thereby.

10.6 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Antidilution Agreement.

10.7 Counterparts. This Antidilution Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

PURCHASER

SILICON VALLEY BANK

By: /S/ Milad I. Hanna

-----  
Name: Milad I. Hanna

-----  
(print)

Title: Sr. Vice President

Address: 3003 Tasman Drive  
Santa Clara, CA 95054

COMPANY

NOVATEL WIRELESS, INC.

By: /S/ John Major

-----  
Name: John Major

-----  
(print)

Title: Chairman of the Board; President or  
Vice President

Address: 9360 Towne Centre Drive, Suite 110  
San Diego, CA 92121

May 11, 2001

[NAME]

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dear Mr. \_\_\_\_\_:

Novatel Wireless, Inc. (the "Corporation") considers it essential to the best interests of its shareholders to foster the continuous employment of the Corporation's key management personnel. In this regard, the Corporation's Board of Directors (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a change in control of the Corporation may exist and the uncertainty and questions that it may raise among management could result in the departure or distraction of management personnel to the detriment of the Corporation and its shareholders.

The Board has decided to reinforce and encourage the continued attention and dedication of members of the Corporation's management, including yourself, to their assigned duties without the distraction arising from the possibility of a change in control of the Corporation.

In order to induce you to remain in its employ, the Corporation hereby agrees that after this letter agreement (this "Agreement") has been fully executed, you shall receive the severance benefits set forth in this Agreement in the event that your employment with the Corporation is terminated under the circumstances described below in anticipation of or subsequent to a Change in Control (as defined below).

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2003; provided, however, that commencing on January 1, 2004 and on each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than June 30 of the preceding year, the Corporation shall have given you notice that it does not wish to extend this Agreement; provided, further, that if a Change in Control occurs during the original or any extended term of this Agreement, the term of this Agreement shall continue in effect for the two (2) year period immediately following the Change in Control.

2. Change in Control. No benefits shall be payable hereunder unless there has been a Change in Control. For purposes of this Agreement, a "Change in Control" shall mean the occurrence of any of the following:

(i) Any merger, consolidation, reorganization, business combination or similar transaction involving the Corporation into or with another Person (as defined below), and as a result of such merger, consolidation, reorganization, business combination or similar transaction less than fifty percent (50%) of the combined voting power of the then outstanding securities of such resulting corporation or Person immediately after such transaction are held in the aggregate by the holders of voting stock of the Corporation immediately prior to such transaction; or

(ii) Any sale or other transfer of all or substantially all of its business, property or assets of the Corporation to another Person; or

(iii) Any Person becomes the beneficial owner of fifty percent (50%) or more of the combined voting power of the then outstanding voting stock of the Corporation; or

(iv) The approval by the shareholders of the Corporation of a complete liquidation or dissolution of the Corporation; or

(v) A change in the composition of the Board of Directors during any period of two (2) consecutive years such that individuals who at the beginning of such period were members of the Board of Directors cease for any reason to constitute at least a majority thereof, unless the election, or nomination for election by the Corporation's stockholders, of each new director was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of the period.

As used herein, "Person" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or other entity or governmental body.

3. Termination in Anticipation of or Following Change in Control.

(i) General. If a Change in Control shall have occurred during the term of this Agreement, you shall be entitled to the benefits provided in Section 4(ii) if your employment is terminated within the two (2) year period immediately following the date of such Change in Control (a) by the Corporation other than for Cause or Disability (each as defined below), or (b) by you for Good Reason or pursuant to a Covered Resignation (each as defined below) (a termination of your employment under the circumstances described in this sentence is sometimes hereinafter referred to as a "Payment Termination"). Notwithstanding anything contained herein, if your employment is terminated within the nine (9) month period immediately prior to a Change in Control either by the Corporation other than for Cause or Disability or by you for Good Reason, and if such termination (1) was at the request of a third party who has taken steps reasonably calculated to effect the Change in Control or (2) otherwise arose in connection with or in anticipation of the Change in Control, then for all purposes of this Agreement your

employment shall be deemed to have been terminated immediately after the actual occurrence of the Change in Control. Except as described in the preceding sentence, in the event that your employment with the Corporation is terminated for any reason and subsequently a Change in Control occurs, you shall not be entitled to any benefits hereunder. In the event that you are entitled to the benefits provided in Section 4(ii), such benefits shall be paid notwithstanding the subsequent expiration of the term of this Agreement.

(ii) Death or Disability. Your employment with the Corporation shall terminate automatically upon your death. The Corporation may terminate your employment for Disability, but only if that Disability continues through the Date of Termination (as hereinafter defined). For purposes of this Agreement, "Disability" shall mean your absence from the full-time performance of your duties with the Corporation for a period of not less than six (6) consecutive months by reason of your physical or mental illness.

(iii) Cause. The Corporation may terminate your employment for Cause (as hereinafter defined) by giving you 30 days' advance notice in writing of such termination. For purposes of this Agreement, "Cause" shall mean (a) your willful and continued failure to substantially perform your duties with the Corporation (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after your issuance of a Notice of Termination (as defined below) for Good Reason), after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, (b) your willful commission of an act of fraud or dishonesty resulting in material economic or financial injury to the Corporation, and which remains uncured by you for five (5) calendar days following your receipt of such notice, or (c) your conviction of, or entry by you of a guilty or no contest plea to, the commission of a felony involving moral turpitude. For purposes of this Section 3(iii), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you in bad faith. Notwithstanding the foregoing, you shall not be deemed terminated for Cause pursuant to Sections 3(iii)(a) or (b) hereof unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters ( 3/4) of the entire membership of the Board (after reasonable notice to you, an opportunity for you, together with your counsel, to be heard before the Board and a reasonable opportunity to cure), finding that in the Board's good faith opinion you were guilty of the conduct set forth above in this Section 3(iii) and specifying the particulars thereof in reasonable detail.

(iv) Good Reason. You may terminate your employment with the Corporation for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence, after a Change in Control, of any one or more of the following events without your prior written consent:

(a) the assignment to you of any duties which are adversely inconsistent with the position in the Corporation that you held immediately prior to the Change in Control, a significant adverse alteration in the nature or status of your responsibilities or the conditions of your employment from those in effect immediately prior to the Change in Control, including by virtue of the Corporation ceasing to be a



publicly-held corporation, or any other action by the Corporation that results in a material diminution in your position, authority, title, duties or responsibilities;

(b) the Corporation's reduction of your annual base salary or bonus opportunity, each as in effect on the date hereof or as the same may be increased from time to time;

(c) the relocation of the Corporation's offices at which you are principally employed immediately prior to the date of the Change in Control (your "Principal Location") to a location more than thirty (30) miles from such location, or the Corporation's requiring you to be based at a location more than thirty (30) miles from your Principal Location, except for required travel on the Corporation's business to an extent substantially consistent with your present business travel obligations;

(d) the Corporation's failure to pay to you any portion of your then current compensation or any portion of an installment of deferred compensation under any deferred compensation program of the Corporation, in each case within seven (7) days of the date such compensation is due;

(e) the Corporation's failure to continue in effect compensation and employee benefits, including benefit plans which provide you with benefits which are substantially similar, on an aggregate basis, to the benefits provided to you under the Corporation's regular compensation and benefit plans and practices immediately prior to the Change in Control, unless an equitable arrangement (embodied in ongoing substitute or alternative plans) has been made with respect to such plans, or the Corporation's failure to continue your participation therein (or in such substitute or alternative plans) on a basis not materially less favorable in the aggregate, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control;

(f) the Corporation's failure to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 6 hereof;

(g) any purported termination of your employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(v) hereof (and, if applicable, the requirements of Section 3(iii) hereof), which purported termination shall not be effective for purposes of this Agreement;

(h) the continuation or repetition, after written notice of objection from you, of harassing or denigrating treatment of you which is inconsistent with your position with the Corporation;

(i) any breach by the corporation of any provision of this Agreement applicable to it which is material and adverse to you; or

(j) the Corporation's failure to provide the Additional Option (as hereinafter defined) or the corporation's material breach of one or more of the stock option agreements pursuant to which the Additional Option or any other equity securities of the Corporation were issued to you.

(v) Your right to terminate your employment pursuant to this Section 3(iv) shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

(vi) Notice of Termination. Any purported termination of your employment by the Corporation or by you (other than termination due to your death, which shall terminate your employment automatically) shall be communicated by a written Notice of Termination to the other party hereto in accordance with Section 7. For purposes of this Agreement, "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement (if any) relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(vii) Date of Termination. For purposes of this Agreement, "Date of Termination" shall mean (a) if your employment is terminated due to your death, the date of your death; (b) if your employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the full time performance of your duties during such thirty (30) day period), and (c) if your employment is terminated for any reason other than death or Disability, the date specified in the Notice of Termination (which, in the case of a termination by the Corporation without Cause shall not be less than thirty (30) days from the date such Notice of Termination is given, and in the case of a termination by you for Good Reason or pursuant to a Covered Resignation shall not be less than fifteen (15) nor more than thirty (30) days from the date such Notice of Termination is given).

#### 4. Compensation Upon Termination.

(i) If your employment with the Corporation is terminated by reason of your death, by the Corporation for Cause or Disability, or by you other than for Good Reason, the Corporation shall pay you your full base salary, when due, through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan or practice of the Corporation at the time such payments are due, and the Corporation shall have no further obligations to you under this Agreement.

(ii) If you incur a Payment Termination, then, in lieu of any severance benefits to which you may otherwise be entitled under any severance plan or program of the Corporation, you shall be entitled to the benefits provided below:

(a) the Corporation shall, at the time specified in Section 4(iii), pay to you your full base salary, when due, through the Date of Termination at the rate in effect

at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan or practice of the Corporation at the time such payments are due;

(b) the Corporation shall, at the time specified in Section 4(iii), pay as severance pay to you a lump-sum severance payment equal to the sum of the following:

(A) two hundred percent (200%) of the greater of (x) your annual base salary as in effect immediately prior to delivery of the Notice of Termination or (y) your annual base salary as in effect immediately prior to the Change in Control; and

(B) two hundred percent (200%) of the greater of (x) your targeted annual bonus for the year in which the Date of Termination occurs or (y) your targeted annual bonus for the year in which the Change in Control occurs, in each case assuming that the bonus targets are satisfied;

(c) the Corporation shall, at its sole expense as incurred, provide you with financial planning services for the one (1) year period following the Date of Termination, such services to be of substantially the same type and scope as those which the Corporation was providing to you immediately prior to the Date of Termination, or, if more favorable to you, immediately prior to the date of the Change in Control;

(d) the Corporation shall, at its sole expense as incurred, provide you with outplacement services for a period not to exceed one (1) year at an aggregate cost to the Corporation not to exceed \$10,000, the scope of which shall be selected by you in your sole discretion and the provider of which shall be selected by you from among the providers offered to you by the Corporation;

(e) for the period beginning on the Date of Termination and ending on the earlier of (i) the date which is twenty-four (24) full months following the Date of Termination or (ii) the first day of your eligibility to participate in a comparable group health plan maintained by a subsequent employer, the Corporation shall pay for and provide you and your dependents with the same medical benefits coverage to which you would have been entitled had you remained continuously employed by the Corporation during such period. In the event that you are ineligible under the terms of the Corporation's benefit plans to continue to be so covered, the Corporation shall provide you with substantially equivalent coverage through other sources or will provide you with a lump sum payment (determined on a present value basis using the interest rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code"), on the Date of Termination) in such amount that, after all income and employment taxes on that amount, shall be equal to the cost to you of providing yourself such benefit coverage. At the termination of the benefits coverage under the first sentence of this Section 4(ii)(e), you and your dependents shall be entitled to continuation coverage pursuant to Section 4980B of the Code, Sections 601-608 of the Employee Retirement Income Security Act of 1974, as amended, and under any other applicable

law, to the extent required by such laws, as if you had terminated employment with the Corporation on the date such benefits coverage terminates.

