

---

---

# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

---

## FORM 10-Q

---

(Mark one)

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

For the quarterly period ended April 1, 2001

OR

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

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

Commission File Number 0-19528

## QUALCOMM Incorporated

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

5775 Morehouse Dr., San Diego, California  
(Address of principal executive offices)

95-3685934  
(I.R.S. Employer  
Identification No.)

92121-1714  
(Zip Code)

(858) 587-1121

(Registrant's telephone number, including area code)

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 twelve 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 ninety days. Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on April 23, 2001:

Class	Number of Shares
Common Stock \$0.0001 per share par value	757,273,301

---

---

### TABLE OF CONTENTS

#### PART I.FINANCIAL INFORMATION

ITEM 1.CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL  
CONDITION

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### PART II.OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

ITEM 2.CHANGES IN SECURITIES

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

ITEM 4.SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5.OTHER INFORMATION

[ITEM 6.EXHIBITS AND REPORTS ON FORM 8-K](#)

[EXHIBIT 10.39](#)

[EXHIBIT 10.40](#)

[EXHIBIT 10.41](#)

[EXHIBIT 10.42](#)

[EXHIBIT 10.43](#)

---

**INDEX**

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (Unaudited)
	Condensed Consolidated Balance Sheets
	Condensed Consolidated Statements of Income
	Condensed Consolidated Statements of Cash Flows
	Notes to Condensed Consolidated Financial Statements
	6 – 17
Item 2.	Management’s Discussion and Analysis of Results of Operations and Financial Condition
	18 – 26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
	26
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings
	27
Item 2.	Changes in Securities
	27
Item 3.	Defaults Upon Senior Securities
	27
Item 4.	Submission of Matters to a Vote of Security Holders
	27 – 28
Item 5.	Other Information
	28
Item 6.	Exhibits and Reports on Form 8-K
	28

[Table of Contents](#)

**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**QUALCOMM Incorporated**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands, except per share data)**

**(Unaudited)**

**ASSETS**

	<u>April 1, 2001</u>	<u>September 24, 2000</u>
Current assets:		
Cash and cash equivalents	\$1,114,277	\$ 716,871
Marketable securities	810,888	1,055,522
Accounts receivable, net	539,899	606,979
Finance receivables, net	200,975	128,515
Inventories, net	90,871	85,366
Other current assets	134,640	136,727
	<hr/>	<hr/>
Total current assets	2,891,550	2,729,980
Property, plant and equipment, net	424,211	431,705
Marketable securities	390,178	748,521
Finance receivables, net	464,768	799,404
Goodwill, net	705,859	821,834
Other investments	588,577	311,015
Other assets	429,918	220,523
	<hr/>	<hr/>
Total assets	\$5,895,061	\$ 6,062,982

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Trade accounts payable	\$ 124,845	\$ 112,856
Payroll and other benefits related liabilities	120,058	128,836
Unearned revenue	51,361	68,419

Other current liabilities	127,073	162,182
Total current liabilities	423,337	472,293
Other liabilities	176,914	27,718
Total liabilities	600,251	500,011
Commitments and contingencies (Notes 3, 5 and 8)		
Minority interest in consolidated subsidiaries	48,766	46,643
Stockholders' equity:		
Preferred stock, \$0.0001 par value	—	—
Common stock, \$0.0001 par value	76	75
Paid-in capital	4,555,688	4,653,818
Retained earnings	791,419	871,090
Accumulated other comprehensive loss	(101,139)	(8,655)
Total stockholders' equity	5,246,044	5,516,328
Total liabilities and stockholders' equity	\$5,895,061	\$ 6,062,982

See Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

**QUALCOMM Incorporated**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 1, 2001	March 26, 2000	April 1, 2001	March 26, 2000
Revenues	\$ 713,255	\$ 727,741	\$1,397,276	\$1,847,814
Operating expenses:				
Cost of revenues	253,497	350,396	549,418	999,144
Research and development	106,253	90,153	192,376	173,557
Selling, general and administrative	87,272	97,398	167,236	199,174
Amortization of goodwill and other acquisition-related intangible assets	63,374	20,536	126,369	20,608
Purchased in-process technology	—	60,030	—	60,030
Asset impairment and related (credits) charges	(8,095)	20,151	472,683	45,743
Other	—	17,286	69,188	17,846
Total operating expenses	502,301	655,950	1,577,270	1,516,102
Operating income (loss)	210,954	71,791	(179,994)	331,712
Interest expense	(1,517)	(1,213)	(10,085)	(3,886)
Investment income (expense), net	99,108	333,749	(132,421)	369,996
Distributions on Trust Convertible Preferred Securities of subsidiary trust	—	(1,994)	—	(13,039)
Other	—	(3,265)	(56,566)	(3,265)
Income (loss) before income taxes and accounting change	308,545	399,068	(379,066)	681,518
Income tax (provision) benefit	(159,473)	(199,352)	170,580	(304,683)
Income (loss) before accounting change	149,072	199,716	(208,486)	376,835
Accounting change, net of tax (Note 1)	—	—	128,815	—
Net income (loss)	\$ 149,072	\$ 199,716	\$ (79,671)	\$ 376,835
Basic net earnings (loss) per common share:				
Income (loss) before accounting change	\$ 0.20	\$ 0.28	\$ (0.28)	\$ 0.55
Accounting change, net of tax	—	—	0.17	—
Net income (loss)	\$ 0.20	\$ 0.28	\$ (0.11)	\$ 0.55
Diluted net earnings (loss) per common share:				
Income (loss) before accounting change	\$ 0.18	\$ 0.25	\$ (0.28)	\$ 0.48

Accounting change, net of tax	—	—	0.17	—
Net income (loss)	\$ 0.18	\$ 0.25	\$ (0.11)	\$ 0.48
Shares used in per share calculations:				
Basic	754,634	716,818	752,058	690,702
Diluted	806,846	801,388	752,058	796,107

See Notes to Condensed Consolidated Financial Statements

[Table of Contents](#)

**QUALCOMM Incorporated**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	Six Months Ended	
	April 1, 2001	March 26, 2000
<b>Operating Activities:</b>		
Net (loss) income	\$ (79,671)	\$ 376,835
Depreciation and amortization	161,335	81,394
Purchased in-process technology	—	60,030
Asset impairment and other non-cash charges and credits	570,187	73,673
Gain on sale of available-for-sale securities	(50,772)	(270,061)
Net unrealized loss on derivative instruments and securities	295,562	—
Minority interest in income of consolidated subsidiaries	2,123	3,614
Equity in losses of investees	15,465	5,614
Non-cash income tax (benefit) provision	(207,505)	276,666
Accounting change, net of tax	(128,815)	—
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	72,408	180,890
Finance receivables, net	(203,987)	(230,035)
Inventories, net	(36,822)	(55,365)
Other current assets	3,374	(46,631)
Trade accounts payable	1,851	(116,785)
Payroll, benefits, and other current liabilities	(43,914)	(27,397)
Unearned revenue	2,618	23,210
Net cash provided by operating activities	373,437	335,652
<b>Investing Activities:</b>		
Capital expenditures	(45,734)	(115,104)
Purchases of wireless licenses	(75,150)	—
Purchases of available-for-sale securities	(523,957)	(528,574)
Proceeds from sale of available-for-sale securities	516,953	353,679
Purchases of held-to-maturity securities	(301,323)	(607,996)
Maturities of held-to-maturity securities	674,825	652,330
Issuance of notes receivable	(122,668)	(199,021)
Collection of notes receivable	14,443	228,763
Proceeds from sale of business	—	216,144
Other investments and acquisitions	(184,232)	(189,633)
Other items, net	550	(6,488)
Net cash used by investing activities	(46,293)	(195,900)
<b>Financing Activities:</b>		
Net borrowings under bank lines of credit	—	(112,000)
Net proceeds from issuance of common stock	73,205	85,059
Other items, net	(372)	(3,458)
Net cash provided (used) by financing activities	72,833	(30,399)
Effect of exchange rate changes on cash	(2,571)	3,179
<b>Net increase in cash and cash equivalents</b>	397,406	112,532
<b>Cash and cash equivalents at beginning of period</b>	716,871	660,016
<b>Cash and cash equivalents at end of period</b>	\$1,114,277	\$ 772,548

---

[Table of Contents](#)

**QUALCOMM Incorporated**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**Note 1 — Basis of Presentation**

*Financial Statement Preparation*

The accompanying interim condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (the Company or QUALCOMM), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet at September 24, 2000 was derived from the audited consolidated balance sheet at that date which is not presented herein. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. As a result, the three month and six month periods ending April 1, 2001 include 13 weeks and 27 weeks, respectively, as compared to 13 weeks and 26 weeks for the three month and six month periods ending March 26, 2000, respectively.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 24, 2000. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's financial statements and the accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

*Net Earnings Per Common Share*

Basic net earnings per common share are calculated by dividing net income or loss by the weighted average number of common shares outstanding during the reporting period. Diluted net earnings per common share (diluted EPS) for the three months and six months ended March 26, 2000 reflect the potential dilutive effect, calculated using the treasury stock method, of 69,727,000 and 69,177,000 additional common shares issuable upon exercise of outstanding stock options, respectively, and the potential dilutive effect, for the period prior to conversion, of 14,843,000 and 36,229,000 shares of common stock issuable upon conversion of Trust Convertible Preferred Securities, respectively, determined on an if-converted basis. Net income in the computation of diluted EPS for the three months and six months ended March 26, 2000 is increased by \$1 million and \$7 million, respectively, representing the assumed savings of distributions, net of taxes, on the Trust Convertible Preferred Securities. The diluted base for the three months ended April 1, 2001 reflect the potential dilutive effect, calculated using the treasury stock method, of 52,212,000 additional common shares issuable upon exercise of outstanding stock options. The diluted share base for the six months ended April 1, 2001 excludes the potential dilutive effect of 54,390,000 incremental shares related to outstanding stock options, calculated using the treasury stock method, due to their anti-dilutive effect as a result of the Company's loss before accounting change.

Options outstanding during the three months ended April 1, 2001 and March 26, 2000 to purchase approximately 10,950,000 and 70,000 shares of common stock, respectively, and options outstanding during the six months ended April 1, 2001 and March 26, 2000 to purchase approximately 9,523,000 and 945,000 shares of common stock, respectively, were not included in the treasury stock computation of diluted EPS because the options' exercise price was greater than the average market price of the common stock during the period and, therefore, the effect would be anti-dilutive.

---

[Table of Contents](#)

**QUALCOMM Incorporated**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(Unaudited)**

*Comprehensive Income*

Components of accumulated other comprehensive loss consist of the following:

	April 1, 2001	September 24, 2000
	(in thousands)	
Foreign currency translation	\$ (42,388)	\$ (25,022)
Unrealized (loss) gain on marketable securities, net of income taxes	(58,751)	16,367
	<u>\$(101,139)</u>	<u>\$ (8,655)</u>

Total comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2001	March 26, 2000	April 1, 2001	March 26, 2000
Net income (loss)	\$ 149,072	\$ 199,716	\$ (79,671)	\$ 376,835
Other comprehensive loss:				
Foreign currency translation	(9,841)	7,002	(17,366)	6,136
Unrealized (loss) gain on marketable securities, net of income taxes	(17,027)	22,892	(118,638)	56,239
Reclassification adjustment for other than temporary losses on marketable securities included in net income, net of income taxes	—	—	69,887	—
Reclassification adjustment for net realized gains included in net income, net of income taxes	(17,981)	(160,139)	(30,292)	(161,790)
Reclassification adjustment for losses included in accounting change, net of income taxes	—	—	3,925	—
Total other comprehensive loss	<u>(44,849)</u>	<u>(130,245)</u>	<u>(92,484)</u>	<u>(99,415)</u>
Total comprehensive income (loss)	<u>\$ 104,223</u>	<u>\$ 69,471</u>	<u>\$(172,155)</u>	<u>\$ 277,420</u>

The reclassification adjustment for other than temporary losses on marketable securities results from the recognition of unrealized losses in the income statement resulting from declines in the market prices of those securities deemed to be other than temporary. The reclassification adjustment for net realized gains results from the recognition of the net realized gains in the income statement when the marketable securities are sold. The reclassification adjustment for losses included in the accounting change results from the recognition of unrealized losses attributable to derivative instruments as of the beginning of fiscal 2001 in the income statement as a result of the implementation of Statement of Financial Accounting Standards No. 133 (FAS 133). Unrealized losses on certain derivative instruments subject to FAS 133 were previously recorded as a component of other comprehensive income.

#### *Accounting Change*

The Company was required to adopt FAS 133, "Accounting for Derivative Instruments and Hedging Activities" as of the beginning of fiscal 2001. FAS 133 requires certain derivative instruments to be recorded at fair value. Derivative instruments held by the Company are comprised of warrants and other rights to purchase equity interests in certain other companies related to strategic investment and financing activities. Such instruments are held for investment, but not trading, purposes.

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The Company recorded a \$129 million gain, net of taxes of \$87 million, as the cumulative effect of a change in accounting principle as of the beginning of fiscal 2001. The cumulative effect of the accounting change related primarily to the recognition of the unrealized gain on a warrant to purchase 4,500,000 shares of Leap Wireless International, Inc. (Leap Wireless) common stock issued to the Company in connection with its spin-off of Leap Wireless in September 1998. Additionally, the Company recorded \$12 million in pre-tax unrealized gains and \$148 in pre-tax unrealized losses on derivative instruments during the three months and six months ended April 1, 2001, respectively, primarily resulting from changes in the market price of Leap Wireless stock which affect the fair value of the Leap Wireless warrant. After adoption of FAS 133, unrealized gains and losses on these derivative instruments are recorded in the income statement as a component of investment income (Note 4). The Company exercised a portion of the Leap Wireless warrant during the first quarter of fiscal 2001. At April 1, 2001, the Company has the right to purchase 3,375,000 shares of Leap Wireless common stock under the warrant.

#### *Future Accounting Requirements*

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." The SEC staff subsequently amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company is required to adopt SAB 101 by the fourth quarter of fiscal 2001, applied retroactively to the first quarter of fiscal 2001. The Company does not expect the adoption of SAB 101 to have a material effect on its consolidated financial position, results of operations or cash flows.

## Note 2 — Acquisitions

### *SnapTrack, Inc.*

In March 2000, the Company completed the acquisition of all of the outstanding capital stock of SnapTrack, Inc. (SnapTrack), a developer of wireless position location technology, in a transaction accounted for as a purchase. The purchase price was approximately \$1 billion, representing the value of QUALCOMM shares issued to effect the purchase, the value of vested and unvested options and warrants exchanged at the closing date and transaction costs. The condensed consolidated financial statements include the operating results of SnapTrack from the date of acquisition. Unaudited pro forma operating results for the Company, assuming the acquisition of SnapTrack had been made at the beginning of the period presented, are as follows (in thousands, except per share data):

	Three Months Ended March 26, 2000	Six Months Ended March 26, 2000
Revenues	\$ 727,761	\$ 1,848,153
Net income	\$ 154,515	\$ 268,549
Basic earnings per common share	\$ 0.21	\$ 0.39
Diluted earnings per common share	\$ 0.19	\$ 0.34

These pro forma results have been prepared for comparative purposes only and may not be indicative of the results of operations which actually would have occurred had the combination been in effect at the beginning of the periods presented or of future results of operations of the consolidated entities.

## [Table of Contents](#)

### QUALCOMM Incorporated NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

## Note 3 — Composition of Certain Balance Sheet Captions

### *Marketable Securities*

Marketable securities are comprised of certificates of deposit, commercial paper, U.S. government securities, corporate medium-term notes, mortgage-backed and asset-backed securities and equity securities that are publicly-traded. Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. Held-to-maturity securities are carried at amortized cost, which approximates fair value. Available-for-sale securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date.

### *Accounts Receivable*

	April 1, 2001	September 24, 2000
	(in thousands)	
Trade, net of allowance for doubtful accounts of \$13,275 and \$9,610, respectively	\$510,134	\$ 542,288
Long-term contracts:		
Billed	4,825	38,059
Unbilled	3,927	21,185
Other	21,013	5,447
	\$539,899	\$ 606,979

Unbilled receivables represent costs and profits recorded in excess of amounts billable pursuant to contract provisions and are expected to

be realized within one year.

### Finance Receivables

Finance receivables result from arrangements in which the Company has agreed to provide its customers or certain Code Division Multiple Access (CDMA) customers of Telefonaktiebolaget LM Ericsson (Ericsson) with long-term interest bearing debt financing for the purchase of equipment and/or services. Finance receivables are comprised as follows:

	April 1, 2001	September 24, 2000
	(in thousands)	
Finance receivables	\$1,213,103	\$ 939,063
Allowance for doubtful receivables	(547,360)	(11,144)
	665,743	927,919
Current maturities, net	200,975	128,515
	\$ 464,768	\$ 799,404
Noncurrent finance receivables, net		

At April 1, 2001, commitments to extend long-term financing by QUALCOMM to certain CDMA customers of Ericsson totaled approximately \$587 million. The commitment to fund \$400 million of this amount expires on November 6, 2003. The Company expects to fund the remaining \$187 million commitment through fiscal 2007. The financing commitments are subject to the CDMA customers meeting conditions prescribed in the financing agreements and, in certain cases, to Ericsson also financing a portion of such sales and services. Such financing is generally collateralized by the related equipment. Commitments represent the estimated amounts to be financed under these arrangements; actual financing may be in lesser amounts.

### [Table of Contents](#)

## QUALCOMM Incorporated NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

### Inventories

	April 1, 2001	September 24, 2000
	(in thousands)	
Raw materials	\$15,845	\$ 47,952
Work-in-process	4,080	8,370
Finished goods	70,946	29,044
	\$90,871	\$ 85,366

### Goodwill

At April 1, 2001 and September 24, 2000, goodwill is presented net of \$265 million and \$144 million in accumulated amortization, respectively.

### Note 4 — Investment Income (Expense), Net

Investment income (expense) is comprised as follows (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2001	March 26, 2000	April 1, 2001	March 26, 2000
Interest income	\$ 71,468	\$ 67,605	\$ 139,890	\$ 109,163
Net realized gains on marketable securities	30,184	267,487	50,772	270,061
Unrealized other than temporary losses on marketable securities	(3,538)	—	(147,166)	—
Unrealized other than temporary loss on equity method investment	—	—	(9,933)	—
Change in unrealized gain on derivative instruments	11,864	—	(148,396)	—
Minority interest in income of consolidated subsidiaries	(895)	(300)	(2,123)	(3,614)
Equity in losses of investees	(9,975)	(1,043)	(15,465)	(5,614)



**Note 5 — Other Investments**

The Company makes strategic investments in companies that have developed or are developing innovative wireless data applications and wireless carriers that promote the worldwide deployment of CDMA2000 1x/1xEV systems. Investments in corporate entities with less than a 20% voting interest are generally accounted for under the cost method. The Company uses the equity method to account for investments in corporate entities in which it has a voting interest of 20% to 50% and other than minor to 50% ownership interests in partnerships and limited liability corporations, or in which it otherwise has the ability to exercise significant influence. The Company holds warrants to purchase equity interests in certain other companies related to its strategic investment and financing activities. Warrants to purchase equity interests in publicly-traded companies are accounted for at fair value.

*Globalstar LP*

Through partnership interests held in certain intermediate limited partnerships, the Company owns a 6.3% partnership interest in Globalstar LP (Globalstar), a limited partnership formed to develop, own and

[Table of Contents](#)

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

operate the Globalstar low-Earth-orbit (LEO) satellite system utilizing CDMA technology (the Globalstar System). The Company has contracts with Globalstar to design, develop and manufacture subscriber products and ground communications equipment.

On January 16, 2001, Globalstar announced that, in order to have sufficient funds available for the continued progress of its marketing and service activities, it has suspended indefinitely principal and interest payments on all of its debt, including its vendor financing obligations. As a result, Globalstar did not make an approximate \$22 million payment for principal and interest due to QUALCOMM on January 15, 2001. Globalstar also announced the retention of a financial adviser to assist in developing future initiatives, including restructuring Globalstar's debt, identifying funding opportunities and pursuing other strategic alternatives. As a result of these developments, QUALCOMM assessed the recoverability of all assets and considered probable exposures related to the Globalstar business. During the first quarter of fiscal 2001, the Company recorded charges of \$48 million in cost of revenues, \$481 million in asset impairment and related charges, \$10 million in investment expense and \$57 million in other non-operating charges related primarily to the impairment of certain assets. During the second quarter of fiscal 2001, the Company recorded adjustments to certain reserves related to the Globalstar business, and accordingly, the net charges recorded by the Company in cost of revenues and for asset impairment and related charges totaled \$47 million and \$476 million, respectively, during the six months ended April 1, 2001. At April 1, 2001, the Company has approximately \$54 million in net assets remaining, primarily consisting of finance receivables, accounts receivable, inventory and fixed assets, related to the Globalstar business. Starting in the first quarter of fiscal 2001, the Company decided to not recognize revenue on business with Globalstar before cash is received. During the three months and six months ended April 1, 2001, the Company recorded \$15 million and \$16 million in revenue, respectively, related to cash received from Globalstar.