(f) (1) anything in this Agreement to the contrary notwithstanding, if it shall be determined that any payment or distribution to you or for your benefit (whether paid or payable or distributed or distributable) pursuant to the terms of this Agreement or otherwise (the "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then you shall be entitled to receive from the Corporation an additional payment (the "Gross-Up Payment") in an amount such that the net amount of the Payment and the Gross-Up Payment retained by you after the calculation and deduction of all Excise Taxes (including any interest or penalties imposed with respect to such taxes) on the payment and all federal, state and local income tax, employment tax and Excise Tax (including any interest or penalties imposed with respect to such taxes) on the Gross-Up Payment provided for in this Section 4(ii)(f), and taking into account any lost or reduced tax deductions on account of the Gross-Up Payment, shall be equal to the Payment;

(2) all determinations required to be made under this Section 4(ii)(f), including whether and when the Gross-Up Payment is required and the amount of such Gross-Up Payment, and the assumptions to be utilized in arriving at such determinations shall be made by the Accountants (as defined below) which shall provide you and the Corporation with detailed supporting calculations with respect to such Gross-Up Payment within fifteen (15) business days of the receipt of notice from you or the Corporation that you have received or will receive a Payment. For the purposes of this Section 4(ii)(f), the "Accountants" shall mean the Corporation's independent certified public accountants serving immediately prior to the Change in Control. In the event that the Accountants are also serving as accountant or auditor for the individual, entity or group effecting the Change in Control, you shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accountants hereunder). All fees and expenses of the Accountants shall be borne solely by the Corporation. For the purposes of determining whether any of the Payments will be subject to the Excise Tax and the amount of such Excise Tax, such Payments will be treated as "parachute payments" within the meaning of Section 280G of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that in the opinion of the Accountants such Payments (in whole or in part) either do not constitute "parachute payments" or represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4) of the Code) in excess of the "base amount," or such "parachute payments" are otherwise not subject to such Excise Tax. For purposes of determining the amount of the Gross-Up Payment, you shall be deemed to pay Federal income taxes at the highest applicable marginal rate of Federal income taxation for the calendar year in which the Gross-Up Payment is to be made and to pay any applicable state and local income taxes at the highest applicable marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in Federal income taxes which could be obtained

from the deduction of such state or local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of your adjusted gross income), and to have otherwise allowable deductions for Federal, state and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-Up Payment in your adjusted gross income. To the extent practicable, any Gross-Up Payment with respect to any Payment shall be paid by the Corporation at the time you are entitled to receive the Payment and in no event will any Gross-Up Payment be paid later than five days after the receipt by you of the Accountant's determination. Any determination by the Accountants shall be binding upon the Corporation and you. As a result of uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accountants hereunder, it is possible that the Gross-Up Payment made will have been an amount less than the Corporation should have paid pursuant to this Section 4(ii)(f) (the "Underpayment"). In the event that the Corporation exhausts its remedies pursuant to Section 4(ii)(f)(3) and you are required to make a payment of any Excise Tax, the Underpayment shall be promptly paid by the Corporation to or for your benefit; and

(3) you shall notify the Corporation in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable after you are informed in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid. You shall not pay such claim prior to the expiration of the 30-day period following the date on which you give such notice to the Corporation (or such shorter period ending on the date that any payment of taxes, interest and/or penalties with respect to such claim is due). If the Corporation notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

(A) give the Corporation any information reasonably requested by the Corporation relating to such claim;

(B) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Corporation;

(C) cooperate with the Corporation in good faith in order to effectively contest such claim; and

(D) permit the Corporation to participate in any proceedings relating to such claims;

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify you for and hold you harmless from, on an after-tax basis, any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a

result of such representation and payment of all related costs and expenses. Without limiting the foregoing provisions of this Section 4(ii)(f), the Corporation shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs you to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to you, on an interest-free basis, and shall indemnify you for and hold you harmless from, on an after-tax basis, any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance (including as a result of any forgiveness by the Corporation of such advance); provided, further, that any extension of the statute of limitations relating to the payment of taxes for the taxable year of you with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority;

(g) in any situation where under applicable law the Corporation has the power to indemnify (or advance expenses to) you in respect of any judgments, fines, settlements, loss, cost or expense (including attorneys' fees) of any nature related to or arising out of your activities as an agent, employee, officer or director of the Corporation or in any other capacity on behalf of or at the request of the Corporation, the Corporation shall promptly on written request, indemnify (and advance expenses to) you to the fullest extent permitted by applicable law, including but not limited to making such findings and determinations and taking any and all such actions as the Corporation may, under applicable law, be permitted to have the discretion to take so as to effectuate such indemnification or advancement. Such agreement by the Corporation shall not be deemed to impair any other obligation of the Corporation respecting your indemnification otherwise arising out of this or any other agreement or promise of the Corporation or under any statute; and

(h) the Corporation shall furnish you for six (6) years following the Date of Termination (without reference to whether the term of this Agreement continues in effect) with directors' and officers' liability insurance insuring you against insurable events which occur or have occurred while you were a director or officer of the Corporation, such insurance to have policy limits aggregating not less than the amount in effect immediately prior to the Change in Control, and otherwise to be in substantially the same form and to contain substantially the same terms, conditions and exceptions as the liability issuance policies provided for officers and directors of the Corporation in force from time to time, provided, however, that such terms, conditions and exceptions shall

not be, in the aggregate, materially less favorable to you than those in effect on the date hereof; provided, further, that if the aggregate annual premiums for such insurance at any time during such period exceed one hundred and fifty percent (150%) of the per annum rate of premium currently paid by the Corporation for such insurance, then the Corporation shall provide the maximum coverage that will then be available at an annual premium equal to one hundred and fifty percent (150%) of such rate.

(iii) The payments provided for in Sections 4(ii)(a), (b), and (e), as applicable, shall be made not later than the fifth business day following the Date of Termination; provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Corporation shall pay to you on such day an estimate, as determined in good faith by the Corporation, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Corporation to you, payable on the fifth day after demand by the Corporation (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(iv) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer or self-employment, by retirement benefits, by offset against any amounts (other than loans or advances to you by the Corporation).

#### 5. Equity Awards.

(i) Notwithstanding anything contained in any equity plan or award agreement, or any other agreement to which the Corporation is a party, all outstanding stock options, restricted stock and other equity awards granted to you under any of the Corporation's stock option plans, incentive plans or other similar plans (or awards substituted therefor covering the securities of a successor company) (collectively, "Options") shall become immediately vested and exercisable in full immediately prior to a Change in Control.

(ii) Notwithstanding anything contained in any equity plan or award agreement or any other agreement to which the Corporation is a party, immediately prior to a Change in Control the Corporation shall grant you an additional stock option (the "Additional Option") to purchase that number of shares of the Corporation's common stock equal to one-third (1/3) of the number of shares of the Corporation's common stock subject to your then outstanding Options immediately prior to a Change in Control. The per share exercise price of the Additional Option shall be equal to the fair market value of a share on the date of grant (such fair market value shall be the closing price of the Company's common stock as listed on the Nasdaq National Market on the date of grant if the Corporation is then listed on such exchange). The Additional Option shall become immediately vested and exercisable in full immediately prior to the Change in control.

Notwithstanding anything to the contrary, in connection with a Change in Control under Section 2(i) or (ii), the purchaser or other Person in connection with such Change in Control shall either (1) assume the Additional Option and all of the Corporation's obligations under the Corporation's equity plans and award agreements with respect to the Additional Option or (2) substitute for the Additional Option an option to purchase the same class of capital stock of such purchaser or Person into which the Corporation's common stock is converted or exchanged in connection with such Change in Control transaction (the "Purchaser Stock"). The Additional Option or Purchaser Stock so assumed or substituted will continue to have and be subject to substantially the same terms and conditions set forth in the Corporation's equity plans and/or award agreements and other documents governing such Additional Option immediately prior to the Change in Control, except that (1) such Additional Option or substituted option will be exercisable for that number of shares of Purchaser Stock that were purchasable under such Additional Option immediately prior to the Change of Control multiplied by the Exchange Ratio, rounded up to the nearest whole number of shares of Purchaser Stock and (2) the per share exercise price for the shares of Purchaser Stock issuable upon exercise of the Additional Option or substituted option will be equal to the quotient determined by dividing the exercise price per share of the common stock of the Corporation at which the Additional Option was exercisable immediately prior to the Change in Control by the Exchange Ratio, and rounding the resulting exercise price up to the nearest whole cent. The Corporation and such purchaser or other Person will provide that the transactions contemplated by any such Change in Control will not terminate any such assumed Additional Option or substituted option or any right of exercise, vesting or repurchase thereunder with respect to such shares acquired upon exercise of such option. "Exchange Ratio" shall mean the number of shares of Purchaser Stock or other consideration into which each share of the Corporation's common stock issued and outstanding immediately prior to the Change in Control is converted or exchanged.

(iii) Notwithstanding anything contained in any equity plan or award agreement, in the event that a Change in Control occurs and your employment with the Corporation is terminated for any reason after the Change in Control, all outstanding Options, including the Additional Option and any substituted option (pursuant to Section 5(ii) above), held by you immediately prior to the date of the Change in Control shall, to the extent exercisable as of the Date of Termination, remain exercisable for a period of two (2) years following the Date of Termination.

#### 6. Successors; Binding Agreement.

(i) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business, equity and/or assets of the Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure by the Corporation to obtain such assumption agreement prior to or in connection with the effectiveness of any such succession shall constitute Good Reason, within the meaning of Paragraph 3(iv) hereof, for you to terminate your employment hereunder. If you terminate your employment for such Good Reason, you shall be entitled to the payments and benefits described in Paragraph 4(ii) hereof, subject to the terms and



conditions of such Paragraph. Unless expressly provided otherwise, "Corporation" as used herein shall mean the Corporation as defined in this Agreement and any successor to its business, equity and/or assets as aforesaid.

(ii) This Agreement shall inure to the benefit of and be enforceable by you and your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder had you continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

7. Notice. For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Corporation shall be directed to the attention of its Secretary, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Except as provided in Section 4(ii)(f) hereunder, any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Corporation under Section 4 shall survive the expiration of the term of this Agreement. The section headings contained in this Agreement are for convenience only, and shall not affect the interpretation of this Agreement.

9. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

11. Arbitration; Dispute Resolution, Etc.

(i) Arbitration Procedure. Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS/Endispute in San Diego, California in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, you and the Corporation shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. In the event you and the Corporation cannot agree on an arbitrator, the Administrator of JAMS/Endispute will appoint an arbitrator. Neither you nor the Corporation nor the arbitrator shall disclose the existence, content, or results of any arbitration hereunder without the prior written consent of all parties. Except as provided herein, the Federal Arbitration Act shall govern the interpretation, enforcement and all proceedings. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof.

(ii) Compensation During Dispute, Etc. Your compensation during any disagreement, dispute, controversy, claim, suit, action or proceeding (collectively, a "Dispute") arising out of or relating to this Agreement or the interpretation of this Agreement shall be as follows:

If there is a termination of your employment with the Corporation followed by a Dispute as to whether you are entitled to the payments and other benefits provided under this Agreement, then, during the period of that Dispute the Corporation shall pay you fifty percent (50%) of the amounts specified in Section 4(ii)(b) hereof, and the Corporation shall provide you with the other benefits provided in Section 4(ii) of this Agreement, if, but only if, you agree in writing that if the Dispute is resolved against you, you shall promptly refund to the Corporation all payments you receive under Section 4(ii)(b) of this Agreement plus interest at the rate provided in Section 1274(d) of the Code, compounded quarterly. If the Dispute is resolved in your favor, promptly after resolution of the Dispute the Corporation shall pay you all amounts which were withheld during the period of the Dispute plus interest at the rate provided in Section 1274(d) of the Code, compounded quarterly.

(iii) Expenses, Legal Fees. The Corporation shall pay, or reimburse you for, all expenses and reasonable attorneys fees incurred by you in connection with any Dispute arising out of or relating to this Agreement or the interpretation thereof (including, without limitation, all such fees and expenses, if any, incurred in contesting or disputing any termination of your employment or in seeking to obtain or enforce any right or benefit provided by this Agreement, or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder).

12. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto, and any prior agreement of the parties hereto in respect of the subject matter contained herein; [provided, however, that the Employment Agreement, dated as of \_\_\_\_\_, \_\_\_\_\_, by and between you and the Corporation, shall remain in full force and effect and shall, pursuant to the terms and conditions thereof, provide certain severance and/or non-competition benefits to you upon certain terminations of your employment which do not constitute a Payment Termination hereunder]. Any of your rights hereunder shall be in addition to any rights you may otherwise have under benefit plans or agreements of the Corporation (other than severance plans or agreements) to which you are a party or in which you are a participant, including, but not limited to, any Corporation sponsored employee benefit plans and stock options plans. The provisions of this Agreement shall not in any way abrogate your rights under such other plans and agreements.

13. At-Will Employment. Nothing contained in this Agreement shall (i) confer upon you any right to continue in the employ of the Corporation, (ii) constitute any contract or agreement of employment, or (iii) interfere in any way with the at-will nature of your employment with the Corporation.

[SIGNATURE PAGE FOLLOWS]

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Corporation the enclosed copy of this letter, which shall then constitute our agreement on this subject.

Sincerely,

NOVATEL WIRELESS, INC.

By: \_\_\_\_\_  
John Major

Its: Chairman and Chief Executive Officer

By: \_\_\_\_\_  
Ambrose Tam

Its: President and Chief Technology Officer

Agreed and Accepted,  
this \_\_\_\_\_ day of \_\_\_\_\_, 2001.

- - - - -  
[EXECUTIVE NAME]

## SETTLEMENT AGREEMENT AND MUTUAL GENERAL RELEASE

This Settlement Agreement and Mutual General Release ("AGREEMENT") is made and entered into on January 12, 2002 by and between Novatel Wireless, Inc. ("NOVATEL WIRELESS") and Sanmina-SCI Corporation and Sanmina Canada ULC (collectively "SANMINA" and, together with Novatel Wireless, the "PARTIES"). The exhibits to this Agreement are hereby expressly incorporated into and made a part of this Agreement.

## I.

## RECITALS

A. WHEREAS, on or about July 18, 2001, Sanmina Corporation (now known as Sanmina-SCI Corporation) and Sanmina Canada ULC filed suit against Novatel Wireless in Superior Court of the State of California, County of San Diego, Case No. GIC770894, ("SAN DIEGO LITIGATION"), and that suit was voluntarily dismissed without prejudice by plaintiffs on October 29, 2001, and Novatel Wireless has filed a Memorandum of Costs, which Sanmina has moved to strike.

B. WHEREAS, on or about October 18, 2001, Sanmina Corporation filed suit against Novatel Wireless in Superior Court of the State of California, County of Santa Clara, Case No. CV802384 ("SANTA CLARA LITIGATION").

C. WHEREAS, Sanmina and Novatel Wireless intend by this Agreement to end any and all disputes and litigation arising from the claims contained in the San Diego Litigation and the Santa Clara Litigation, including any offsets asserted (or which could have been asserted) by Novatel Wireless therein.

## II.

## AGREEMENT OF SETTLEMENT AND RELEASE

NOW, THEREFORE, in consideration of the foregoing recitals, and the mutual promises and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it is agreed as follows:

## A. Novatel Wireless' Obligations

- (1) Deliveries to Escrow.
  - (a) On the date hereof, the Parties shall deliver a fully executed copy of this Agreement to escrow pursuant to the terms and provisions of the Escrow Agreement, attached hereto as EXHIBIT F (the "ESCROW AGREEMENT").
  - (b) Within one business day after this Agreement is deposited into escrow, Novatel Wireless shall deposit into escrow by wire transfer

the total sum of Two Million Three Hundred Thousand Dollars (\$2,300,000) (the "INITIAL PAYMENT").

- (c) On the date this Agreement is deposited into escrow, Novatel Wireless shall notify the transfer agent to issue to Sanmina five million (5,000,000) shares of Novatel Wireless' common stock, \$0.001 par value per share (the "SHARES") and shall cause to be delivered to escrow, upon receipt from the transfer agent, a duly executed stock certificate evidencing the Shares which certificate shall be registered in the name of Sanmina (or otherwise as indicated to Novatel Wireless by Sanmina in writing). The Parties shall comply with the terms and conditions set forth on EXHIBIT A hereto in connection with the Shares.
- (d) As soon as reasonably practical, the Parties shall cause the Security Agreement and subordination agreement (each as defined or further described in paragraph A(8) hereof) to be deposited into escrow.

(2) Pursuant to the terms of the Escrow Agreement, in the event the Security Agreement and the subordination agreement have not been deposited into escrow on or prior to January 28, 2002, the escrow agent shall return all deliverables to the Party who deposited such deliverable and this Agreement shall be automatically terminated and of no further force or effect.

(3) At the sole option of Sanmina, which option shall be exercisable at any time during the ten (10) business day period immediately following the latter of date of this Agreement or the date the Shares and the Initial Payment are released from escrow to Sanmina pursuant to the terms of the Escrow Agreement (the "ESCROW CLOSING DATE"), Novatel Wireless shall repurchase from Sanmina up to two million (2,000,000) of the Shares at a price of Eighty Cents (\$0.80) per share (such option, the "PUT OPTION"). In the event Sanmina elects to exercise the Put Option, Sanmina shall deliver to Novatel Wireless written notice of such election within the time frame specified herein and shall at that time surrender the applicable Novatel Wireless stock certificate, duly endorsed or accompanied by a written instrument of transfer. The date on which Sanmina satisfies these requirements shall be called the "EXERCISE DATE." On the Exercise Date, all rights with respect to those Shares in respect of which Sanmina is then exercising the Put Option shall terminate. Within three (3) business days following the Exercise Date, Novatel Wireless shall wire to Sanmina an amount equal to the number of shares so indicated on such exercise notice, multiplied by \$0.80, and shall cause Novatel Wireless' transfer agent to issue and deliver to Sanmina a stock certificate evidencing the balance of the Shares then held of record by Sanmina.

(4) Subject to the terms and conditions of this Agreement, Novatel Wireless shall purchase and accept from Sanmina, and Sanmina shall sell to Novatel Wireless and deliver to Novatel Wireless or its designee, in the aggregate over the 21-month period beginning January 1, 2002 (the "INVENTORY PERIOD") inventory from the list set forth in Exhibit B (the

"INVENTORY") in the aggregate having a value of at least Ten Million Dollars (\$10,000,000) (the "INVENTORY PURCHASE COMMITMENT"). The Inventory Purchase Commitment may be met either through Novatel Wireless' purchase of Inventory directly from Sanmina or by Novatel Wireless' purchasing finished goods from Sanmina (subject to the mutual agreement of the parties); provided, however, that, to the extent the Inventory Purchase Commitment is met through the purchase of finished goods, the Inventory Purchase Commitment shall only be reduced by the Agreed Value of any Inventory, listed on Exhibit B, used to manufacture such finished goods and only to the extent any payment (including any partial payment) is received by Sanmina in connection with such finished goods. Each item of the Inventory will be valued according to the value set forth in EXHIBIT B (the "AGREED VALUE" or, in the event of finished goods, the "PURCHASE ORDER VALUE"). The purchases will be made according to the following schedule, which schedule is an express term of the Inventory Purchase Commitment:

- (a) At least One Million Dollars (\$1,000,000) in Inventory on or before March 31, 2002.
- (b) Subject to the provisions contained in paragraph 4(g), at least Three Hundred Thirty Three Thousand Three Hundred Thirty Three Dollars (\$333,333) in Inventory on or before the last Friday of each month thereafter during 2002, provided that Novatel Wireless has not earlier satisfied the Inventory Purchase Commitment, giving effect to any reductions then pending pursuant to paragraph 4(e) below.
- (c) Commencing on January 1, 2003, subject to the provisions contained in paragraph 4(g), at least Six Hundred Sixty Six Thousand Six Hundred Sixty Six Dollars (\$666,666) in Inventory per month on or before the last Friday of each month through June 30, 2003, provided that Novatel Wireless has not earlier satisfied the Inventory Purchase Commitment, giving effect to any reductions then pending pursuant to paragraph 4(e) below.
- (d) The remainder of the Inventory Purchase Commitment, as adjusted pursuant to paragraph 4(e) below, on the ninety-first day following the transfer of the last \$666,666 (the "TRANSFER") made pursuant to paragraph 4(c) (the "ADDITIONAL INVENTORY PURCHASE DATE"), provided, however, that if Novatel Wireless is not in default in connection with its obligations under the Inventory Purchase Commitment, then Novatel Wireless' obligation to make such payment shall be waived. For purposes of this paragraph, the date of the Transfer will be deemed to be the last date the Transfer would be deemed to be made under 11 U.S.C. Section 547.
- (e) Notwithstanding anything in this Agreement to the contrary, so long as Novatel Wireless is not in default with respect to the Inventory Purchase Commitment, then on the 91st day following each payment of the Inventory (the "PAYMENT DATE"), or of manufactured parts containing components, set forth on the list set forth on EXHIBIT B, the aggregate Inventory Purchase Commitment shall be reduced by an amount equal to

25% of the Agreed Value of the Inventory so purchased. For purposes of this paragraph, the Payment Date will be deemed to be the last date the payment would be deemed to be made under 11 U.S.C. Section 547.

- (f) Process to order Inventory. At any time during a particular month, Novatel Wireless shall advise Sanmina in writing (each, a "PURCHASE ORDER") of the particular Inventory (from the list set forth in Exhibit B) which it desires to purchase during such month and the date upon which it desires shipment to be made by Sanmina. Sanmina will ship the Inventory pursuant to the Purchase Order on the later to occur of (i) 10 days after its receipt of payment from Novatel Wireless for the Inventory or (ii) the requested shipment date; provided, however, that immaterial delays in the shipment of Inventory shall not excuse Novatel Wireless from the Inventory Purchase Commitment. In the event shipment is delayed for reasons outside of Sanmina's complete control (e.g., shipping delays, labor strikes) (an "UNAVOIDABLE DELAY"), Novatel Wireless' obligation to make future monthly payments according to the Inventory Purchase Commitment shall be suspended until such time as the Novatel Wireless receives the delayed shipment (the "SUSPENDED PAYMENTS"). Following Novatel Wireless' receipt of such delayed shipment, all Suspended Payments shall be due and payable to Sanmina on the immediately following scheduled payment date of the Inventory Purchase Commitment. Sanmina shall ship the Inventory in respect of such Suspended Payments in accordance with the provisions of paragraph 4 above. Upon Sanmina's receipt of payment, the Inventory Purchase Commitment shall be reduced dollar for dollar by the amount of the payment. In the event Sanmina for any reason (other than an Unavoidable Delay) fails to deliver more than 15% of the requested Inventory on such Purchase Order, including, without limitation, Sanmina's failure to have such requested Inventory in stock, any payment made by Novatel Wireless for such inventory not in stock (the "UNAVAILABLE INVENTORY") will be returned to Novatel Wireless and the outstanding amount of the Inventory Purchase Commitment shall be reduced by an amount equal to the Agreed Value of the Unavailable Inventory.
- (g) Acquisition of Inventory in excess of amounts specified in 4(a) through (c). Novatel Wireless shall have the right to acquire Inventory on a monthly basis in an aggregate amount greater than the amount specified in paragraphs 4(a) through 4(c) above. In the event Novatel Wireless orders such greater quantities of Inventory (from the list set forth in Exhibit B), the Inventory Purchase Commitment and the amount of the payment otherwise due and payable to Sanmina for the month immediately following such purchase shall be reduced in direct order by the amount of the payment for such Inventory.



- (h) Failure to submit Purchase Order. Novatel Wireless' failure to advise Sanmina of the particular Inventory it wishes Sanmina to ship during a particular month shall not excuse Novatel Wireless from making the required payment as specified in paragraphs 4(a) through 4(c) above. In such event, the Inventory Purchase Commitment shall be reduced by the amount of the payment received by Sanmina and Novatel Wireless shall have the right to order and receive Inventory (the "DELAYED INVENTORY") valued at the amount of such payment within 10 days following the date it notifies Sanmina of its order. The Inventory Purchase Commitment shall not be further reduced upon shipment of such Delayed Inventory.
- (i) Within sixty (60) days after the execution of this Agreement, Novatel Wireless shall use its best efforts to advise Sanmina in writing of Two Million Five Hundred Thousand Dollars (\$2,500,000) worth of Inventory for which it does not anticipate needing in the future. This Inventory shall be deleted from EXHIBIT B, and Sanmina shall have the right to sell this Inventory and keep the proceeds.

(5) In the event that Novatel Wireless fails timely to make payments to Sanmina pursuant to the Inventory Purchase Commitment, and such failure continues for a period of five business days following written notice, given pursuant to Section 8(a) of the Security Agreement, from Sanmina to Novatel Wireless of such failure, then Sanmina shall have the right to accelerate the entire outstanding Inventory Purchase Commitment, giving effect to any reductions then pending pursuant to paragraph 4 above, and declare such amount then due and payable. If Sanmina accelerates the Inventory Purchase Commitment, then upon payment by Novatel Wireless in full of the accelerated amounts, Sanmina shall deliver to Novatel Wireless Inventory, in accordance with the provisions of paragraph 4, with an Agreed Value equal to the amount due and payable.

(6) Novatel Wireless shall have no right to offset any amount owing pursuant to Inventory Purchase Commitment with any other amounts that Sanmina may owe to Novatel Wireless, but the Inventory shall be subject to the repair and warranty provisions attached hereto as EXHIBIT C.

(7) In the event that purchase obligations remain outstanding under the Inventory Purchase Commitment and Sanmina and Novatel Wireless mutually agree in writing that they desire that Sanmina manufacture finished goods for Novatel Wireless, then (i) the Parties shall execute such other mutually agreeable documents or writings necessary to give effect to that determination consistent with this Agreement, and (ii) Novatel Wireless shall pay to Sanmina in advance an amount equal to twenty-five percent (25%) of the cost of the build with the balance of such cost to be paid within thirty (30) days after the later of Novatel Wireless' actual receipt of such finished goods from Sanmina or the applicable invoice from Sanmina; provided that, the applicable invoice shall not be delivered to Novatel Wireless unless Sanmina is able to ship the finished goods within ten days of delivery of the invoice. In addition, if Sanmina needs to procure materials from one or more third parties in order to complete a given build on behalf of Novatel Wireless, Novatel Wireless shall purchase such required materials

directly from such third parties and arrange for these materials to be shipped to Sanmina, or otherwise shall prepay for all such third party required material. Upon receipt of any such payments by Sanmina for finished goods (either as an advance or upon completion of the finished goods), the Inventory Purchase Commitment shall be reduced, to the extent that any Inventory listed on Exhibit B is used to manufacture such finished goods, by the Agreed Value of such Inventory attributable to the payment received.

(8) Novatel Wireless and Sanmina hereby agree that each respectively shall make good faith efforts to cooperate on future builds. Following the Inventory Period, Novatel Wireless shall continue to use Sanmina to build Novatel Wireless' CDPD products to the extent the terms and conditions for such builds are mutually acceptable to Sanmina and to Novatel Wireless. During the Inventory Period, Sanmina shall have the opportunity to bid on any and all of Novatel Wireless' new contract manufacturing business.

(9) Novatel Wireless shall grant to Sanmina a security interest (the "SECURITY INTEREST"), in the form attached hereto as EXHIBIT D, in all right, title and interest of Novatel Wireless in and to the property described in Attachment 1 thereto, subject to Sanmina entering into a subordination agreement reasonably acceptable to Sanmina and Novatel Wireless.

(10) Novatel Wireless will withdraw the Memorandum of Costs filed in the San Diego Litigation, and hereby releases any claim that it has for the payment of costs incurred by it in the San Diego Litigation or the Santa Clara Litigation.