*Wingcast, LLC*

In July 2000, Ford Motor Company and QUALCOMM announced the creation of a new company, Wingcast, LLC (Wingcast), that will develop and deliver wireless mobility services, including safety and security, information and communications, and entertainment and mobile commerce, into cars and trucks. QUALCOMM committed to contribute \$125 million to the initial capital of Wingcast, of which \$75 million is payable in cash and \$50 million is payable in non-cash consideration. QUALCOMM may be further committed to fund an additional \$75 million in cash upon vehicle manufacturers committing to enable certain volumes of vehicles to use Wingcast's services. At April 1, 2001, \$63 million of the \$75 million cash commitment is outstanding, and Wingcast had not met the performance milestones related to the additional \$75 million cash commitment. Performance milestones must be completed by April 2003 or before Wingcast's initial public offering. The Company expects to fund the remaining commitment through fiscal year 2003.

*Inquam Limited*

In October 2000, the Company agreed to invest \$200 million in the convertible preferred shares of Inquam Limited (Inquam). Inquam was formed to acquire, own, develop and manage wireless telecommunication systems, either directly or indirectly, with the primary intent of deploying CDMA-based technology. In addition, the Company advanced \$10 million under a promissory note that matures on October 31, 2001 and bears interest at 10%. At April 1, 2001, \$157 million of the equity funding commitment is outstanding. The Company expects to fund the remaining commitment through June 2002.

*QUALCOMM/ Hansol iV CDMA Fund*

In December 2000, the Company announced the formation of a South Korean partnership fund, QUALCOMM/ Hansol iV CDMA Fund, with Hansol i Ventures Co., Ltd. to invest in South Korean start-up companies engaged in the development and commercialization of CDMA

---

[Table of Contents](#)

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

CDMA and the use of the wireless Internet. QUALCOMM committed to contribute approximately \$27 million to the initial capital of the fund. At April 1, 2001, \$13 million of the equity funding commitment is outstanding. The Company expects to fund the remaining commitment during calendar 2001.

*Other*

Funding commitments related to other strategic investments total \$40 million at April 1, 2001, which the Company expects to fund through December 2003. Such commitments may be subject to the investees meeting certain conditions; actual equity funding may be in lesser amounts.

**Note 6 — Bank Line of Credit**

The Company had an unsecured credit facility under which banks were committed to make up to \$400 million in revolving loans to the Company, maturing in March 2001. Effective January 26, 2001, QUALCOMM terminated this facility.

**Note 7 — Income Taxes**

The Company currently estimates its annual effective income tax rate to be approximately 45% for fiscal 2001, compared to 44% for fiscal 2000. The expected annual effective tax rate for fiscal 2001 increased primarily due to lower pre-tax earnings relative to nondeductible charges, offset by lower taxes related to earnings outside of the United States.

**Note 8 — Commitments and Contingencies**

*Litigation*

On or about June 5, 1997, Elisra Electronic Systems Ltd. (Elisra) submitted to the International Chamber of Commerce a Request for Arbitration of a dispute with the Company based upon a Development and Supply Agreement (DSA) entered into between the parties effective November 15, 1995, alleging that the Company wrongfully terminated the DSA, and seeking monetary damages. The Company thereafter submitted a Reply and Counterclaim, alleging that Elisra breached the DSA, and seeking monetary damages. Subsequently, the parties stipulated that the dispute be heard before an arbitrator under the jurisdiction of the American Arbitration Association, and to bifurcate the resolution of liability issues from damage issues. In April, 2001, the Arbitrator ruled in the Company's favor on Elisra's claims and denied the Company's counterclaims. While the plaintiffs have asked for modification of the ruling, the Company anticipates no further proceedings at this time.

On May 6, 1999, Thomas Sprague, a former employee of the Company, filed a putative class action against the Company, ostensibly on behalf of himself and those of the Company's former employees who were offered employment with Ericsson in conjunction with the sale to Ericsson of certain of the Company's infrastructure division assets and liabilities. The complaint and subsequent amendments, filed in the California Superior Court in San Diego state several causes of action against the Company arising primarily out of breaches of the Company's 1991 Stock Option plan and upon various allegedly fraudulent behavior by the Company. On September 15, 2000, the Court certified the case as a class action, and subsequently approximately 206 individuals in the potential class opted out of the class. On December 8, 2000, the Court granted summary judgment as to all class members who had not opted out and who had participated in the Retention Bonus Plan, dismissing all claims filed on their behalf, leaving approximately 35 plaintiffs remaining in the case. On January 19, 2001, the Court decertified the class action as to all claims except for plaintiffs' claims based upon alleged breach of the plaintiffs' stock option agreements. On February 23, 2001, the parties stipulated to a settlement of the action for payment by QUALCOMM of \$11 million, which is being funded

---

[Table of Contents](#)

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

by third parties, to the over 800 remaining class members. On April 23, 2001, the Court approved the settlement.

On December 14, 2000, 77 former QUALCOMM employees who had opted out of the above-referenced Sprague v. QUALCOMM lawsuit filed a lawsuit against the Company in the District Court for Boulder County, Colorado, alleging claims for intentional misrepresentation,

nondisclosure and concealment, violation of C.R.S. Section 8-2-104 (obtaining workers by misrepresentation), breach of contract, breach of the implied covenant of good faith and fair dealing, promissory estoppel, negligent misrepresentation, unjust enrichment, violation of California Labor Code Section 970, violation of California Civil Code Sections 1709 – 1710, rescission, violation of California Business & Professions Code Section 17200 and violation of California Civil Code Section 1575. The Company has moved for summary judgment as to all claims on the grounds that the plaintiffs had executed releases of claims in favor of the Company. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's results of operations, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the action.

On June 29, 1999, GTE Wireless, Incorporated (GTE) filed an action in the U.S. District Court for the Eastern District of Virginia asserting that wireless telephones sold by the Company infringe a single patent allegedly owned by GTE. On September 15, 1999, the court granted the Company's motion to transfer the action to the U.S. District Court for the Southern District of California. No trial date is presently set in this case. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's results of operations, liquidity or financial position, the Company believes the action is without merit and will vigorously defend the action.

On February 2, 2000, Thomas Durante, James Curley, Curtis Parker and Joseph Edwards, filed a putative class action against the Company, ostensibly on behalf of themselves and those former employees of the Company whose employment was terminated in April 1999. Virtually all of the purported class of plaintiffs received severance packages at the time of the termination of their employment, in exchange for a release of claims, other than federal age discrimination claims, against the Company. The complaint was filed in California Superior Court in and for the County of Los Angeles and purports to state ten causes of action including breach of contract, age discrimination, violation of Labor Code Section 200, violation of Labor Code Section 970, unfair business practices, intentional infliction of emotional distress, unjust enrichment, breach of the covenant of good faith and fair dealing, declaratory relief and undue influence. The complaint seeks an order accelerating all unvested stock options for the members of the class. On June 27, 2000, the case was ordered transferred from Los Angeles County Superior Court to San Diego County Superior Court. On July 3, 2000, the Company removed the case to the United States District Court for the Southern District of California, and discovery has commenced. In February, 2001 the court granted the Company's motion to dismiss the plaintiffs' disparate impact age discrimination claims, and the plaintiffs have moved for reconsideration of that ruling. In addition, the Company has moved the court to dismiss all claims asserted by the plaintiffs except for federal age discrimination claims on the grounds that the releases that they had executed barred their claims. A hearing on plaintiffs' motion to certify the case as a class action has been set for later this year. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's results of operations, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the action.

On June 13, 2000, Van May, Ruth Ann Feldman, Jeffrey Alan MacGuire and Maurice Clark filed a putative class action lawsuit in San Diego County Superior Court against the Company and against QUALCOMM Personal Electronics (QPE), ostensibly on behalf of themselves and other former employees of QPE who were offered benefits in QPE's Performance Unit Plan. The complaint purports to state seven causes of action, including breach of contract, violation of California Labor Code Section 970, fraud, unfair business practices, unjust enrichment, breach of the covenant of good faith and fair dealing and declaratory

---

[Table of Contents](#)

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

relief. The parties have tentatively agreed to a resolution of the action in which the plaintiffs will dismiss the action in exchange for the Company's agreement not to make malicious prosecution or attorney fees claims against them.

On March 13, 2001, approximately 70 former QUALCOMM employees who had opted out of the above-referenced Sprague v. QUALCOMM lawsuit filed a lawsuit against the Company in San Diego County Superior Court alleging breach of contract, fraud, rescission, specific performance, and work, labor and services performed. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's results of operations, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the action.

On March 30, 2001, Zoltar Satellite Alarm Systems, Inc. filed suit against the Company and SnapTrack, the Company's wholly owned subsidiary, alleging infringement of three patents. Although there can be no assurance that an unfavorable outcome of this dispute would not have a material adverse effect on the Company's results of operations, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the action.

The Company is engaged in other legal actions arising in the ordinary course of its business and believes that the ultimate outcome of these actions will not have a material adverse effect on its results of operations, liquidity or financial position.

*Letters of Credit, Financial Guarantees and Other Financial Commitments*

On December 22, 1999 and April 25, 2000, the Company and Pegaso Telecomunicaciones, S.A. de C.V. (Pegaso) executed commitment letters in which the Company agreed to underwrite up to \$500 million of debt financing to Pegaso and its wholly-owned subsidiary, Pegaso

Comunicaciones y Sistemas, a CDMA wireless operating company in Mexico. The debt financing will consist of a \$250 million senior secured facility and a \$250 million unsecured facility. The debt facilities are expected to have final maturities of seven to eight years. In March 2001, the Company agreed to increase the amount available under a \$315 million bridge facility, including capitalized interest, provided to Pegaso to \$409 million, including a \$175 million guarantee, \$185 million in funding from QUALCOMM, and \$49 million for capitalized interest. QUALCOMM earns a guarantee fee of 6.25% per annum and interest at LIBOR plus 6% for the remaining facility. The bridge facility will be prepaid and cancelled upon funding of the \$250 million senior secured facility and the \$250 million unsecured facility. At April 1, 2001, \$351 million is outstanding under the bridge facility, with \$50 million remaining to be funded by QUALCOMM and \$8 million available for interest capitalization.

In December 2000, the Company and VeloCom Inc., an investor in CDMA telecommunications operators in Latin America, executed a Term Loan Agreement in which the Company agreed to provide \$230 million of convertible debt financing, including \$30 million for capitalized interest. The debt facility has a three year term and bears interest at 18%. At April 1, 2001, \$86 million is outstanding under this facility.

In addition to these debt financing commitments, the Company has \$72 million of letters of credit and \$7 million of other financial guarantees and commitments outstanding as of April 1, 2001, none of which are collateralized.

#### Note 9 — Segment Information

The Company is organized on the basis of products and services. Reportable segments are as follows: QUALCOMM CDMA Technologies (QCT) is a leading developer and supplier worldwide of CDMA-based wireless communication integrated circuits and system and applications software solutions for voice and data communications products and services; QUALCOMM Technology Licensing (QTL) licenses third parties to design, manufacture, and sell products incorporating the Company's technologies; and QUALCOMM

14

#### [Table of Contents](#)

### QUALCOMM Incorporated NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

Wireless Systems (QWS) designs, manufactures, markets, and deploys infrastructure and handset products for use in terrestrial and non-terrestrial CDMA wireless and satellite networks and provides satellite-based two-way data messaging, position reporting equipment and services to transportation companies. The Company sold its terrestrial-based CDMA wireless consumer phone business, the former operating segment QUALCOMM Consumer Products (QCP), to Kyocera Wireless Corp. in February 2000.