#### B. Sanmina's Obligations

(1) Within ten (10) business days after the later of (i) the Escrow Closing Date or (ii) the identification of the specific materials to be shipped hereunder, Sanmina shall deliver to Novatel Wireless, materials in Sanmina's inventory, to be selected by mutual agreement of Sanmina and Novatel Wireless, which have the aggregate value of One Million Dollars (\$1,000,000) ("CLOSING INVENTORY"). The Closing Inventory shall not count toward the fulfillment of the Inventory Purchase Commitment. The value of the materials will be determined by Agreed Value set forth in EXHIBIT B.

(2) Within two business days after the Escrow Closing Date, Sanmina shall deliver to Novatel Wireless an executed dismissal with prejudice of the Santa Clara Litigation, and counsel for Sanmina shall immediately inform the Court in the Santa Clara Litigation that Sanmina withdraws its Application For Right To Attach Order and Order For Issuance of Writ of Attachment.

(3) Promptly following the Escrow Closing Date, Sanmina shall issue to Novatel Wireless a Return Material Authorization number with respect to those allegedly defective goods identified on EXHIBIT E hereto (the "RMA GOODS"). In the event Sanmina determines that a portion of the RMA Goods fail to comply with Sanmina's standard warranty, thereafter, Sanmina shall at no additional charge to Novatel Wireless use its best commercial efforts to repair and deliver such repaired goods to Novatel Wireless within ninety (90) days of this Agreement. In the event Sanmina is unable to repair the RMA Goods under warranty (after

using its best commercial efforts to do so), it shall advise Novatel Wireless, and Sanmina shall have no further obligations to Novatel Wireless with respect to the RMA Goods. In the event that Sanmina, acting reasonably, determines that all or a portion of the RMA Goods comply with Sanmina's warranty (e.g., they are not defective or are not manufactured by Sanmina), then the costs of any inspection, testing, and transportation of such non-defective (or non-Sanmina manufactured) RMA Goods to and from Sanmina's facilities shall be borne by Novatel Wireless, and Sanmina shall have no further obligations to Novatel Wireless with respect to such non-defective (or non-Sanmina manufactured) RMA Goods.

#### C. Mutual General Release

(1) Except with the limitation set forth below in Section II.C.2, Novatel Wireless on the one hand, and Sanmina on the other hand, on behalf of themselves, or anyone or any entity that can claim by or through them, hereby release and forever discharge each other, including their divisions, affiliates, parents, subsidiaries, predecessors and successor corporations, and past and present directors, officers, shareholders, agents, servants, employees, representatives, assigns, heirs, successors in interest, predecessors in interest, administrators, attorneys, insurers, and lenders, from any and all claims, demands, and causes of action, obligations, damages and liabilities whether known or unknown in any way connected with any transactions, affairs or occurrences between the Parties to date, of every nature, kind and description, in law, equity or otherwise, which have arisen, occurred or existed at any time prior to the signing of this Agreement, including but not limited to those which are in any way connected with or incidental to the allegations presented in, or which could have been presented in, the San Diego Litigation or the Santa Clara Litigation.

Novatel Wireless and Sanmina acknowledge and agree that they have been informed of the provisions of California Civil Code Section 1542, and do hereby expressly waive and relinquish all rights and benefits that they have or may have had under that statute, which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTION OF THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Novatel Wireless and Sanmina acknowledge the significance and consequences of such specific waiver of Section 1542, and hereby assume full responsibility for any damages or losses it may incur as a result of the execution of this Agreement.

(2) Sanmina's release as provided for in Section C(1) above shall automatically, and without the need for further action on the part of either Party become effective if and when the following conditions (the "RELEASE CONDITIONS") are satisfied: (a) ninety-one (91) calendar days pass following the date of the filing of a UCC-1 financing statement (the "FINANCING STATEMENT") with the Secretary of State of the State of Delaware covering the Collateral as described on Attachment 1 to the Security Agreement (the "FILING DATE"); and (b)

no bankruptcy, receivership, assignment for the benefit of creditors, or similar case, matter or proceeding is commenced by or against or with respect to Novatel Wireless or any affiliate (as defined in 11 U.S.C. Section 101(2)) which might reasonably be substantially consolidated with Novatel Wireless, prior to ninety-one (91) calendar days following the Filing Date. Sanmina shall use reasonable commercial efforts to file the Financing Statement in a timely manner; provided that, in the event Sanmina does not file the Financing Statement in a timely manner Novatel Wireless shall be entitled to file the Financing Statement. If the two conditions are not satisfied, the Release will never become effective and will be a nullity. While the Release Conditions are conditions to the effectiveness of the release, they are not conditions to the other terms of this Agreement.

#### D. Representation and Warranties of Novatel Wireless

(1) Authorization. All corporate action on the part of Novatel Wireless, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement, the performance of all obligations of Novatel Wireless hereunder and the authorization, issuance and delivery of the Shares has been taken, and the Agreement, when executed and delivered by Novatel Wireless, shall constitute a valid and legally binding obligation of Novatel Wireless, enforceable against Novatel Wireless in accordance with its terms except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other laws of general application affecting enforcement of creditors' rights generally and as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(2) Valid Issuance of Shares. The Shares, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under applicable state and federal securities laws. Based in part upon the representations of Sanmina in this Agreement and subject to the provisions below, the Shares will be issued in compliance with all applicable federal and state securities laws.

(3) Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal or state authority on the part of Novatel Wireless is required in connection with the consummation of the transactions contemplated by this Agreement, except for filings pursuant to Section 25102 of the California Corporate Securities Law of 1968, as amended, and the rules thereunder, other applicable state securities laws and Regulation D promulgated pursuant to the Securities Act of 1933, as amended (the "SECURITIES ACT").

#### E. Representation and Warranties of Sanmina

In connection with the issuance of the Shares pursuant to Section B(2) hereof, Sanmina hereby makes the following representations and warranties to Novatel Wireless:

(1) Reliance Upon Sanmina's Representations. Sanmina understands that the Shares are not currently registered under the Securities Act on the ground that the issuance of Shares hereunder is exempt from registration under the Securities Act pursuant to Section 4(2)

thereof, and that Novatel Wireless' reliance on such exemption is based on Sanmina's representations set forth herein.

(2) Purchase Entirely for Own Account. Subject to Sanmina's rights under Section (A)(3) hereof and Exhibit A, Sanmina is acquiring the Shares for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that it has no present intention of selling, granting any participation in, or otherwise distributing the same, except pursuant to an effective registration statement under the Act or an available exemption from the registration requirements of the Act. By executing the Agreement, Sanmina further represents that (except as provided in Section (A)(3) herein) it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Shares.

(3) Receipt of Information. Sanmina has relied upon independent investigations made by it or its representatives and is fully familiar with the business, results of operations, financial condition, prospects and other affairs of Novatel Wireless and realizes that the Shares are a speculative investment involving a high degree of risk for which there is no assurance of any return. Sanmina believes it has received all the information it considers necessary or appropriate for deciding whether to acquire the Shares. Sanmina acknowledges that in connection with the Agreement, neither Novatel Wireless nor anyone acting on its behalf or any other person has made, and Sanmina is not relying upon any representations, statements or projections concerning Novatel Wireless, its present or projected results of operations, financial condition, prospects, present or future plans, products and services, or the value of the Shares or Novatel Wireless' business or any other matter in relation to Novatel Wireless' business or affairs. Sanmina has had an opportunity to discuss Novatel Wireless' business management and financial affairs with its management, to review Novatel Wireless' facilities, and to obtain such additional information concerning its investment in the Shares in order for it to evaluate the merits and risks of its investment.

(4) Investment Experience. Sanmina has such knowledge and experience in financial and business matters and such experience in evaluating and investing in securities of companies such as Novatel Wireless as to be capable of evaluating the merits and risks of the investment in the Shares. Sanmina has the financial ability to bear the economic risk of its investment in the Shares being acquired under the Agreement, has adequate means for providing for its current needs and contingencies and has no need for liquidity with respect to its investment in the Shares.

(5) Accredited Investor. Sanmina represents and warrants that it is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D under the Securities Act.

(6) Restricted Securities. Sanmina understands and acknowledges that the Shares may not be sold, transferred or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Shares or an available exemption from registration under the Securities Act, the Shares must be held indefinitely (subject to Sanmina's rights under Section (A)(3))

hereof). In particular, Sanmina has been advised or is aware of the provisions of Rule 144 promulgated under the Securities Act which permit limited resale of securities purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the availability of certain current public information about Novatel Wireless and compliance with applicable requirements regarding the holding period and the amount of securities to be sold and the manner of sale. Sanmina understands that only Novatel Wireless can take action to register the Shares.

(7) Restrictive Legend. Sanmina understands that (a) any registrar or transfer agents for the Shares will not be required to accept for registration of transfer any Shares except upon presentation of evidence satisfactory to Novatel Wireless that the restrictions on transfer under the Act have been satisfied and (b) any Shares in the form of definitive physical certificates will bear a legend substantially in the form set forth below:

THE SECURITIES EVIDENCED HEREBY WERE ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER SECTION 5 OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND APPLICABLE STATE SECURITIES LAWS, AND THE SECURITIES EVIDENCED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THE SECURITIES EVIDENCED HEREBY AGREES FOR THE BENEFIT OF THE CORPORATION THAT (A) SUCH SECURITIES MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, OR IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF THE CORPORATION SO REQUESTS), (2) TO THE CORPORATION OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH IN (A) ABOVE. THE SECURITIES ARE ALSO SUBJECT TO RESTRICTIONS ON TRANSFER AS SET FORTH IN THE SUBSCRIPTION AND SECURITIES

PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE  
HOLDER PURSUANT TO WHICH THE SECURITIES WERE ISSUED.

F. Binding Effects and Parties Bound

This Agreement and all covenants and releases set forth in this Agreement shall be binding upon and shall inure to the benefit of the respective parties, their legal successors, heirs, assigns, partners, representatives, agents, attorneys, officers, directors, owners, shareholders, employees, affiliated corporations and business entities.

G. Governing Law, Jurisdiction and Venue

This Agreement shall be construed in accordance with, and be deemed governed by, the laws of the State of California without regard to principles of conflict of laws. The parties acknowledge and agree that the state courts of Santa Clara County, California and the federal courts located in the Northern District of the State of California shall have exclusive jurisdiction and venue to adjudicate any and all disputes arising out of or in connection with this Agreement. The parties consent to the exercise by such courts of personal jurisdiction over them and each party waives any objection it might otherwise have to venue, personal jurisdiction, inconvenience of forum, and any similar or related doctrine.

H. Right to Consult With Attorneys; Terms Understood

The parties acknowledge that each has read this Agreement; that each fully understands its rights, privileges and duties under this Agreement; and that each enters into this Agreement freely and voluntarily. Each party further acknowledges that each has had the opportunity to consult with any attorney of its choice to explain the terms of this Agreement and the consequences of signing it.

I. Entire Agreement

The undersigned each acknowledge and represent that no promise or representation not contained in this Agreement, or in any exhibit, has been made to them, and that this Agreement, together with any exhibits, contains the entire understanding and agreement between the parties and it contains all terms and conditions pertaining to the compromise and settlement of the disputes referenced in the Agreement. The undersigned further acknowledge that the terms of this Agreement are contractual and not merely a recital, and that this Agreement is fully integrated.

J. Severability

In the event that any provision or obligation under this Agreement shall be invalid, illegal, or unenforceable, the provision or obligation will be severed from the Agreement, and the rest of the Agreement shall remain valid, legal and enforceable.

K. No Presumption Against Drafting Party

This Agreement and the provisions contained in this Agreement shall not be construed or interpreted for or against any party because that party drafted or caused the party's legal representative to draft any of the provisions.

L. Costs and Fees

The parties to this Agreement will not seek to recover from any other party to this Agreement their costs and expenses that were incurred in connection with the San Diego Litigation and the Santa Clara Litigation. If any legal action is commenced to interpret, enforce, or recover damages for the breach of any term of this Agreement, including the releases contained herein, the prevailing party shall be entitled to recover reasonable attorney fees incurred in connection with that action, in addition to costs of suit.

M. Amendments

This Agreement cannot be modified or amended in any way, except in writing, signed by the party to be charged.

N. Additional Documents

The parties agree to execute any and all additional documents reasonably necessary to complete and document this Agreement.

O. Counterparts

This Agreement may be executed in counterparts, all of which, when taken together, shall constitute one agreement, with the same force and effect as if all signatures had been entered on one document.

P. Confidentiality

The Parties further agree that as part of the inducement for the consideration given for this Agreement, neither will disclose or authorize anyone else to disclose the existence of this Agreement or any of its terms to any other person without prior written approval of the other Party, which approval shall not be unreasonably refused, conditioned or delayed, except that the Parties may disclose the existence of this Agreement and the material terms therein (i) if required by law; (ii) if a press release or a form filed with the Securities and Exchange Commission, or (iii) to such Parties attorneys, advisors, agents, representatives, employees, underwriters, insurers, investment bankers, etc; provided, however, that, prior to disclosing the Agreement or the terms therein under Sections (i) or (ii), the disclosing Party shall obtain the prior written approval of the other Party, which approval shall not be unreasonably refused, conditioned or delayed. If either Party discloses the existence of this Agreement or any of its terms to any of the aforementioned persons, such Party shall inform them of this confidentiality provision and instruct them not to disclose the existence of this Agreement or any of its terms to anyone else. Any disclosure of the existence of this Agreement or any of its terms by anyone (except as permitted hereunder) shall be considered a violation of this confidentiality provision.



If either Party is served with a subpoena, which seeks documents or information relating to this matter, including but not limited to this Agreement, such Party will notify each other before producing any documents pursuant to said subpoena.

IN WITNESS WHEREOF, duly authorized representatives of the Parties have executed this Agreement on the dates indicated below.

Dated: January 12, 2002

By: /s/ Melvin L. Flowers

-----  
Melvin L. Flowers  
Senior Vice President, Finance and  
Chief Financial Officer  
Novatel Wireless, Inc.

Dated: January 12, 2002

By: /s/ Steven H. Jackman

-----  
Steven H. Jackman  
Title: Vice President & Corporate  
Counsel  
Sanmina-SCI Corporation

Dated: January 12, 2002

By: /s/ Steven H. Jackman

-----  
Name: Steven H. Jackman  
Title:  
Sanmina Canada ULC

APPROVED AS TO FORM:

Dated: January 12, 2002

LATHAM & WATKINS

By:/s/ Julia E. Parry

-----  
Name: Julia E. Parry  
Attorneys for Novatel Wireless, Inc.

Dated: January 12, 2002

WILSON, SONSINI, GOODRICH & ROSATI

By: /s/ Andrew J. Hirsch

-----  
Name: Andrew J. Hirsch, Member  
Attorneys for Sanmina-SCI Corporation  
and Sanmina Canada ULC

Attachments:

EXHIBIT A  
Registration of Shares

EXHIBIT B  
Sanmina's Agreed Value

EXHIBIT C  
Warranty

EXHIBIT D  
Form of Security Agreement

EXHIBIT E  
List of RMA Goods

REGISTRATION OF SHARES

1.1 Novatel Wireless shall:

(a) subject to receipt of necessary information from Sanmina, prepare and file with the Securities and Exchange Commission (the "SEC") no later than twenty (20) calendar days after the date of this Agreement, a registration statement on Form S-3 (the "REGISTRATION STATEMENT") to enable the sale of the Shares by Sanmina from time to time through the automated quotation system of The Nasdaq Stock Market or in privately-negotiated transactions;

(b) use all commercially reasonable efforts, subject to receipt of necessary information from Sanmina, to cause the Registration Statement to become effective as soon as practicable, but in no event later than one hundred eighty (180) calendar days after the Registration Statement is filed by the Novatel Wireless;

(c) use all commercially reasonable efforts to prepare and file with the SEC such amendments and supplements to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement current and effective for a period not exceeding the earliest of (i) the first anniversary of the date of this Agreement, (ii) the date on which Sanmina may sell all the Shares then held by Sanmina without restriction by the volume limitations of Rule 144(e) of the Securities Act or (iii) such time as all the Shares issued to Sanmina hereunder have been sold by Sanmina;

(d) furnish to Sanmina with respect to the Shares registered under the Registration Statement such number of copies of the Registration Statement, prospectuses (including supplemental prospectuses) and preliminary versions of the prospectus filed with the SEC in conformity with the requirements of the Securities Act and such other documents as Sanmina may reasonably request, in order to facilitate the public sale or other disposition of all or any of the Shares by Sanmina, provided, however, that unless waived by Novatel Wireless in writing, the obligation of Novatel Wireless to deliver copies of prospectuses or preliminary prospectuses to Sanmina shall be subject to the receipt by Novatel Wireless of reasonable assurances from Sanmina that Sanmina will comply with the applicable provisions of the Securities Act and of such other securities or blue sky laws as may be applicable in connection with any use of such prospectuses or preliminary prospectuses;

(e) file documents required of Novatel Wireless for normal blue sky clearance in states reasonably specified in writing by Sanmina prior to the effectiveness of the Registration Statement, provided, however, that Novatel

Wireless shall not be required to qualify to do business or consent to service of process in any jurisdiction in which it is not now so qualified or has not so consented;

(f) bear all expenses (other than underwriting discounts and commissions, if any) in connection with the procedures in paragraph (a) through (e) of this Section and the registration of the Shares pursuant to the Registration Statement; and

(g) advise Sanmina, promptly after it shall receive notice or obtain knowledge of the issuance of any stop order by the SEC delaying or suspending the effectiveness of the Registration Statement or of the initiation of any proceeding for that purpose; and it will promptly use its commercially reasonable efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued.

With a view to making available to Sanmina the benefits of Rule 144 (or its successor rule) and any other rule or regulation of the SEC that may at any time permit Sanmina to sell Shares to the public without registration, Novatel Wireless covenants and agrees to: (i) make and keep public information available, as those terms are understood and defined in Rule 144, until the earlier of (A) such date as all of Sanmina's Shares may be resold pursuant to Rule 144(e) or any other rule of similar effect or (B) such date as all of Sanmina's Shares shall have been resold; and (ii) file with the SEC in a timely manner all reports and other documents required of Novatel Wireless under the Securities Act and under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT").

It shall be a condition precedent to the obligations of Novatel Wireless to take any action pursuant to this Section that Sanmina shall furnish Novatel Wireless such information regarding itself, the Shares to be sold by Sanmina, and the intended method of disposition of such securities as shall be required to effect the registration of the Shares.

Novatel Wireless understands that Sanmina disclaims being an underwriter, but Sanmina being deemed an underwriter by the SEC shall not relieve Novatel Wireless of any obligations it has hereunder.

#### 1.2 TRANSFER OF SHARES AFTER REGISTRATION; SUSPENSION.

(a) Sanmina agrees that it will not effect any Disposition of the Shares that would constitute a sale within the meaning of the Securities Act, other than transactions exempt from the registration requirements of the Securities Act, except as contemplated in the Registration Statement referred to in this Section and as described below, and that it will promptly notify the Novatel Wireless of any changes in the information set forth in the Registration Statement regarding Sanmina or its plan of distribution.

(b) Except in the event that paragraph (c) below applies, the Novatel Wireless shall: (i) if deemed necessary by Novatel Wireless, prepare and file from time to time with the SEC a post-effective amendment to the Registration

Statement or a supplement to the related prospectus or a supplement or amendment to any document incorporated therein by reference or file any other required document so that such Registration Statement will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and so that, as thereafter delivered to purchasers of the Shares being sold thereunder, such prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (ii) provide Sanmina copies of any documents filed pursuant to this Section; and (iii) upon request, inform Sanmina that Novatel Wireless has complied with its obligations in this Section (or that, if Novatel Wireless has filed a post-effective amendment to the Registration Statement which has not yet been declared effective, Novatel Wireless will notify the Sanmina to that effect, will use its reasonable efforts to secure the effectiveness of such post-effective amendment as promptly as possible and will promptly notify Sanmina pursuant to this Section when the amendment has become effective).

(c) In the event: (i) of any request by the SEC or any other federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to a Registration Statement or related prospectus or for additional information; (ii) of the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose; (iii) of the receipt by Novatel Wireless of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Shares for sale in any jurisdiction or the initiation of any proceeding for such purpose; or (iv) of any event or circumstance which necessitates the making of any changes in the Registration Statement or prospectus, or any document incorporated or deemed to be incorporated therein by reference, so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the prospectus, it will not contain any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; then Novatel Wireless shall promptly deliver a certificate in writing to Sanmina (the "SUSPENSION NOTICE") to the effect of the foregoing and, upon receipt of such Suspension Notice, Sanmina will refrain from selling any Shares pursuant to the Registration Statement (a "SUSPENSION") until Sanmina's receipt of copies of a supplemented or amended prospectus prepared and filed by Novatel Wireless, or until it is advised in writing by Novatel Wireless that the current prospectus may be used, and has received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in any such prospectus. Notwithstanding the foregoing, Novatel Wireless may not deliver more than two Suspension Notices in any twelve month period, and each Suspension Notice may not suspend Sanmina's ability to sell Shares

pursuant to the Registration Statement for a period of more than 60 calendar days. The aggregate duration of any periods during which Suspension Notices are in effect shall be added to the amount of time for which Novatel is required to maintain the effectiveness of the Registration Statement pursuant to Section 1.1(c) of EXHIBIT A.

(d) Provided that a Suspension is not then in effect Sanmina may sell the Shares under the Registration Statement, provided that it arranges for delivery of a current prospectus to the transferee of such Shares. Upon receipt of a request therefor, Novatel Wireless will provide an adequate number of current prospectuses to Sanmina and to any other parties requiring such prospectuses.

(e) In the event of a sale of the Shares by Sanmina, unless such requirement is waived by Novatel Wireless in writing, Sanmina must also deliver to Novatel Wireless' transfer agent, with a copy to Novatel Wireless, a certificate of subsequent sale so that the Shares may be properly transferred.

1.3 TERMINATION OF CONDITIONS AND OBLIGATIONS. The conditions precedent imposed upon the transferability of the Shares shall cease and terminate as to any particular number of the Shares when such Shares shall have been effectively registered under the Securities Act and sold or otherwise disposed of in accordance with the intended method of disposition set forth in the Registration Statement covering such Shares or at such time as an opinion of counsel satisfactory to Novatel Wireless shall have been rendered to the effect that such conditions are not necessary in order to comply with the Securities Act.

EXHIBIT B

SANMINA'S AGREED VALUE

(TO BE MUTUALLY AGREED UPON, BASED UPON PRIOR LISTS DELIVERED PURSUANT TO THE SANTA CLARA LITIGATION AND SAN DIEGO LITIGATION)

Intentionally Omitted.

## WARRANTY

Sanmina expressly warrants that each product manufactured by Sanmina and delivered to Novatel Wireless after the date of this Agreement (excluding components purchased from third-party vendors ("VENDOR COMPONENTS")) shall be free from any defects in workmanship for a period of one (1) year from the date of manufacture of such product. For the purpose of this Section, "workmanship" shall mean manufacture in accordance with the most current version of IPC-A-600 or IPC-A-610, or Novatel Wireless' workmanship standards set forth in the Specifications. Warranties on any Vendor Components are limited to the warranties provided by the respective component manufacturers or vendors, but Sanmina shall use reasonable commercial efforts to enforce the manufacturers' warranties on Novatel Wireless's behalf. To the extent such warranties are transferable, Sanmina shall pass on to Novatel Wireless any unexpired assignable warranties for any such Vendor Components to Customer until the expiration of such warranties up to a maximum of one (1) year from the date of manufacture of the products by Sanmina, whichever period is shorter. As Novatel Wireless' sole remedy under this warranty, Sanmina will at no charge to Novatel Wireless, rework, repair, and retest any product returned to Sanmina and found to contain such defects in workmanship caused by Sanmina. This warranty does not include Products that have defects or failures resulting from (a) Novatel Wireless' design of Products including, but not limited to, design functionality failures, specification inadequacies, failures relating to the functioning of Products in the manner for the intended purpose or in the specific Novatel Wireless's environment; (b) accident, disaster, neglect, abuse, misuse, improper handling, testing, storage or installation including improper handling in accordance with static sensitive electronic device handling requirements; or (c) alterations, modifications or repairs by Novatel Wireless or third parties. Novatel Wireless bears all design responsibility for the Product. Sanmina does not assume any liability for expendable items such as lamps and fuses. Sanmina reserves the right to inspect the products and verify that they are manufactured by Sanmina and are defective and, in the event that Sanmina, acting reasonably, determines that they are not manufactured by Sanmina or defective, then the costs of any inspection, testing, and transportation of products to and from Sanmina's facilities shall be borne by Novatel Wireless. Sanmina's total liability under this warranty shall be limited to the price of the product supplied under the Agreement. The warranty hereunder is also limited to items, parts and defects that are within the capability of existing test equipment and Sanmina's programs and processes. The performance of any repair or replacement by Sanmina does not extend the warranty period for any products beyond the period applicable to the product as originally delivered thereto. Novatel Wireless acknowledges that its Inventory Purchase Commitment is absolute, and waives any rights it may have against Sanmina for components purchased by Sanmina from third party vendors which are no longer within the manufacturers' warranty.

EXCEPT FOR THE EXPRESS WARRANTIES HEREIN, SANMINA EXPRESSLY DISCLAIMS AND MAKES NO WARRANTIES, GUARANTEES OR REPRESENTATIONS OF ANY KIND WHATSOEVER WITH RESPECT TO THE CONDITION OF THE PRODUCTS OR ANY PARTS OR COMPONENTS THEREOF, EITHER EXPRESS OR IMPLIED, ARISING BY LAW, IN CONTRACT, TORT, EQUITY OR OTHERWISE, INCLUDING BUT NOT LIMITED TO ANY OBLIGATION OR LIABILITY OF SANMINA



WITH RESPECT TO ANY WARRANTY AS TO FITNESS FOR USE, CONDITION, SERVICEABILITY, SUITABILITY, VALUE, DESIGN, OPERATION OR MERCHANTABILITY, AS THE CASE MAY BE, ANY IMPLIED WARRANTY ARISING BY STATUTE OR COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE.

IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INDIRECT, CONSEQUENTIAL, INCIDENTAL OR SPECIAL DAMAGES, OR ANY DAMAGES WHATSOEVER RESULTING FROM LOSS OF USE, DATA OR PROFITS, EVEN IF SUCH OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; IN NO EVENT SHALL SANMINA'S LIABILITY UNDER THIS AGREEMENT (WHETHER ASSERTED AS A TORT CLAIM OR CONTRACT CLAIM) EXCEED THE AMOUNTS PAID TO SANMINA FOR FINISHED PRODUCT HEREUNDER. IN NO EVENT WILL SANMINA BE LIABLE FOR COSTS OF PROCUREMENT OF SUBSTITUTE GOODS BY CUSTOMER. THESE LIMITATIONS SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

Intentionally Omitted

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EXHIBIT E

LIST OF RMA GOODS

Date of Request: 12/18/2001  
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NOVATEL WIRELESS CONTACT INFORMATION

Name: Maurice Clarke  
 Position: Quality Assurance  
 Address: 9369 Towne Center Drive, Suite 110  
 City: San Diego CA 92121  
 Country: USA  
 Phone: M. Clarke, (858) 812-0633 or Greg Adolph, (858) 812-3480  
 Fax: (858) 812-3416  
 E-Mail: mclarke@novatelwireless.com  
 NOVATEL WIRELESS RMA# N/A

MANUFACTURER INFORMATION

COMPANY: SANMINA  
 CONTACT: TRINA GLASSCO  
 2300 Highway 79 Street, PO Box 1800  
 Guntersville  
 USA  
 (256) 582-9350  
 (256) 582-9329

MRB RETURNS TO SANMINA

PART ID	PART DESC	QTY	REJECT COMMENTS
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1016446	CDPD MODEM MODULE NRM-6812SM	47	connector pins to short; wrong firmware version; no communication; bent connector pins.
01016711	BULK CRADLES MINSTREL III	396	no communication; excessive gap; PRI doesn't match modem; missing screw; stain
01016810	BULK CRADLES OMNISKY MINSTREL V	25	no communication; antenna cracked
01016815	BULK CRADLES ASSEMBLED OMNISKY MIN V	367	no communication; hot sync; gap; stain; bad logo; connector loose; rattle
1016683	CDPD MODEM	761	no communication
01016815-101	BULK CRADLE, OMNISKY (MIN V CONEXANT)	400	no communication
01016820	BULK CRADLES NOVATEL MINSTREL V	372	no communication; hot sync; burned; missing screws; cracked; loose connector; bad antenna
01016820-100	BULK CRADLE AETHER REWORK FUJITSU	31	no communication
01016820-102	BULK CRADLES NOVATEL MIN V (CONEXANT)	10	no communication
01016820-104	BULK CRADLE AETHER REWORK CONEXANT	18	no communication
1017138	ASSY, MERLIN W/PLATINUM ANTENNA	11	antenna
01016955	ASSY, BULK MERLIN	1	Firmware error
01016955-101	ASSY, BULK MERLIN (NO BRANDING)	14	no communication; programming error; not recognized as a merlin; damaged connector
01016955-102	ASSY, BULK MERLIN NO BRANDING NO ANT	5	low RSSI; missing antenna
1016981	CDPD MODEM MODULE	579	EMG FALL-OUT
649496 00155 1	CDPD MODEM ASSEMBLY EXPEDITE	70	gap; cracked board;; no communication; loose screw; warp; missing label.
649496 00317 3	EXPEDITE OEM - CONEXANT	136	gap, missing label; hollow; cracked board; loose screw; loose connector; burned frame; Scratch

RMA RETURNS TO SANMINA

01016446	CDPD MODEM MODULE NRM-6812SM	271	no communication; no registration
01016711	BULK CRADLES MINSTREL III	152	Thumb traction pad; 14 Shell crack; 11 Gap; 4 Top Clip; 2 Battery connector pin; 1 Connector; 3 Antenna; 11 Will not connect to the network; 7 No communication; 1 Wont hold charge; 2 Modem battery doesn't work; 1 Poor reception; 1 No power; 1 Low signal; 1 Modem discharges; 1 No battery; 49 (220) no communication; 15(999) no registration
01016715	BULK CRADLES MINSTREL V REV 1	1	no communication
01016815	BULK CRADLES ASSEMBLED OMNISKY MIN V	37	no communication; no power connector; no registration; modem card damage; RSSI low; antenna broken
01016815-101	BULK CRADLE, OMNISKY (MIN V CONEXANT)	411	no communication; no registration; power jack; door latch; hotsync; antenna; bad logo; cracked,
01016820	BULK CRADLES NOVATEL MINSTREL V	124	no communication
01016820-100	BULK CRADLE AETHER REWORK FUJITSU	1	no communication
01016820-102	BULK CRADLES NOVATEL MIN V (CONEXANT)	75	no communication
01016820-104	BULK CRADLE AETHER REWORK CONEXANT	2	no communication
01016955	ASSY, BULK MERLIN	41	no communication
01016683	CDPD MODEM MODULE	1,433	EMG FALL-OUT
01016981	CDPD MODEM MODULE	1,722	EMG FALL-OUT



SECURITY AGREEMENT

This Security Agreement (as amended, modified or otherwise supplemented from time to time, this "SECURITY AGREEMENT"), dated as of January 12, 2002, is executed by Novatel Wireless, Inc. a Delaware corporation (together with its successors and assigns, "DEBTOR"), in favor of Sanmina-SCI Corporation, as secured party (together with its successors and assigns, "SECURED PARTY").

RECITALS

A. Debtor and Secured Party have entered into a Settlement Agreement, dated January 12, 2002, pursuant to which, Debtor has agreed, among other things, to purchase inventory from Secured Party (as amended, modified or supplemented from time to time, the "SETTLEMENT Agreement").

B. In order to induce Secured Party to enter into the Settlement Agreement, Debtor has agreed to enter into this Security Agreement and to grant Secured Party the security interest in the Collateral described below.

AGREEMENT

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Debtor hereby agrees with Secured Party as follows:

1. Definitions and Interpretation. When used in this Security Agreement, the following terms have the following respective meanings:

"COLLATERAL" has the meaning given to that term in Section 2 hereof.

"COVERED OBLIGATIONS" means all obligations of Debtor set forth in Section II.A.3 and Section II.A.4 of the Settlement Agreement.

"EVENT OF DEFAULT" means the occurrence of any of the following events:

(a) Debtor fails to pay within 5 business days of the date when due any payment required under the terms of the Covered Obligations; or

(b) Debtor fails to observe or perform any covenant, obligation, condition or agreement contained in any Covered Obligation or in this Security Agreement (except as specified in clause (a) above) and such failure continues for a period of 15 days after notice from Security Party; provided that if such failure cannot reasonably be cured during such 15-day period and Debtor is diligently pursuing such cure, such 15-day period shall be extended for a reasonable time to accomplish such cure, but not to exceed 90 days; or

(c) Any representation or warranty in this Security Agreement is false, misleading, incorrect or incomplete in any material respect when made or furnished; or

(d) Debtor shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property; (ii) fail to pay its debts generally as they

mature or admit in writing its inability to do the same; (iii) make a general assignment for the benefit of its or any of its creditors; (iv) be dissolved or liquidated; (v) become insolvent (as such term may be defined or interpreted under any applicable statute); (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it; or (vii) take any action for the purpose of effecting any of the foregoing; or

(e) Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Debtor or any of its Subsidiaries or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Debtor or any of its Subsidiaries or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced or an order for relief entered or such proceeding shall not be dismissed or discharged within 30 days of commencement; or

(f) either Section III.A.3 or Section III.A.4 of the Settlement Agreement or this Security Agreement or any material term hereof shall cease to be, or be asserted by Debtor not to be, a legal, valid and binding obligation of Debtor enforceable in accordance with its terms or if the Liens of Secured Party in any of the assets of Debtor shall cease to be or shall not be valid, perfected Liens or Debtor shall assert that such Liens are not valid, perfected Liens; or

(g) A final judgment or order for the payment of money in excess of \$5,000,000 (exclusive of amounts covered by insurance issued by an insurer not an affiliate of Debtor) shall be rendered against Debtor or any of its Subsidiaries and the same shall remain undischarged for a period of 30 days during which execution shall not be effectively stayed, or any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be issued or levied against a substantial part of the property of Debtor or any of its Subsidiaries and such judgment, writ or similar process shall not be released, stayed, vacated or otherwise dismissed for a period of 30 days after issue or levy.

"INDEBTEDNESS" means (a) all obligations for borrowed money; (b) all obligations evidenced by bonds, debentures, notes or similar instruments, (c) all obligations to pay the deferred purchase price of property or services (other than accounts payable incurred in the ordinary course of business); (d) all obligations with respect to capital leases; (e) all obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person; (f) all reimbursement and other payment obligations, contingent or otherwise, in respect of letters of credit; and (g) all guaranty obligations with respect to the types of Indebtedness listed in the foregoing clauses (a) through (f).

"LIEN" means, with respect to any property, any security interest, mortgage, pledge, lien, claim, charge or other encumbrance in, of, or on such property or the income therefrom, including, without limitation, the interest of a vendor or lessor under a conditional sale agreement, capital lease or other title retention agreement, or any agreement to provide any of the foregoing, and the filing of any financing statement or similar instrument under the UCC or comparable law of any jurisdiction.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on (a) the business, assets, operations, prospects or financial or other condition of Debtor; (b) the ability of Debtor to pay or perform the Obligations in accordance with the terms of the Covered Obligations or this Security Agreement and to avoid an Event of Default, or an event which, with the giving of notice or the passage of time or both, would constitute an Event of Default; or (c) the rights and remedies of Secured Party under the Covered Obligations, this Security Agreement or any related document, instrument or agreement (except for the Settlement Agreement).

"OBLIGATIONS" means all loans, advances, debts, liabilities and obligations, howsoever arising, owed by Debtor to the Secured Party of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of the Covered Obligations or this Security Agreement, including, all interest, fees, charges, expenses, attorneys' fees and costs and accountants' fees and costs chargeable to and payable by Debtor thereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding; provided that the aggregate amount of the Obligations secured hereby shall not exceed, on any date, \$4,000,000. The portion of the Obligations which are secured shall be (a) first, the total of that portion of the Obligations paid by Debtor to Secured Party within 91 days prior to the filing of any bankruptcy, receivership, assignment for the benefit of creditors, or similar case, matter or proceeding against or with respect to Debtor, any affiliate of Debtor or any of their assets (the "BANKRUPTCY DATE"), if any, (b) second, any unpaid Obligations existing on the Bankruptcy Date, if any, and (c) third, any remaining Obligations.

"PERMITTED LIENS" means (a) Liens for taxes not yet delinquent or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been established; (b) Liens in respect of property or assets imposed by law which were incurred in the ordinary course of business, such as carriers', warehousemen's, materialmen's and mechanics' Liens and other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings; (c) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, and mechanic's Liens, carrier's Liens and other Liens to secure the performance of tenders, statutory obligations, contract bids, government contracts, performance and return of money bonds and other similar obligations, incurred in the ordinary course of business, whether pursuant to statutory requirements, common law or consensual arrangements, (d) Liens in favor of Secured Party, (e) Liens in favor of Silicon Valley Bank or in favor of any Refinancing Senior Lender, (f) purchase money security interests in specific items of equipment, (g) leases of specific items of equipment, (h) Liens incurred in connection with the extension, renewal, or refinancing of indebtedness secured by liens of the type described in clauses (e), (f), and (g) above; and (i) Liens permitted pursuant to the Senior Lender Documents.

"PERSON" means an individual, a partnership, a corporation, a business trust, a joint stock company, a limited liability company, an unincorporated association or other entity and any domestic or foreign national, state or local government, any political subdivision thereof, and any department, agency, authority or bureau of any of the foregoing.

"REFINANCING SENIOR LENDER" means bank or commercial finance company, or syndicate of lenders which make loans in the ordinary course of business and for which a bank or commercial finance company serves as agent, that refinances all or any portion of the obligations of the Debtor to Silicon Valley Bank and any to any other Refinancing Senior Lender.

"SENIOR LENDER" means Silicon Valley Bank and any Refinancing Senior Lender.

"SENIOR LENDER DOCUMENTS" means any agreements, instruments, and documents evidencing, securing, guaranteeing or otherwise relating to the obligations of Debtor to any Senior Lender.

"SUBSIDIARY" means (i) any corporation of which more than 50% of the issued and outstanding equity securities having ordinary voting power to elect a majority of the board of directors of such corporation is at the time directly or indirectly owned or controlled by Debtor; (ii) any partnership, joint

venture or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time directly or indirectly owned or controlled by Debtor; or (iii) any other entity included in the financial statements of Debtor on a consolidated basis.

"TRANSACTION DOCUMENTS" means the Settlement Agreement and this Security Agreement.

"UCC" means the Uniform Commercial Code as in effect in the State of California from time to time.

All capitalized terms not otherwise defined herein shall have the respective meanings given in the Settlement Agreement. Terms defined in the UCC and not otherwise defined herein shall have the respective meanings set forth in the UCC.

2. Grant of Security Interest. As security for the Obligations, Debtor hereby pledges to Secured Party and grants to Secured Party a security interest in all right, title and interests of Debtor in and to the property described in Attachment 1 hereto, whether now existing or hereafter from time to time acquired (collectively, the "COLLATERAL").

3. Representations and Warranties. Debtor represents and warrants to Secured Party that:

(a) Due Incorporation, Qualification, etc. Debtor (i) is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation; (ii) has the power and authority to own, lease and operate its properties and carry on its business as now conducted; and (iii) is duly qualified, licensed to do business and in good standing as a foreign corporation in each jurisdiction where the failure to be so qualified or licensed could reasonably be expected to have a Material Adverse Effect.