The Company evaluates the performance of its segments based on earnings before income taxes and accounting change (EBT). EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Segment data includes intersegment revenues.

The table below presents revenues and EBT for reported segments (in thousands):

	QCT	QTL	QWS	Reconciling Items	Total
<b>For the three months ended:</b>					
<b>April 1, 2001</b>					
Revenues	\$363,741	\$229,456	\$ 94,613	\$ 25,445	\$ 713,255
EBT	84,574	210,473	17,896	(4,398)	308,545
<b>March 26, 2000</b>					
Revenues	\$279,186	\$167,652	\$188,302	\$ 92,601	\$ 727,741
EBT	89,977	150,423	83,034	75,634	399,068
<b>For the six months ended:</b>					
<b>April 1, 2001</b>					
Revenues	\$693,795	\$452,938	\$187,454	\$ 63,089	\$1,397,276
EBT	168,345	421,270	25,766	(994,447)	(379,066)
<b>March 26, 2000</b>					
Revenues	\$631,581	\$345,197	\$403,266	\$ 467,770	\$1,847,814
EBT	217,667	313,013	149,181	1,657	681,518

During the second quarter of fiscal 2001, management decided that certain impairment and other charges would not be allocated to the applicable segments in assessing segment performance and allocating resources for management reporting purposes. As such, results for the first quarter of fiscal 2001 have been revised in the six months ended April 1, 2001 to reflect the impact of this methodology on previously reported first quarter fiscal 2001 segment results. Segment results for the comparable periods in the prior fiscal year have not been revised as there were no similar charges allocated to the segments.

15

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Reconciling items in the previous table are comprised as follows (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2001	March 26, 2000	April 1, 2001	March 26, 2000
<b>Revenues</b>				
Revenues from external customers of QCP segment sold	\$ —	\$ 100,492	\$ —	\$ 541,856
Elimination of intersegment revenue	(17,007)	(41,951)	(33,840)	(142,055)
Other products	42,452	34,060	96,929	67,969
	<u>\$ 25,445</u>	<u>\$ 92,601</u>	<u>\$ 63,089</u>	<u>\$ 467,770</u>
<b>Earnings before income taxes</b>				
Unallocated corporate expenses	\$ (68,313)	\$ (155,750)	\$ (795,125)	\$ (183,320)
EBT of QCP segment sold	—	(62,676)	—	(80,222)
Unallocated investment (expense) income, net	75,428	299,577	(173,372)	325,608
Unallocated interest expense	(1,364)	(611)	(9,634)	(1,166)
EBT from other products	(10,479)	7,636	(13,878)	(3,751)
Distributions on Trust Convertible Preferred Securities of subsidiary trust	—	(1,994)	—	(13,039)
Intracompany profit	330	(10,548)	(2,438)	(42,453)
	<u>\$ (4,398)</u>	<u>\$ 75,634</u>	<u>\$ (994,447)</u>	<u>\$ 1,657</u>

Unallocated corporate expenses include \$63 million and \$125 million for amortization of goodwill and other acquisition-related intangible assets during the three months and six months ended April 1, 2001, respectively, and \$580 million related to the Globalstar business (Note 5) and \$69 million related to an arbitration decision against the Company during the six months ended April 1, 2001. Unallocated corporate expenses during the three months and six months ended March 26, 2000 include \$56 million and \$83 million, respectively, related to the sale of the terrestrial-based CDMA wireless consumer phone business, \$60 million for in-process technology related to the SnapTrack acquisition, and \$21 million for amortization of goodwill and other acquisition-related intangible assets.

Revenues from external customers and intersegment revenues are as follows (in thousands):

	QCT	QTL	QWS
<b>For the three months ended:</b>			
<b>April 1, 2001</b>			
Revenues from external customers	\$361,384	\$214,899	\$ 94,520
Intersegment revenues	2,357	14,557	93
<b>March 26, 2000</b>			
Revenues from external customers	\$257,794	\$150,575	\$184,820
Intersegment revenues	21,392	17,077	3,482
<b>For the six months ended:</b>			
<b>April 1, 2001</b>			
Revenues from external customers	\$689,887	\$423,828	\$186,632
Intersegment revenues	3,908	29,110	822
<b>March 26, 2000</b>			
Revenues from external customers	\$543,769	\$294,436	\$399,784
Intersegment revenues	87,812	50,761	3,482

**QUALCOMM Incorporated**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Segment assets were presented in the Company's 2000 Annual Report on Form 10-K. QWS segment assets decreased to \$756 million at April 1, 2001 from \$1,119 million at September 24, 2000, principally as a result of the write-down of certain QWS assets related to the Globalstar business (Note 5), offset by financing activities under the agreements with Ericsson (Note 3).

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 24, 2000 contained in the Company's 2000 Annual Report on Form 10-K.

Except for the historical information contained herein, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks associated with: macroeconomic trends worldwide; potential declines in the rate of growth in the CDMA subscriber base; the scale-up, acceptance and operations of CDMA systems, including cdmaOne, CDMA2000 1x/1xEV, and WCDMA products; integrated circuit orders and inventory levels; strategic opportunities or acquisitions, divestitures and investments the Company may pursue, including investments in new ventures and operators, and the proposed spin-off of its integrated circuits and system software solutions; changes in the fair values of marketable securities and derivative instruments held; the success of the Globalstar business; developments in current or future litigation; potential component shortages, including shortage of supplier manufacturing capacity; the ability to develop and introduce cost effective new products in a timely manner; the ability to effectively manage growth; the intense competition in the wireless communications industry; the timing and collection of license fees and royalties; international business activities; and accounts receivable and finance receivables, as well as the other risks detailed in the Company's Form 10-K for fiscal year ended September 24, 2000. The Company's consolidated financial data includes SnapTrack, Inc. and other consolidated subsidiaries of the Company.

### Overview

QUALCOMM designs, develops, manufactures and markets digital wireless communications products and services based on its CDMA and other technologies. The Company licenses and receives royalty payments on its CDMA technology from major domestic and international telecommunications equipment suppliers. QUALCOMM is a leading developer and supplier worldwide of CDMA-based wireless communication integrated circuits and system software solutions for voice and data communications products and services. In addition, the Company designs, manufactures and distributes products and provides services for its OmniTRACS system. On July 25, 2000, QUALCOMM announced the proposed spin-off and initial public offering (IPO) of its integrated circuits and system software solutions business. In connection with this announcement, QUALCOMM filed a Current Report on Form 8-K dated July 25, 2000. The Company expects to proceed with the spin-off by the fall of 2001, subject to approval by QUALCOMM's Board of Directors and other factors, in the form of a 100% tax-free distribution of common stock of QUALCOMM Spinco, Inc. (Spinco) to QUALCOMM shareholders as of a record date to be determined. At present, the Company does not plan an IPO of Spinco stock prior to the spin-off.

The Company has contracts with Globalstar LP (Globalstar) to design, develop and manufacture subscriber products and ground communications equipment. On January 16, 2001, Globalstar announced that, in order to have sufficient funds available for the continued progress of its marketing and service activities, it has suspended indefinitely principal and interest payments on all of its debt, including its vendor financing obligations. As a result, Globalstar did not make an approximate \$22 million payment for principal and interest due to QUALCOMM on January 15, 2001. Globalstar also announced the retention of a financial adviser to assist in developing future initiatives, including restructuring Globalstar's debt, identifying funding opportunities and pursuing other strategic alternatives. As a result of these developments, QUALCOMM assessed the recoverability of all assets and considered probable exposures related to the Globalstar business. During the first six months of fiscal 2001, the Company recorded charges of \$47 million in cost of revenues, \$476 million in asset impairment and related charges, \$10 million in investment expense and \$57 million in other non-operating charges related primarily to the impairment of certain assets. At April 1, 2001, the Company has approximately \$54 million in net assets remaining, primarily consisting of finance receivables,

accounts receivable, inventory and fixed assets, related to the Globalstar business. Starting in the first quarter of fiscal 2001, the Company decided to not recognize revenue on business with Globalstar before cash is received. The Company expects its Globalstar-related revenues to be significantly lower for the balance of fiscal 2001 than the comparable periods of the prior year despite on-going sales of equipment and services to support both continued operations and the addition of high-speed data capability.

The Company intends to continue making strategic investments to promote the worldwide adoption of CDMA products and services for wireless voice and Internet data communications. In general, the Company enters into strategic relationships with CDMA carriers and developers of innovative technologies or products for the wireless industry. In November 2000, QUALCOMM announced the formation of QUALCOMM Ventures, an internal organization that selects and manages strategic investments in early stage companies and, from time to time, venture funds or incubators, to support the adoption of CDMA and use of the wireless Internet. Most of the Company's strategic investments entail a high degree of risk and will not become liquid until more than one year from the date of investment, if at all. To the extent such investments become liquid and meet strategic objectives, QUALCOMM will attempt to make regular periodic sales that will be recognized in net investment income. During the balance of fiscal 2001, the Company may reduce the planned sale of small portions of certain equity investments until market conditions improve. QUALCOMM may be required to recognize losses from time to time if it determines that

decreases in the value of particular investments have become other than temporary.

In December 2000, QUALCOMM announced a new CDMA license program designed to allow selected early stage companies to issue equity to QUALCOMM as a means of paying part of the license fees payable under QUALCOMM's CDMA license agreements. The Company records license fee revenues based on the fair value of the equity instruments received. The measurement date for determination of fair value is the earlier of the date on which the parties establish a commitment to perform or the date at which the performance is complete. The evaluation procedures used to determine fair value include, but are not limited to, examining the current market price for the shares if the licensee is publicly traded, examining recent rounds of financing and the licensee's business plan if not publicly traded, and performing other due diligence procedures. The new program will not affect the licensees' obligation to pay royalties under their CDMA license agreements. During the three and six months ended April 1, 2001, the Company recognized \$4 and \$8 million, respectively, in revenue for equity received in connection with new licensees.

In January 2001, QUALCOMM announced its development of an open applications platform for CDMA-based wireless devices to provide solutions for the wireless industry as it moves toward wireless Internet convergence. The platform, QUALCOMM's Binary Runtime Environment for Wireless (BREW), is a thin applications environment that provides applications developers with an open, standard platform for wireless devices on which to develop their products. The BREW platform will leverage the capabilities available in QUALCOMM CDMA Technologies' (QCT) integrated circuits, system software and Wireless Internet Launchpad software, enabling development of feature-rich applications and content while reducing memory overhead and maximizing system performance. When it is commercially deployed by carriers, the BREW platform will also enable over-the-air downloads of applications by end users directly to their BREW-enabled handsets. The BREW platform will be provided and supported by QUALCOMM Internet Services (QIS), a division formed in November 2000 to focus on CDMA applications and services development.

In March 2001, the Company announced that 3G Investments (Australia) Pty Limited, a wholly owned subsidiary of QUALCOMM, has been awarded 2x10 MHz licenses in the Australian third-generation (3G) wireless spectrum auctions. The Company entered the auctions to acquire appropriate spectrum to support a high-capacity CDMA2000 1x/ 1xEV system in Australia, a country with significant CDMA growth prospects. QUALCOMM's successful participation in numerous spectrum auctions in the past has resulted in nationwide CDMA networks being deployed in other countries, including Mexico, Chile and Brazil. QUALCOMM is preparing to deploy CDMA2000 1x/ 1xEV networks in Australia with commercial 3G service planned in 2002. The Company made a \$75 million deposit, recorded in other assets, toward the approximate \$84 million acquisition price during the second quarter of fiscal 2001 and expects to pay the final installment during the third quarter of fiscal 2001. The licenses will be issued when the final installment is paid and can be used for commercial service starting in October 2002. The licenses will cover a total of 12 million

---

[Table of Contents](#)

potential customers (POPs) in eight major markets, including Sydney, Melbourne, Brisbane, Adelaide, Perth, Hobart, Darwin and Canberra.

In March 2001, the Company transferred a \$125 million Auction Discount Voucher (ADV) to Leap Wireless International, Inc. (Leap Wireless) to support its spectrum acquisition activities in the FCC's current auction of PCS spectrum. The transfer was funded under the Company's \$125 million senior credit facility with Leap Wireless, and the \$125 million note receivable is included in other assets. The facility is scheduled to be repaid in a lump sum payment, including principal and accrued interest, no later than March 9, 2006. The facility will bear interest at LIBOR plus 7.5%. The Company deferred the recognition of income related to the exchange due to Leap Wireless' right to return the ADV in satisfaction of the note within two years upon the occurrence of certain future events.

QUALCOMM's corporate headquarters, research and development and some manufacturing facilities are located in the state of California, which has recently experienced temporary localized electricity outages, or rolling blackouts, which may continue or worsen into blackouts of longer duration in the future. These blackouts could cause disruptions to a portion of QUALCOMM's operations and to the operations of QUALCOMM's suppliers, distributors and resellers, and customers, which could have a material adverse effect on the Company's operating results.

The Company was required to adopt Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities" as of the beginning of fiscal 2001. FAS 133 requires certain derivative instruments to be recorded at fair value. After adoption of FAS 133, unrealized gains and losses on these derivative instruments are recorded in the income statement. The Company recorded a \$129 million gain, net of taxes, as the cumulative effect of the change in accounting principle as of the beginning of fiscal 2001. The cumulative effect of the accounting change related primarily to the recognition of the unrealized gain on a warrant to purchase 4,500,000 shares of Leap Wireless common stock issued to the Company in connection with its spin-off of Leap Wireless in September 1998. Additionally, the Company recorded \$148 million in pre-tax unrealized losses on derivative instruments during the six months ended April 1, 2001, primarily resulting from a decline in the market price of Leap Wireless stock which reduced the fair value of the Leap Wireless warrant. The new requirement to record unrealized gains and losses on these instruments in the income statement may cause substantial quarterly and annual fluctuations in operating results due to stock market volatility. See "Notes to Condensed Consolidated Financial Statements — Note 1 — Basis of Presentation" and "Item 3. Quantitative and Qualitative Disclosure About Market Risk."

### **Second Quarter of Fiscal 2001 Compared to Second Quarter of Fiscal 2000**

Total revenues for the second quarter of fiscal 2001 were \$713 million compared to \$728 million for the second quarter of fiscal 2000. Total revenues for the second quarter of fiscal 2000 included \$79 million in revenue related to the terrestrial-based CDMA wireless consumer

phone business which was sold in February 2000. Excluding the revenue of the business sold from the second quarter of fiscal 2000, total revenues increased by \$64 million in the second quarter of fiscal 2001. The increase is primarily related to higher unit shipments of integrated circuits to wireless device manufactures, higher royalties and license fees, and higher OmniTRACS messaging revenue, offset by lower revenues related to the business with Globalstar, a decrease in OmniTRACS domestic unit shipments, and decreases in average selling prices of integrated circuits.

Cost of revenues for the second quarter of fiscal 2001 was \$253 million compared to \$350 million for the second quarter of fiscal 2000. Total cost of revenues for the second quarter of fiscal 2000 included \$115 million in cost of revenues related to the terrestrial-based CDMA wireless consumer phone business which was sold in February 2000. Excluding the cost of revenues of the business sold from the second quarter of fiscal 2000, total cost of revenues increased by \$18 million in the second quarter of fiscal 2001. Cost of revenues as a percentage of revenues was 36% for the second quarter of fiscal 2001 and 36% for the second quarter of fiscal 2000, excluding revenues and cost of revenues related to the terrestrial-based CDMA wireless consumer phone business which was sold in February 2000. Although the percentage of revenues remained consistent, lower revenues related to the business with Globalstar negatively affected margins during the second quarter of fiscal 2001, but the effect was offset by a higher percentage of revenues from royalties and OmniTRACS messaging

---

[Table of Contents](#)

services. Cost of revenues as a percentage of revenues may fluctuate in future quarters depending on the mix of products sold and services provided, royalties and license fees earned, competitive pricing, new product introduction costs and other factors.

For the second quarter of fiscal 2001, research and development expenses were \$106 million or 15% of revenues, compared to \$90 million or 12% of revenues for the second quarter of fiscal 2000. The dollar and percentage increases in research and development expenses were primarily due to new product development to support high-speed wireless Internet access and multi-mode, multi-band, multi-network, products including cdmaOne, CDMA2000 1x/1xEV, GSM/ GPRS, WCDMA and position location technologies, offset by a decrease in terrestrial-based CDMA wireless consumer phone products research and development as a result of exiting this business in February 2000.

For the second quarter of fiscal 2001, selling, general and administrative expenses were \$87 million or 12% of revenues, compared to \$97 million or 13% of revenues for the second quarter of fiscal 2000. The dollar and percentage decrease in selling, general and administrative expenses from the second quarter of fiscal 2000 was primarily due to a decrease in marketing costs for terrestrial-based CDMA wireless consumer phone products as a result of the sale of the business in February 2000 and a decrease in legal expense, offset by an increase in expanded international business in Japan, China, South Korea, and Europe and higher advertising and trade show expenses related to the expansion of the integrated circuit customer base and product portfolio and marketing expenses for the introduction of BREW software platform for CDMA phones.

Amortization of goodwill and other acquisition-related intangible assets was \$63 million for the second quarter of fiscal 2001 compared to \$21 million in the second quarter of fiscal 2000. For the second quarter of fiscal 2001, no purchased in-process technology was recorded, compared to \$60 million in second quarter of fiscal 2000. The increase in amortization in the second quarter of fiscal 2001 and the purchased in-process technology charge in the second quarter of fiscal 2000 resulted from the acquisition of SnapTrack in March 2000. See "Notes to Condensed Consolidated Financial Statements — Note 2 — Acquisitions."

For the second quarter of fiscal 2001, asset impairment and related credits were \$8 million, compared to charges of \$20 million for the second quarter of fiscal 2000. Asset impairment and related credits during the second quarter of fiscal 2001 were comprised primarily of adjustments to certain reserves related to the Globalstar business and adjustments to certain reserves related to the sale of the terrestrial-based CDMA wireless consumer phone business. Asset impairment and related charges during the second quarter of fiscal 2000 were primarily related to the sale of the terrestrial-based CDMA wireless consumer phone business in February 2000.

For the second quarter of fiscal 2001, there were no other operating expenses, compared to \$17 million in the second quarter of fiscal 2000. Other operating expenses during the first six months of fiscal 2000 were comprised primarily of employee termination and other costs related to the sale of the terrestrial-based CDMA wireless consumer phone business.

Interest expense was \$2 million for the second quarter of fiscal 2001, compared to \$1 million for the second quarter fiscal 2000. Although the expense remained relatively consistent, the Company incurred interest charges related to an arbitration decision against the Company during the second quarter of fiscal 2001, but the effect was offset by lower interest expense resulting from decreased bank borrowings.

Net investment income was \$99 million for the second quarter of fiscal 2001 compared to net investment income of \$334 million for the second quarter of fiscal 2000. Net investment income for the second quarter of fiscal 2001 was primarily comprised of \$71 million in interest income, \$30 million in net realized gains on marketable securities, and \$12 million related to the change in unrealized gain on derivative instruments. The decrease was primarily due to a \$237 million reduction in net realized gains on marketable securities.

For the second quarter of fiscal 2001, there were no distributions on Trust Convertible Preferred Securities due to the conversion of all remaining Trust Convertible Preferred Securities into common stock during the second quarter of fiscal 2000. The Company recorded \$2 million in distributions for the second quarter of fiscal 2000.



For the second quarter of fiscal 2000, the Company recorded \$3 million in net non-operating other charges, including \$6 million in charges relating to amounts advanced to Metrosvyaz, offset by a \$3 million release of reserves as a result of a settlement related to a non-operating liability.

The income tax expense was \$159 million for the second quarter of fiscal 2001, compared to an income tax expense of \$199 million for the second quarter of fiscal 2000. The annual effective tax rate is expected to be 45% for fiscal 2001, compared to 44% for fiscal 2000. The higher tax rate is primarily a result of lower pre-tax earnings relative to nondeductible charges, offset by lower taxes related to earnings outside of the United States. The Company has provided a valuation allowance on its net deferred tax assets because of uncertainty regarding their realizability due to the expectation that deductions from future employee stock option exercises will exceed future taxable income. The Company's net deferred tax assets decreased by \$18 million in the second quarter of fiscal 2001, and the resulting decrease in the valuation allowance was reflected as an increase to stockholders' equity.

### **First Six Months of Fiscal 2001 Compared to First Six Months of Fiscal 2000**

Total revenues for the first six months of fiscal 2001 were \$1,397 million compared to \$1,848 million for the first six months of fiscal 2000. Total revenues for the first six months of fiscal 2000 included \$435 million in revenue related to the terrestrial-based CDMA wireless consumer phone business which was sold in February 2000. Excluding the revenue of the business sold from the first six months of fiscal 2000, total revenues decreased by \$16 million in the first six months of fiscal 2001. The decrease is primarily attributable to the decision to not recognize revenue on business with Globalstar before cash is received, lower shipments of Globalstar portable and fixed phones to service providers, a decrease in OmniTRACS domestic unit shipments, and decreases in average selling prices of integrated circuits, offset by higher royalties and license fees, higher unit shipments of integrated circuits to wireless device manufactures, and higher OmniTRACS messaging revenue. Revenue from Kyocera Wireless Corp. and Samsung Electronics Company (Samsung), customers of both QCT and QTL, comprised an aggregate of 13% and 14% of total consolidated revenues, respectively, in the first six months of 2001, compared to an aggregate of 10% from Samsung in the first six months of fiscal 2000.