(b) Authority. The execution and delivery by Debtor of each Transaction Document and the performance by Debtor of the Covered Obligations and this Security Agreement and the consummation of the transactions contemplated by this Security Agreement (i) are within the power of Debtor and (ii) have been duly authorized by all necessary actions on the part of Debtor.

(c) Enforceability. Each Transaction Document has been duly executed and delivered by Debtor and each of the Covered Obligations and this Security Agreement constitutes a legal, valid and binding obligation of Debtor, enforceable against Debtor in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity.

(d) Non-Contravention. The execution and delivery by Debtor of the Transaction Documents and the performance and consummation of the Covered Obligations and the transactions contemplated by this Security Agreement do not and will not (i) violate the Certificate of Incorporation or Bylaws of the Debtor or violate in any material respect any judgment, order, writ, decree, statute, rule or regulation applicable to Debtor; (ii) violate any provision of, or result in the breach or the acceleration of, or entitle any other Person to accelerate (whether after the giving of notice or lapse of time or both), any material mortgage, indenture, agreement, instrument or contract to which Debtor is a party or by which it is bound; or (iii) result in the creation or imposition of any Lien upon any property, asset or revenue of Debtor (other than any Lien arising under this Security Agreement) or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization or approval applicable to Debtor, its business or operations, or any of its assets or properties.



(e) Approvals. No consent, approval, order or authorization of, or registration, declaration or filing with, any governmental authority or other Person (including, without limitation, the shareholders of any Person) is required in connection with the execution and delivery of the Transaction Documents by Debtor and the performance of the Covered Obligations and this Security Agreement and the consummation of the transactions contemplated by the Security Agreement, except for filings required to perfect security interest granted pursuant to this Security Agreement.

(f) No Violation or Default. Debtor is not in violation of or in default with respect to (i) its Certificate of Incorporation or Bylaws or any judgment, order, writ, decree, statute, rule or regulation applicable to Debtor; (ii) any mortgage, indenture, agreement, instrument or contract to which Debtor is a party or by which it is bound (nor is there any waiver in effect which, if not in effect, would result in such a violation or default), where, in each case, such violation or default, individually, or together with all such violations or defaults, could reasonably be expected to have a Material Adverse Effect.

(g) Litigation. No actions (including, without limitation, derivative actions), suits, proceedings or investigations are pending or, to the knowledge of Debtor, threatened against Debtor at law or in equity in any court or before any other governmental authority which (i) could reasonably be expected (alone or in the aggregate) to have a Material Adverse Effect or (ii) seek to enjoin, either directly or indirectly, the execution or delivery by Debtor of the Transaction Documents or the performance by Debtor of the Covered Obligations or this Security Agreement or the transactions contemplated by this Security Agreement.

(h) Collateral. (i) Debtor is the owner of the Collateral (or, in the case of after-acquired Collateral, at the time Debtor acquires rights in the Collateral, will be the owner thereof) free and clear of all Liens other than Permitted Liens; (ii) upon the filing of UCC-1 financing statements in the appropriate filing offices, Secured Party has (or in the case of after-acquired Collateral, at the time Debtor acquires rights therein, will have) a perfected security interest in the Collateral to the extent that a security interest in the Collateral can be perfected by such filing, except for Permitted Liens; (iii) all inventory has been (or, in the case of hereafter produced inventory, will be) produced in compliance with applicable laws, including the Fair Labor Standards Act; (iv) the accounts receivable and payment intangibles are genuine and enforceable against the parties obligated to pay the same; (v) the originals of all documents evidencing all accounts receivable and payment intangibles of Debtor and the only original books of account and records of Debtor relating thereto are, and will continue to be, kept at the chief executive office of Debtor set forth on Schedule B or at such other locations as Debtor may establish in accordance with Section 4(d), and (f) all information set forth in Schedules A and B hereto is true and correct.

4. Covenants Relating to Collateral. Debtor hereby agrees (a) to perform all acts that may be necessary to maintain, preserve, protect and perfect the Collateral, the Lien granted to Secured Party therein and the perfection and priority of such Lien, except for Permitted Liens; (b) not to use or permit any Collateral to be used (i) in violation in any material respect of any applicable law, rule or regulation, or (ii) in violation of any policy of insurance covering the Collateral; (c) to pay promptly when due all taxes and other governmental charges, all Liens and all other charges now or hereafter imposed upon or affecting any Collateral; provided that Debtor may contest taxes in good faith and by appropriate proceedings; (d) without 30 days' written notice to Secured Party, (i) not to change Debtor's name or place of business (or, if Debtor has more than one place of business, its chief executive office), or the office in which Debtor's records relating to accounts receivable and payment intangibles are kept, (ii) not to change Debtor's state of incorporation, (iii) not to keep Collateral consisting of chattel paper at any location other than its chief executive office set forth in item 1 of Schedule B hereto, and (iv) not to keep Collateral consisting of equipment or inventory at any location other than the locations set forth in item 6 of Schedule B hereto, (f) to procure, execute and deliver from time to time any endorsements, assignments, financing statements and other writings reasonably deemed necessary or appropriate by Secured Party to perfect, maintain and protect its

Lien hereunder and the priority thereof and, subject to the provisions of the security agreement with any Senior Lender, to deliver promptly to Secured Party all originals of Collateral consisting of instruments; (g) to appear in and defend any action or proceeding which may affect its title to or Secured Party's interest in the Collateral; (h) to keep separate, accurate and complete records of the Collateral and to provide Secured Party with such records and such other reports and information relating to the Collateral as Secured Party may reasonably request from time to time; (i) not sell, encumber, lease, rent, or otherwise dispose of or transfer all or substantially all of the Collateral and to keep the Collateral free of all Liens other than Permitted Liens; (j) to comply with all material requirements of law relating to the production, possession, operation, maintenance and control of the Collateral (including the Fair Labor Standards Act); (k) to permit Secured Party and its representatives the right, at any time during normal business hours, upon reasonable prior notice, to visit and inspect the properties of Debtor and its corporate, financial and operating records, and make abstracts therefrom, and to discuss Debtor's affairs, finances and accounts with its directors, officers and independent public accountants; and (l) not to maintain any deposit account at a bank with respect to which Secured Party has not entered into a control agreement sufficient to perfect its security interest in such deposit account; provided, however, that at any time when the Inventory Purchase Commitment is equal to or less than \$4,500,000, Debtor may maintain deposit accounts at any bank so long as it has used its commercially reasonable efforts to obtain a control agreement from such bank sufficient to perfect Secured Party's security interest in any such deposit account. Secured Party agrees that it will not exercise its rights under any control agreement unless an Event of Default has occurred and is continuing.

5. Authorized Action by Secured Party. Debtor hereby irrevocably appoints Secured Party as its attorney-in-fact (which appointment is coupled with an interest) and agrees that Secured Party may perform (but Secured Party shall not be obligated to and shall incur no liability to Debtor or any third party for failure so to do) any act which Debtor is obligated by this Security Agreement to perform but does not perform, and to exercise such rights and powers as Debtor might exercise with respect to the Collateral, including the right to (a) collect by legal proceedings or otherwise and endorse, receive and receipt for all dividends, interest, payments, proceeds and other sums and property now or hereafter payable on or on account of the Collateral; (b) enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or deposit, surrender, accept, hold or apply other property in exchange for the Collateral; (c) make any compromise or settlement, and take any action it deems advisable, with respect to the Collateral; (d) insure, process and preserve the Collateral; (e) pay any indebtedness of Debtor relating to the Collateral; and (f) execute UCC financing statements and other documents, instruments and agreements required hereunder; provided, however, that Secured Party shall not exercise any such powers granted pursuant to subsections (a) through (e) prior to the occurrence of an Event of Default and shall only exercise such powers during the continuance of an Event of Default. Debtor agrees to reimburse Secured Party promptly upon demand for any reasonable costs and expenses, including reasonable attorneys' fees, Secured Party may incur while acting as Debtor's attorney-in-fact hereunder, all of which costs and expenses are included in the Obligations. It is further agreed and understood between the parties hereto that such care as Secured Party gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in Secured Party's possession; provided, however, that Secured Party shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other person in connection with the Obligations or with respect to the Collateral.

#### 6. Litigation and Other Proceedings

(a) Debtor shall have the right and obligation to commence and diligently prosecute such suits, proceedings or other actions for infringement or other damage, or reexamination or reissue proceedings, or opposition or cancellation proceedings as are reasonable to protect any of the patents, trademarks, copyrights, mask works or trade secrets. If an Event of Default has occurred and is continuing, no such suit, proceeding or other actions shall be settled or voluntarily dismissed, nor shall any party be released or

excused of any claims of or liability for infringement, without the prior written consent of Secured Party, which consent shall not be unreasonably withheld, delayed or conditioned.

(b) Upon the occurrence and during the continuance of an Event of Default, Secured Party shall have the right but not the obligation to bring suit or institute proceedings in the name of Debtor or Secured Party to enforce any rights in the Collateral, including any license thereunder, in which event Debtor shall at the request of Secured Party do any and all lawful acts and execute any and all documents reasonably required by Secured Party in aid of such enforcement. If Secured Party elects not to bring suit to enforce any right under the Collateral, including any license thereunder, Debtor agrees to use all reasonable measures, whether by suit, proceeding or other action, to cause to cease any infringement of any material right under the Collateral by any Person and for that purpose agrees to diligently maintain any action, suit or proceeding against any Person so infringing necessary to prevent such infringement.

#### 7. Default and Remedies.

(a) Default. Debtor shall be deemed in default under this Security Agreement upon the occurrence and during the continuance of an Event of Default.

(b) Remedies. Upon the occurrence and during the continuance of any such Event of Default, Secured Party shall have the rights of a secured creditor under the UCC, all rights granted by this Security Agreement and by law, including the right to: (a) require Debtor to assemble the Collateral and make it available to Secured Party at a place to be reasonably designated by Secured Party; and (b) prior to the disposition of the Collateral, store, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent Secured Party deems appropriate and in connection with such preparation and disposition, without charge, use any trademark, trade name, copyright, patent or technical process used by Debtor. Debtor hereby agrees that ten (10) days' notice of any intended sale or disposition of any Collateral is reasonable. In furtherance of Secured Party's rights hereunder, Debtor hereby grants to Secured Party an irrevocable, non-exclusive license (exercisable without royalty or other payment by Secured Party, but only in connection with the exercise of remedies hereunder) to use, license or sublicense any patent, trademark, trade name, copyright or other intellectual property in which Debtor now or hereafter has any right, title or interest together with the right of access to all media in which any of the foregoing may be recorded or stored.

#### 8. Miscellaneous.

(a) Notices. Except as otherwise provided herein, all notices, requests, demands, consents, instructions or other communications to or upon Debtor or Secured Party under this Security Agreement shall be by telecopy or in writing and telecopied, mailed or delivered to each party at telecopier number or its address set forth below (or to such other telecopy number or address as the recipient of any notice shall have notified the other in writing). All such notices and communications shall be effective (a) when sent by Federal Express or other overnight service of recognized standing, on the business day following the deposit with such service; (b) when mailed, by registered or certified mail, first class postage prepaid and addressed as aforesaid through the United States Postal Service, upon receipt; (c) when delivered by hand, upon delivery; and (d) when telecopied, upon confirmation of receipt.

Secured Party: Sanmina-SCI Corporation  
2700 North First Street  
San Jose, CA 95134  
Telephone: (408) 964-3600  
Facsimile: (408) 964-3636  
Attention: General Counsel

Debtor: Novatel Wireless, Inc.  
9360 Towne Centre Drive  
San Diego, CA 92121  
Telephone: (858) 812-3415  
Facsimile: (858) 812-3414  
Attention: Melvin Flowers

(b) Nonwaiver. No failure or delay on Secured Party's part in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right.

(c) Amendments and Waivers. This Security Agreement may not be amended or modified, nor may any of its terms be waived, except by written instruments signed by Debtor and Secured Party. Each waiver or consent under any provision hereof shall be effective only in the specific instances for the purpose for which given.

(d) Assignments. This Security Agreement shall be binding upon and inure to the benefit of Secured Party and Debtor and their respective successors and assigns; provided, however, that Debtor may not sell, assign (by operation of law or otherwise) or delegate rights and obligations hereunder without the prior written consent of Secured Party, which consent shall not be unreasonably withheld, delayed or conditioned; provided that Debtor may merge with any Person so long as either (i) Debtor is the surviving Person or (ii) the surviving Person has assumed all obligations under the Covered Obligations and this Security Agreement.

(e) Cumulative Rights, etc. The rights, powers and remedies of Secured Party under this Security Agreement shall be in addition to all rights, powers and remedies given to Secured Party by virtue of any applicable law, rule or regulation of any governmental authority, the Transaction Documents or any other agreement, all of which rights, powers, and remedies shall be cumulative and may be exercised successively or concurrently without impairing Secured Party's rights hereunder. Debtor waives any right to require Secured Party to proceed against any Person or to exhaust any Collateral or to pursue any remedy in Secured Party's power.

(f) Payments Free of Taxes, Etc. Debtor shall pay upon demand any stamp or other taxes, levies or charges of any jurisdiction with respect to the execution, delivery, registration, performance and enforcement of this Security Agreement. Upon request by Secured Party, Debtor shall furnish evidence reasonably satisfactory to Secured Party that all requisite authorizations and approvals by, and notices to and filings with, governmental authorities and regulatory bodies have been obtained and made and that all requisite taxes, levies and charges have been paid.