Cost of revenues for the first six months of fiscal 2001 was \$549 million compared to \$999 million for the first six months of fiscal 2000. Total cost of revenues for the first six months of fiscal 2000 included \$433 million in cost of revenues related to the terrestrial-based CDMA wireless consumer phone business which was sold in February 2000. Excluding the cost of revenues of the business sold from the first six months of fiscal 2000, total cost of revenues decreased by \$17 million in the first six months of fiscal 2001, and cost of revenues as a percentage of revenues was 39% for the first six months of fiscal 2001 and 40% for the first six months of fiscal 2000. The decision to not recognize revenue on business with Globalstar before cash is received negatively affected margins during the first six months of fiscal 2001, but the effect was offset by a higher percentage of revenues from royalties and license fees and OmniTRACS messaging services. Cost of revenues as a percentage of revenues may fluctuate in future quarters depending on the mix of products sold and services provided, royalties and license fees earned, competitive pricing, new product introduction costs and other factors.

For the first six months of fiscal 2001, research and development expenses were \$192 million or 14% of revenues, compared to \$174 million or 9% of revenues for the first six months of fiscal 2000. The dollar and percentage increases in research and development expenses were primarily due to increased integrated circuit product initiatives to support high-speed wireless Internet access and multi-mode, multi-band, multi-network, products including cdmaOne, CDMA2000 1x/1xEV, GSM/ GPRS, WCDMA and position location technologies, offset by a decrease in terrestrial-based CDMA wireless consumer phone products research and development as a result of exiting this business in February 2000.

For the first six months of fiscal 2001, selling, general and administrative expenses were \$167 million or 12% of revenues, compared to \$199 million or 11% of revenues for the first six months of fiscal 2000. The dollar decrease in selling, general and administrative expenses from the first six months of fiscal 2000 was due primarily to a decrease in marketing costs for terrestrial-based CDMA wireless consumer phone products as a

result of the sale of the business in February 2000. The percentage increase is primarily due to expanded international business in Japan, China, South Korea, and Europe and higher advertising and trade show expenses related to the expansion of the integrated circuit customer base and product portfolio.

Amortization of goodwill and other acquisition-related intangible assets was \$126 million for the first six months of fiscal 2001, compared to \$21 million in the first six months of fiscal 2000. For the first six months of fiscal 2001, no purchased in-process technology was recorded, compared to \$60 million in first six months of fiscal 2000. The increase in amortization in the first six months of fiscal 2001 and the purchased in-process technology charge in the first six months of fiscal 2000 resulted from the acquisition of SnapTrack in March 2000. See "Notes to Condensed Consolidated Financial Statements — Note 2 — Acquisitions."

For the first six months of fiscal 2001, asset impairment and related charges were \$473 million, compared to \$46 million for the first six months of fiscal 2000. Asset impairment and related charges during the first six months of fiscal 2001 were comprised primarily of charges resulting from management's determination that certain assets related to the Globalstar business were impaired. Asset impairment and related charges during the first six months of fiscal 2000 were primarily related to the sale of the terrestrial-based CDMA wireless consumer phone

business in February 2000.

For the first six months of fiscal 2001, other operating expenses were \$69 million, compared to \$18 million in the first six months of fiscal 2000. Other operating expenses for the first six months of fiscal 2001 were primarily related to a \$69 million arbitration decision against the Company. Other operating expenses during the first six months of fiscal 2000 were comprised primarily of employee termination and other costs related to the sale of the terrestrial-based CDMA wireless consumer phone business.

Interest expense was \$10 million for the first six months of fiscal 2001, compared to \$4 million for the first six months fiscal 2000. The increase was primarily related to interest charges resulting from an arbitration decision against the Company, offset by lower interest expense resulting from decreased bank borrowings.

Net investment expense was \$132 million for the first six months of fiscal 2001 compared to net investment income of \$370 million for the first six months of fiscal 2000. Net investment expense for the first six months of fiscal 2001 was primarily comprised of \$140 million in interest income and \$51 million in net realized gains on marketable securities, offset by \$147 million in unrealized other than temporary losses on marketable securities and \$148 million unrealized loss on derivative instruments in accordance with FAS 133. The decrease was primarily due to the \$148 million in unrealized losses on derivative instruments, \$147 million in unrealized losses related to other than temporary losses on marketable securities, a \$10 million charge related to the recognition of an other than temporary loss on the Company's investment in Globalstar Telecommunications, Ltd., a \$10 million increase in equity losses and a \$219 million reduction in realized gains on the sale of marketable securities, which were offset by a \$31 million increase in interest income, primarily related to interest earned on finance receivables and higher cash balances and interest rates.

There were no distributions on Trust Convertible Preferred Securities in the first six months of fiscal 2001 due to the conversion of all remaining Trust Convertible Preferred Securities into common stock during the second quarter months of fiscal 2000. The Company recorded \$13 million in distributions for the first six months of fiscal 2000.

Other non-operating charges were \$57 million in the first six months of fiscal 2001 compared to \$3 million in first six months of fiscal 2000. The Company recorded \$57 million in other non-operating charges in the first six months of fiscal 2001 to write down the recorded values of a note receivable from Globalstar and warrants to acquire partnership interests in Globalstar to their estimated fair values.

The income tax benefit was \$171 million for the first six months of fiscal 2001 compared to an income tax expense of \$305 million for the first six months of fiscal 2000. The annual effective tax rate is expected to be 45% for fiscal 2001, compared to 44% for fiscal 2000. The higher tax rate is primarily a result of lower pre-tax earnings relative to nondeductible charges, offset by lower taxes related to earnings outside of the United States. The Company has provided a valuation allowance on its net deferred tax assets because of uncertainty regarding their realizability due to the expectation that deductions from future employee stock option exercises will exceed future taxable income. The Company's net deferred tax assets increased by \$402 million

---

[Table of Contents](#)

in the first six months of fiscal 2001, and the resulting increase in the valuation allowance was reflected as a reduction of stockholders' equity.

The Company recorded a \$129 million gain, net of taxes, in the first six months of fiscal 2001 as the cumulative effect of a change in accounting principle at September 25, 2000. The cumulative effect of the accounting change related primarily to the unrealized gain on a warrant to purchase 4,500,000 shares of Leap Wireless common stock issued to the Company in connection with its spin-off of Leap Wireless in September 1998. See "Notes to Condensed Consolidated Financial Statements — Note 1 — Basis of Presentation."

### **QUALCOMM Segment Results for the Second Quarter of Fiscal 2001 Compared to Second Quarter of Fiscal 2000**

The following should be read in conjunction with the second quarter financial results of fiscal 2001 for each reporting segment. See "Notes to Condensed Consolidated Financial Statements — Note 9 — Segment Information."

#### **CDMA Technologies Segment (QCT)**

QCT segment revenues for the second quarter of fiscal 2001 were \$364 million compared to \$279 million for the second quarter of fiscal 2000. Earnings before taxes for the second quarter of fiscal 2001 were \$85 million compared to \$90 million for the second quarter of fiscal 2000. Revenues increased due to higher unit shipments of MSM integrated circuits to wireless device manufacturers, offset by the decrease in the average selling prices of integrated circuits. The decrease in earnings before taxes was primarily due to increased research and development primarily associated with new integrated circuit product and technology initiatives to support high-speed wireless Internet access and multi-band, multi-mode, multi-network, products including cdmaOne, CDMA2000 1x/1xEV, GSM/ GPRS, WCDMA and position location technologies, as well as increased marketing and advertising expenses. Approximately 16 million MSM integrated circuits were sold during the second quarter of fiscal 2001, compared to approximately 11 million for the second quarter of fiscal 2000. Uncertainty in global economic conditions has resulted in recent reductions in chip demand from customers for the third and fourth quarters of fiscal 2001.

#### **Technology Licensing Segment (QTL)**

QTL segment revenues for the second quarter of fiscal 2001 were \$229 million compared to \$168 million for the second quarter of fiscal 2000. Earnings before taxes for the second quarter of fiscal 2001 were \$210 million compared to \$150 million for the second quarter of fiscal

2000. Growth in revenues and earnings before taxes was due to an increase in worldwide demand for products based on CDMA technologies resulting in higher royalties and license fees, as well as the receipt of higher royalties during the second quarter of fiscal 2001 related to sales by licensees during the first quarter of fiscal 2001 as compared to previously recognized estimated amounts.

### **Wireless Systems Segment (QWS)**

QWS segment revenues for the second quarter of fiscal 2001 were \$95 million compared to \$188 million for the second quarter of fiscal 2000. Earnings before taxes for the second quarter of fiscal 2001 of \$18 million compared to earnings before taxes of \$83 million for the second quarter of fiscal 2000. Revenues and earnings decreased primarily due to the decision to not recognize revenue on business with Globalstar before cash is received, lower shipments of Globalstar portable and fixed phones to service providers, and a decrease in OmniTRACS domestic unit demand, offset by an increase in OmniTRACS messaging services revenue. The Company shipped approximately 9,000 OmniTRACS and other related communication systems during the second quarter of fiscal 2001, compared to approximately 16,000 in the second quarter of fiscal 2000. The decrease in unit shipments is due to U.S. economic conditions affecting the domestic long-haul trucking industry. The Company shipped less than 1,000 Globalstar portable and fixed phones in the second quarter of fiscal 2001 compared to 12,000 in the second quarter of fiscal 2000. The decrease in unit shipments is due to

---

### [Table of Contents](#)

the slow ramp-up of subscriber growth realized by the Globalstar service providers, the pending reorganization of Globalstar and other uncertainties related to the Globalstar business.

### **Liquidity and Capital Resources**

The Company anticipates that its cash and cash equivalents and marketable securities balances of \$2,315 million at April 1, 2001, including interest to be earned thereon, will be used to fund its working and other capital requirements, including investments in other companies and other assets to support the growth of its business, financing for customers of CDMA infrastructure products in accordance with the agreement with Ericsson, financing under agreements with CDMA telecommunications operators, and other commitments. In the event additional needs for cash arise, the Company may raise additional funds from a combination of sources including potential debt and equity issuance. On July 25, 2000, QUALCOMM announced the proposed spin-off and IPO of its integrated circuits and system software solutions business. The Company expects to proceed with the spin-off by the fall of 2001, subject to approval by QUALCOMM's Board of Directors and other factors, in the form of a 100% tax-free distribution of common stock of Spingo to QUALCOMM shareholders as of a record date to be determined. At present, the Company does not plan an IPO of Spingo stock prior to the spin-off.

In the first six months of fiscal 2001, \$373 million in cash was provided by operating activities, compared to \$336 million in cash provided by operating activities in the first six months of fiscal 2000. Cash provided by operating activities in the first six months of fiscal 2001 and fiscal 2000 includes \$578 million and \$608 million, respectively, of net cash flow provided by operations offset by \$205 million and \$272 million, respectively, of net working capital requirements. Net working capital requirements for the first six months of fiscal 2001 primarily reflect an increase in finance receivables and inventories and a reduction in payroll, benefits and other current liabilities, offset by a decrease in accounts receivable.

In the first six months of fiscal 2001, \$46 million in cash was used by the Company in investing activities, including \$184 million for other investments and acquisitions, \$123 million for the issuance of notes receivable, \$75 million for the purchase of wireless licenses and \$46 million in capital expenditures, offset by \$374 million in net purchases and maturities of held-to-maturity securities marketable securities. The Company intends to continue its strategic investment activities to promote the worldwide adoption of CDMA products and the growth of CDMA-based wireless data and CDMA-based wireless Internet products and solutions. As part of these investment activities, QUALCOMM may provide financing to facilitate the marketing and sale of CDMA equipment by authorized suppliers.

In the first six months of fiscal 2001, the Company's financing activities provided \$73 million, comprised primarily of the issuance of common stock under the Company's stock option and employee stock purchase plans. In the first six months of fiscal 2000, the Company's financing activities used \$30 million, including \$112 million in net repayments under bank lines of credit, offset by \$85 million from the issuance of common stock under the Company's stock option and employee stock purchase plans.

Negotiations are underway whereby QUALCOMM would invest up to \$24 million to fund Summit Wireless PCS, Inc. (Summit Wireless), a CDMA wireless operator. In March 2001, QUALCOMM purchased and assumed a bridge loan and accrued interest from a financial institution in the amount of approximately \$7 million. The bridge loan bears interest at the prime rate plus 11.5%. The bridge loan and accrued interest are payable in a lump sum payment on the earlier of June 15, 2001 or the date on which Summit Wireless closes its next round of equity capital.

Information regarding the Company's financial commitments at December 31, 2000 is provided in the Notes to the Condensed Consolidated Financial Statements. See "Notes to Condensed Consolidated Financial Statements — Note 3 — Composition of Certain Balance Sheet Captions, Note 5 — Investments in Other Entities, and Note 8 — Commitments and Contingencies."

## Future Accounting Requirements

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." The SEC staff subsequently amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company is required to adopt SAB 101 by the fourth quarter of fiscal 2001, applied retroactively to the first quarter of fiscal 2001. The Company does not expect the adoption of SAB 101 to have a material effect on its consolidated financial position, results of operations or cash flows.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in the Company's 2000 Annual Report on Form 10-K. Available-for-sale equity securities and derivative instruments recorded at fair value under FAS 115 and FAS 133, respectively, subject the Company to equity price risk. The recorded value of available-for-sale equity securities decreased to \$159 million at April 1, 2001 from \$426 million at September 24, 2000. The recorded value of derivative instruments subject to FAS 133 at April 1, 2001 is \$112 million. The Company generally invests in companies in the high-technology industry, and typically does not attempt to reduce or eliminate its market exposure on these securities. As of April 1, 2001, four equity positions constituted approximately 87% of the fair value of the available-for-sale equity securities portfolio. During the first six months of fiscal 2001, many high-technology stocks experienced a significant decrease in value, negatively affecting the fair value of the Company's available-for-sale equity securities. The portfolio's concentrations in specific companies and industry segments may vary over time, and changes in concentrations may affect the portfolio's price volatility.

At April 1, 2001, there have been no other material changes to the market risks described at September 24, 2000. Additionally, the Company does not anticipate any near-term changes in the nature of its market risk exposures or in management's objectives and strategies with respect to managing such exposures.

---

[Table of Contents](#)

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

A review of the Company's current litigation is disclosed in the Notes to Condensed Consolidated Financial Statements. See "Notes to Condensed Consolidated Financial Statements — Note 8 — Commitments and Contingencies." The Company is also engaged in other legal actions arising in the ordinary course of its business and believes that the ultimate outcome of these actions will not have a material adverse effect on its results of operations, liquidity or financial position.

### ITEM 2. CHANGES IN SECURITIES

Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of QUALCOMM Incorporated was convened in San Diego, California, on February 27, 2001 at 9:30 a.m. There were issued and outstanding on December 29, 2000, the record date, 752,029,328 shares of Common Stock. There were present at said meeting in person or by proxy, shareholders of the Corporation who were the holders of 666,325,844 shares of Common Stock entitled to vote thereat, constituting a quorum. The proposal to elect four Class I directors to hold office until the 2004 Annual Meeting of Stockholders received the following votes:

	<u>For</u>	<u>Against</u>
Irwin Mark Jacobs	662,817,801	3,508,043

Adelia A. Coffman	656,135,745	10,190,099
Neil Kadisha	657,298,913	9,026,931
Richard Sulpizio	662,609,999	3,715,845

The proposal to approve the Company's 2001 Stock Option Plan received the following vote:

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-Votes</b>
248,757,427	172,900,455	3,551,756	241,116,206

The foregoing proposal was approved and accordingly ratified.

The proposal to approve the Company's 2001 Employee Stock Purchase Plan received the following vote:

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-Votes</b>
404,785,631	17,183,568	3,240,459	241,116,186

The foregoing proposal was approved and accordingly ratified.

To proposal to approve the Company's 2001 Non-Employee Directors' Stock Option Plan received the following vote:

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-Votes</b>
308,814,927	112,453,052	3,942,860	241,115,005

The foregoing proposal was approved and accordingly ratified.

## [Table of Contents](#)

The proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent accountants received the following vote:

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Non-Votes Broker</b>
662,595,958	1,315,510	2,414,376	0

The foregoing proposal was approved and accordingly ratified.

## ITEM 5. OTHER INFORMATION

Not applicable.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

### Exhibits

3.1	Restated Certificate of Incorporation.(1)
3.2	Certificate of Amendment of Restated Certificate of Incorporation.(2)(3)
3.3	Certificate of Designation of Preferences.(4)
3.4	Bylaws.(5)
3.5	Amendment of the Bylaws.(6)
10.39	2001 Stock Option Plan.*
10.40	Stock Option Grant Notice and Agreement under the 2001 Stock Option Plan.*
10.41	2001 Employee Stock Purchase Plan.*
10.42	2001 Non-Employee Directors' Stock Option Plan.*
10.43	Stock Option Grant Notice and Agreement under the 2001 Non-Employee Directors' Stock Option Plan.*

(1) Filed as an exhibit to the Registrant's Registration Statement on Form S-3 (No. 33-62724).

- (2) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 27, 1994, as amended.
- (3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 23, 1999.
- (4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 29, 1996.
- (5) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (No. 33-42782).
- (6) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 28, 1997.

\* Denotes a compensatory plan contract or arrangement in which the Company's directors and named executive officers may participate.

28

---

[Table of Contents](#)

**SIGNATURES**

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

QUALCOMM Incorporated

/s/ ANTHONY S. THORNLEY

---

Anthony S. Thornley  
Executive Vice President &  
Chief Financial Officer

Dated: April 26, 2001

29

QUALCOMM INCORPORATED  
2001 STOCK OPTION PLAN

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 ESTABLISHMENT. The QUALCOMM Incorporated 2001 Stock Option Plan (the "PLAN") is hereby established effective as of February 27, 2001 (the "EFFECTIVE DATE"), subject to the approval by Company shareholders.

1.2 PURPOSE. The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract and retain persons eligible to receive Options under the Plan and by motivating such persons to contribute to the growth and profitability of the Participating Company Group.

1.3 TERM OF PLAN. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Options granted under the Plan have lapsed. However, all Incentive Stock Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the stockholders of the Company.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "AFFILIATE" means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities, or (iii) an entity which the Board designates as an Affiliate. For this purpose, the term "control" (including the term "controlled by") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

(b) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "BOARD" also means such Committee(s).

(c) A "CHANGE IN CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "TRANSACTION") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial

1

ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 2.1(u)(iii), the corporation or other business entity to which the assets of the Company were transferred (the "TRANSFEREE"), as the case may be. The Board shall determine in its discretion whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related. Notwithstanding the preceding sentence, a Change in Control shall not include a Spinoff Transaction.

(d) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(e) "COMMITTEE" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(f) "COMPANY" means QUALCOMM Incorporated, a Delaware corporation, or any Successor.

(g) "CONSULTANT" means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company.

(h) "DIRECTOR" means a member of the Board or of the board of directors of any other Participating Company.

(i) "DISABILITY" means the Participant has been determined by the long-term disability insurer of the Participating Company Group as eligible for disability benefits under the long-term disability plan of the Participating Company Group or the Participant has been determined eligible for Supplemental Security Income benefits by the Social Security Administration of the United States of America.

(j) "EMPLOYEE" means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither Service as a Director nor payment of a Director's fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be.

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

(l) "FAIR MARKET VALUE" means, as of any date, the value of the Stock determined as follows:

2

(i) If the Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or if the stock is traded on more than one exchange or market, the exchange or market with the greatest volume of trading in the Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Stock, the Fair Market Value shall be determined in good faith by the Board.

(m) "INCENTIVE STOCK OPTION" means an Option intended to be (as set forth in the Option Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(n) "INSIDER" means an Officer, a Director of the Company or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(o) "NON-CONTROL AFFILIATE" means any entity in which any Participating Company has an ownership interest and which the Board shall designate as a Non-Control Affiliate.

(p) "NONSTATUTORY STOCK OPTION" means an Option not intended to be (as set forth in the Option Agreement) or which does not qualify as an Incentive Stock Option.

(q) "NORMAL RETIREMENT AGE" means the date on which a Participant has attained the age of sixty (60) years and has completed ten years of continuous Service.

(r) "OFFICER" means any person designated by the Board as an officer of the Company.

(s) "OPTION" means a right to purchase Stock pursuant to the terms and conditions of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(t) "OPTION AGREEMENT" means an agreement, in such form as the Board may approve, between the Company and a Participant setting forth the terms, conditions and restrictions of an Option granted to the Participant and any shares acquired upon the exercise thereof.

(u) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all, as determined by the Board in its discretion, of the assets of the Company; or (iv) a liquidation or dissolution of the Company.



(v) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(w) "PARTICIPANT" means any eligible person who has been granted one or more Options.

(x) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation or Affiliate.

(y) "PARTICIPATING COMPANY GROUP" means, at any point in time, all entities collectively which are then Participating Companies.

(z) "PRIOR PLAN OPTION" means, any option granted pursuant to the Company's 1991 Stock Option Plan which is outstanding on or after the date on which the Board adopts the Plan or which is granted thereafter and prior to the Effective Date.