(g) Partial Invalidity. If at any time any provision of this Security Agreement is or becomes illegal, invalid or unenforceable in any respect under the law or any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Security Agreement nor the legality, validity or

enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

(h) Expenses. If an Event of Default has occurred and is continuing, Debtor shall pay on demand all reasonable fees and expenses, including reasonable attorneys' fees and expenses, incurred by Secured Party in connection with custody, preservation or sale of, or other realization on, any of the Collateral or the enforcement or attempt to enforce any of the Obligations which is not performed as and when required by this Security Agreement.

(i) Headings. Headings in this Security Agreement are for convenience of reference only and are not part of the substance hereof or thereof.

(j) Plural Terms. All terms defined in this Security Agreement in the singular form shall have comparable meanings when used in the plural form and vice versa.

(k) Construction. This Security Agreement is the result of negotiations among, and has been reviewed by, Debtor, Secured Party and their respective counsel. Accordingly, this Security Agreement shall be deemed to be the product of all parties hereto, and no ambiguity shall be construed in favor of or against Debtor or Secured Party.

(l) Entire Agreement. This Security Agreement, the Settlement Agreement and the other documents executed in connection with the Settlement Agreement, taken together, constitute and contain the entire agreement of Debtor and Secured Party and supersede any and all prior agreements, negotiations, correspondence, understandings and communications among the parties, whether written or oral, respecting the subject matter hereof.

(m) Other Interpretive Provisions. References in this Security Agreement to any document, instrument or agreement (a) includes all exhibits, schedules and other attachments thereto, (b) includes all documents, instruments or agreements issued or executed in replacement thereof, and (c) means such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified and supplemented from time to time and in effect at any given time. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Security Agreement refer to this Security Agreement as a whole and not to any particular provision of this Security Agreement. The words "include" and "including" and words of similar import when used in this Security Agreement shall not be construed to be limiting or exclusive.

(n) Governing Law. This Security Agreement shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules (except to the extent governed by the UCC).

(o) Termination. This Security Agreement and all obligations of Debtor hereunder and all security interests granted hereby shall be released and terminated when all Covered Obligations have been indefeasibly satisfied in full. Upon such release and termination of all Covered Obligations and the security interest hereunder, all rights in and to the Collateral granted or pledged by Debtor hereunder shall automatically revert to Debtor, and Secured Party shall return any pledged Collateral in its possession to Debtor, or to the Person or Persons legally entitled thereto, and shall endorse, execute, deliver, record and file all instruments and documents, and do all other acts and things, reasonably required for the return of the Collateral to Debtor, or to the Person or Persons legally entitled thereto (and Debtor is authorized to do the same to the extent permitted by law) and to evidence or document the release of the interests of Secured Party arising under this Security Agreement, all as reasonably requested by, and at the sole expense of, Debtor.

Debtor and Security Party have caused this Security Agreement to be executed as of the day and year first above written.

Novatel Wireless, Inc.

By: /s/ Melvin L. Flowers

-----  
Name: Melvin L. Flowers  
Title: Senior Vice President  
and Chief Financial  
Officer

AGREED:

Sanmina-SCI Corporation,  
as Secured Party

By: /s/ Steven H. Jackman

-----  
Name: Steven H. Jackman  
Title: Vice President-Corporate Counsel

ATTACHMENT 1

TO SECURITY AGREEMENT

All right, title, interest, claims and demands of Debtor in and to the following property:

(i) All goods and equipment now owned or hereafter acquired, including, without limitation, all laboratory equipment, computer equipment, office equipment, machinery, fixtures, vehicles, and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(ii) All inventory now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Debtor's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Debtor's books relating to any of the foregoing;

(iii) All contract rights, general intangibles, health care insurance receivables, payment intangibles and commercial tort claims, now owned or hereafter acquired, including, without limitation, all patents, patent rights (and applications and registrations therefor), trademarks and service marks (and applications and registrations therefor), inventions, copyrights, mask works (and applications and registrations therefor), trade names, trade styles, software and computer programs, trade secrets, methods, processes, know how, drawings, specifications, descriptions, and all memoranda, notes, and records with respect to any research and development, goodwill, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer disks, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind and whether in tangible or intangible form or contained on magnetic media readable by machine together with all such magnetic media;

(iv) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Debtor arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Debtor (subject, in each case, to the contractual rights of third parties to require funds received by Debtor to be expended in a particular manner), whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Debtor and Debtor's books relating to any of the foregoing;

(v) All documents, cash, deposit accounts, letters of credit, letter of credit rights, supporting obligations, certificates of deposit, instruments, chattel paper, electronic chattel paper, tangible chattel paper and investment property, including, without limitation, all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, now owned or hereafter acquired and Debtor's books relating to the foregoing; and

(vi) Any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof, including, without limitation, insurance, condemnation, requisition or similar payments and the proceeds thereof.

SCHEDULE A  
TO SECURITY AGREEMENT

COPYRIGHTS

Description -----	Registration Date -----	Registration No. -----
None.		

PATENTS

Title -----	Date Issued -----	Patent No. -----
Multi-position PC card antenna assembly	September 18, 2001	6,292,148
Duplexing antenna for portable radio transceiver	May 9, 2000	6,061,024
Pulse width modulation pulse shaper	July 1, 1997	5,644,311
Wireline interface for cellular telephone	June 11, 1996	5,526,403
Automatic level control circuit for dual mode analog/digital cellular telephone	August 1, 1995	5,438,683
System for securing mobile telephones from unauthorized transmission	August 9, 1994	5,337,345
Noise-reduction system	July 27, 1993	5,231,407
Radio telephone using received signal strength in controlling transmission power	July 7, 1992	5,129,098
Bus for a cellular telephone	April 28, 1992	5,109,402
Power detector utilizing bias voltage divider for precision control of an amplifier	August 27, 1991	5,043,672
RF power-control circuit	March 26, 1991	5,003,270
RF power-control circuit	August 28, 1990	4,952,886
Controlled output amplifier and power detector thereof	July 26, 1988	4,760,347



## PATENT APPLICATIONS

Title -----	Application Date -----	Application No. -----
Method and Apparatus for Auto-Sleep of RF Wireless Modem	10/11/00	09/976,703
Method and Apparatus for Distributed Data Transfer over Multiple Independent Wireless Networks	8/23/00; 8/23/01	09/938,357
Distributed Architecture Wireless RF Modem	8/11/00; 8/13/01	09/925,566
Over the Air Wireless Data Modem Programming	8/22/00; 8/22/01	09/935,376
Method and Apparatus for a Software Configurable Wireless Modem Adaptable For Multiple Modes of Operation	8/11/00; 8/8/01	09/925,565
Method and Apparatus for A Frequency Agile, Variable Bandwidth Radio Transceiver	8/11/00; 8/13/01	09/929,252
Method and Apparatus for Transmitter Noise Cancellation in an RF Communications System	8/23/00; 8/23/01	09/935,484
Systems and Methods for Multi-Platform Wireless Modem	3/5/01; 5/21/01	60/273,760
System and Methods for a Wireless Modem Interface	3/5/01; 5/21/01	60/273,760
Method and Apparatus for Pass-through Charging of PDA by Attachable Modem	9/16/01; 9/17/01	60/322,535
Systems and Methods for A Wireless Modem Assembly	2/21/01	09/790,428
Systems and Methods for Intelligent Inter-System Handoff	5/18/01	09/858,672
Multi-Mode Cradle Adapter for PDA	5/21/01	
Object Oriented Software Architecture for Software Reconfigurable Wireless Modem	5/21/01	09/961,508

Systems and Methods for a Dialer Function	3/16/01	60/276,800
Systems and Methods for Using a Wireless Modem Card	6/8/01	09/877,886
Systems and Methods for An Energy Storage Based Power Supply Circuit	8/3/01	09/925,238
Method and Apparatus for Sharing an External Power Supply Between a PDA and RF Wireless Modem	9/17/01	60/322,535
RF Wireless Modem - Minstrel 540	11/21/00	29/133,103
Systems and Methods for Removable Attachment of an RF Wireless Modem	2/21/01	60/270,558
Dialer Application Display Screen for a Portable Computing Device	3/15/01	29/138,653
Wireless Modem Sleeve	3/19/01	29/138,814
RF Wireless Modem - Minstrel S	11/21/00	29/133,108
Method and Apparatus for Low Power Operation of RF Wireless Modem	10/11/00	60/239,776
Method and Apparatus for a Universal Switched Capacitor Radio Frequency Receive Filter	9/11/00	60/231,675
Method and Apparatus for Triggering a Mode Change in a Software Radio	8/24/00	60/227,723
Icon for a Portable Computing Device Screen	3/15/01	29/138,656
Icon for a Portable Computing Device Screen	3/15/01	29/138,655
Icon for a Portable Computing Device Screen	3/15/01	29/138,659
Systems and Methods for Multi-Mode Wireless Communication	9/21/01	09/961,459
Wireless Modem	2/23/01	29/137,616
Display Screen for a Portable Computing Device	3/15/01	29/138,654

Adaptive Modem Architecture for Multiple Wireless Standards	8/11/00	60/224,727
Systems and Methods for a Dialer Function	3/16/01	60/276,800

TRADEMARKS

Mark -----	Registration Date -----	Registration No. -----
NWIDIRECT	March 2, 2001	76219167
NWIDIRECT.COM	March 6, 2001	76220816
Expedite	March 30, 2001	76236619
Novatel Wireless	February 8, 2001	76208493
Lancer	April 3, 2000	76016964
Merlin	July 1, 1999	75742650

TRADEMARK APPLICATIONS

Mark -----	Application Date -----	Application No. -----
None.		

MASK WORKS

Description -----	Registration Date -----	Registration No. -----
None.		

SCHEDULE B  
TO SECURITY AGREEMENT

DEBTOR PROFILE

1. NAME. The legal name of Debtor is and the address of its chief executive office is: Novatel Wireless, Inc., 9360 Towne Centre Drive, San Diego, CA 92121.

2. ORGANIZATIONAL IDENTIFICATION NUMBER; FEDERAL EMPLOYER IDENTIFICATION NUMBER. The Debtor's organizational identification number in its state of incorporation is 2614230 and Debtor's federal employer identification number is 86-0824673.

3. STATE OF INCORPORATION; PRIOR NAMES. Debtor was incorporated on April 26, 1996 in the state of Delaware. Since its incorporation Debtor has had the following legal names (other than its current legal name):

Prior Name	Date Debtor's Name Was Changed From Such Name
-----	-----

None.

4. Debtor does business under the following trade names:

Trade Name	Is This Name Registered?	Registration No.	Registration Date
-----	-----	-----	-----
Novatel Wireless	Yes	76208493	February 8, 2001

5. PLACE OF BUSINESS. Debtor has the following places of business:

Address	Owner of Location
-----	-----
9360 Towne Centre Drive, Suite 110 San Diego, CA 92121	SICOR, Inc. 19 Hughes Irvine, CA 92618
6715 8th Street, N.E. Calgary, AB T2E 7H7	Sun Life Insurance Company of Canada 140 4th Avenue Calgary AB T2P 3N3

6. ASSETS IN POSSESSION OF THIRD PARTIES. The following are names and addresses of all persons or entities other than Debtor, such as lessees, consignees, warehousemen or purchasers of chattel paper, which have possession or are intended to have possession of any of the Collateral consisting of instruments, chattel paper, inventory or equipment:

Name	Mailing Address	County	State
-----	-----	-----	-----

A portion of Debtor's inventory, in the ordinary course of business, is often held at third party contract manufacturers. Currently, Solectron is a bailee for certain of our inventory, Silicon Valley Bank has a lien on the inventory held by Solectron as further described in paragraph 8 below.

7. QUALIFICATION TO DO BUSINESS. Debtor is qualified to do business in the following states:

- o California
- o Arizona

8. EXISTING SECURITY INTERESTS. Debtor's assets are subject to the following security interest of Persons other than the Secured Party:

Assets -----	Name of Secured Party -----
All assets	Silicon Valley Bank

Agilent Technologies filed a UCC-1 securing approximately \$350,000 in software lease payments. The payments are secured by a purchase money security interest in software evidenced by lease no. 90067081 entered into on October 30, 2000 and lease no. 72000333 entered into on April 27, 2000.

9. SUBSIDIARIES. Debtor has the following subsidiaries (list jurisdiction of incorporation):

- Novatel Wireless Solutions, Inc., a Delaware corporation
- Novatel Wireless Technologies Ltd., incorporated in Alberta, Canada.

10. SECURITIES; INSTRUMENTS. The following is a complete list of all stocks, bonds, debentures, notes and other securities and investment property owned by Debtor (provide name of issuer, whether certificated or uncertificated, certificate no. (if applicable), number of shares):

None, except for subsidiaries listed in Number 9 above.

11. BANK ACCOUNTS; SECURITIES ACCOUNTS: The following is a complete list of all bank accounts and securities accounts maintained by Debtor (provide name and address of depository bank (or brokerage firm), type of account and account number):

See Schedule B-1 attached hereto.

NOVATEL WIRELESS, INC.  
SUMMARY OF CASH ACCOUNTS

Intentionally Omitted.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report included in this Form 10-K, into Novatel Wireless, Inc.'s previously filed Form S-8 No. 333-53692 and Form S-3 No. 333-81190.

/s/ ARTHUR ANDERSEN LLP

-----  
San Diego, California  
March 4, 2002