(aa) "RULE 16b-3" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(bb) "SECTION 162(m)" means Section 162(m) of the Code.

(cc) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(dd) "SERVICE" means

(i) a Participant's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service to the Participating Company Group or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, only to such extent as may be provided by the Company's leave policy, a Participant's Service with the Participating Company Group shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other leave of absence approved by the Company. Notwithstanding the foregoing, a leave of absence shall be treated as Service for purposes of vesting only to such extent as may be provided by the Company's leave policy. The Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the entity for which the Participant performs Service ceasing to be a Participating Company; except that if the entity for which Participant performs Service is a Subsidiary Corporation and ceases to be a Participating Company as a result of the distribution of the voting stock of such Subsidiary Corporation to the shareholders of the Company, Service shall not be deemed to have terminated as a result of such distribution. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(ii) Notwithstanding any other provision of this Section, a Participant's Service shall not be deemed to have terminated merely because the Participating Company for which the Participant renders Service ceases to be a member of the Participating

Company Group by reason of a Spinoff Transaction, nor shall Service be deemed to have terminated upon resumption of Service from the Spinoff Company to a Participating Company. For all purposes under this Plan, a Participant's Service shall include Service, whether in the capacity of an Employee, Director or a Consultant, for the Spinoff Company provided a Participant was employed by the Participating Company Group immediately prior to the Spinoff Transaction. Notwithstanding the foregoing, if the Company's auditors determine that the provisions or operation of the preceding two sentences would cause the Company to incur a compensation expense and provided further that in the absence of the preceding two sentences no such compensation expense would be incurred, then the two preceding sentences shall be without force or effect, and the vesting and exercisability of each outstanding Option and any shares acquired upon the exercise thereof shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

(ee) "SPINOFF COMPANY" means a Participating Company which ceases to be such as a result of a Spinoff Transaction.

(ff) "SPINOFF TRANSACTION" means a transaction in which the voting stock of an entity in the Participating Company Group is distributed to the shareholders of a parent corporation as defined by Section 424(e) of the Code, of such entity.

(gg) "STOCK" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(hh) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(ii) "SUCCESSOR" means a corporation into or with which the Company is merged or consolidated or which acquires all or substantially all of the assets of the Company and which is designated by the Board as a Successor for purposes of the Plan.

(jj) "TEN PERCENT STOCKHOLDER" means a person who, at the time an Option is granted to such person, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b) (6) of the Code.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

### 3. ADMINISTRATION.

3.1 ADMINISTRATION BY THE BOARD. The Plan shall be administered by the Board and its designees.

3.2 AUTHORITY OF OFFICERS. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election

5

which is the responsibility of or which is allocated to the Company herein, provided the Board has delegated such authority to the Officer with respect to such matter, right, obligation, determination or election.

3.3 POWERS OF THE BOARD. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the power and authority:

(a) to determine the persons to whom, and the time or times at which, Options shall be granted and the number of shares of Stock to be subject to each Option;

(b) to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the terms, conditions and restrictions applicable to each Option (which need not be identical) and any shares acquired upon the exercise thereof, including, without limitation, (i) the exercise price of the Option, (ii) the method of payment for shares purchased upon the exercise of the Option, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Option or such shares, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability of the Option or the vesting of any shares acquired upon the exercise thereof, (v) the time of the expiration of the Option, (vi) the effect of the Participant's termination of Service on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Option or such shares not inconsistent with the terms of the Plan;

(d) to approve one or more forms of Option Agreement;

(e) to amend, modify, extend, cancel (subject to the limitations in Section 11) or renew any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;

(f) to accelerate, continue, extend or defer the exercisability of any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following a Participant's termination of Service;

(g) to delegate to any proper Officer the authority to grant one or more Options, without further approval of the Board, to any person eligible pursuant to Section 5, other than a person who, at the time of such grant, is an Insider; provided, however, that (i) the exercise price per share of each such Option shall be equal to the Fair Market Value per share of the Stock on the effective date of grant, and (ii) each such Option shall be subject to the terms and conditions of the appropriate standard form of Option Agreement approved by the Board and shall conform to the provisions of the Plan and such other guidelines as shall be established from time to time by the Board;

(h) to determine the Fair Market Value of shares of Stock

or other property;

(i) to construe, interpret and apply the provisions of the Plan and Options granted under it, in its discretion; to establish, amend and revoke rules and regulations

6

for its administration; and to take all such actions and make all such decisions as may be necessary or appropriate for the operation and administration of the Plan, including, without limitation, all such decisions and determinations as may be expressly delegated to the Board by the terms of the Plan. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem, in its discretion, necessary, desirable, appropriate or expedient to make the Plan fully effective.

#### 3.4 SCOPE OF REVIEW OF BOARD ACTION.

(a) The Board's action taken pursuant to the authority set forth in Sections 3.3(a) through (g) above, and any action, decision or determination with respect to any matter reserved to the Board in its sole and absolute discretion under the terms of this Plan shall be final, binding, and conclusive on the Participating Company Group, any Participant and any person having an interest in the Plan or any Option granted hereunder.

(b) Except as otherwise provided in Section 3.4(a), the Board's determination of the construction and interpretation of any provision of the Plan and any actions, decisions or determinations reserved to the Board in its discretion which are made in good faith shall be final, binding and conclusive on the Participating Company Group, any Participant, and any person having an interest in the Plan or any Option granted hereunder.

3.5 ADMINISTRATION WITH RESPECT TO INSIDERS. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.6 COMMITTEE COMPLYING WITH SECTION 162(m). If the Company is a "publicly held corporation" within the meaning of Section 162(m), the Board may establish a Committee of "outside directors" within the meaning of Section 162(m) to approve the grant of any Option which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

3.7 INDEMNIFICATION. In addition to such other rights of indemnification as they may have as members of the Board or Officers or Employees of the Participating Company Group, members of the Board and any Officers or Employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty

7

(60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same, and to retain complete control over the litigation and/or settlement of such suit, action or proceeding.

3.8 ARBITRATION. Any dispute or claim concerning any Options granted (or not granted) pursuant to this Plan and any other disputes or claims relating to or arising out of the Plan shall be fully, finally and exclusively resolved by binding arbitration conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association in San Diego, California. By accepting an Option, Participants and the Company waive their respective rights to have any such disputes or claims tried by a judge or jury.

#### 4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that

may be issued under the Plan shall be One Hundred Fifty Nine Million, Five Hundred and Forty Thousand, Five Hundred and Seventeen (159,540,517). The share reserve shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. However, the share reserve, determined at any time, shall be reduced by the number of shares subject to the Prior Plan Options. If an outstanding Option, including a Prior Plan Option, for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company at the Participant's exercise or purchase price, the shares of Stock allocable to the unexercised portion of such Option or Prior Plan Option or such repurchased shares of Stock shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Options, in the ISO Share Issuance Limit set forth in Section 4.1, in the Section 162(m) Grant Limit set forth in Section 5.3, and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 2.1(u) shares of another corporation (the "NEW SHARES"), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the Stock subject to the Option.

8

## 5. ELIGIBILITY AND OPTION LIMITATIONS.

### 5.1 PERSONS ELIGIBLE FOR OPTIONS.

(a) Except as otherwise provided in this Section 5.1, Options may be granted only to Employees, Consultants, and Directors. Options are granted in the sole and absolute discretion of the Board and eligibility in accordance with this Section shall not entitle any person to be granted an Option, or, having been granted an Option, to be granted an additional Option.

(b) INCENTIVE STOCK OPTIONS. An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an "ISO-QUALIFYING Corporation"). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option.

(c) CONSULTANT OPTIONS. A Consultant shall not be eligible for the grant of an Option if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions.

5.2 FAIR MARKET VALUE LIMITATION. To the extent that Options designated as Incentive Stock Options (granted under all stock plans of the ISO-Qualifying Corporation, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portions of such Options which exceed such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, Options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the

Option first.

5.3 SECTION 162(m) GRANT LIMIT. Subject to adjustment as provided in Section 4.2, at any such time as the Company is a "publicly held corporation" within the meaning of Section 162(m), no Employee or prospective Employee shall be granted one or more Options within any fiscal year of the Company which in the aggregate are for the purchase of

9

more than Three Million (3,000,000) shares (the "SECTION 162(m) GRANT Limit"). An Option which is canceled in the same fiscal year of the Company in which it was granted shall continue to be counted against the Section 162(m) Grant Limit for such period.

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

Options shall be evidenced by Option Agreements specifying, among other things, the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement or by communicating with the Company in such other manner as the Company may authorize. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 EXERCISE PRICE. The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (A) the exercise price per share for an Option shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option, and (B) no Incentive Stock Option granted to a Ten Percent Stockholder shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

#### 6.2 EXERCISABILITY AND TERM OF OPTIONS.

(a) OPTION EXERCISABILITY. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided, however, that (A) no Incentive Stock Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, and (B) no Incentive Stock Option granted to a Ten Percent Stockholder shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions, or the terms of the Plan.

#### (b) PARTICIPANT RESPONSIBILITY FOR EXERCISE OF OPTION.

Each Participant is responsible for taking any and all actions as may be required to exercise any Option in a timely manner, and for properly executing any documents as may be required for the exercise of an Option in accordance with such rules and procedures as may be established from time to time. By signing an Option Agreement each Participant acknowledges that information regarding the procedures and requirements for the exercise of any Option is available upon such Participant's request. The Company shall have no duty or obligation to notify any Participant of the expiration date of any Option.

10

#### 6.3 PAYMENT OF EXERCISE PRICE.

(a) FORMS OF CONSIDERATION AUTHORIZED. Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "CASHLESS EXERCISE"), (iv) provided that the Participant is an Employee (unless otherwise not prohibited by law, including, without limitation, any regulation promulgated by the Board of Governors of the Federal Reserve System) and in the Company's sole and absolute discretion at the time the Option

is exercised, by delivery of the Participant's promissory note in a form approved by the Company for the aggregate exercise price, provided that, if the Company is incorporated in the State of Delaware, the Participant shall pay in cash that portion of the aggregate exercise price not less than the par value of the shares being acquired, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) LIMITATIONS ON FORMS OF CONSIDERATION.

(i) TENDER OF STOCK. Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months (and were not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) CASHLESS EXERCISE. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

(iii) PAYMENT BY PROMISSORY NOTE. No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms as the Board shall determine. The Board shall have the authority to permit or require the Participant to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Board, if the

Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Participant shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

6.4 TRANSFERABILITY. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the Incentive Stock Option is granted only by such person. A Nonstatutory Stock Option shall not be transferable in any manner (including without limitation, sale, alienation, anticipation, pledge, encumbrance, or assignment) other than, (i) by will or by the laws of descent and distribution, (ii) by written designation of a beneficiary, in a form acceptable to the Company, with such designation taking effect upon the death of a Participant, (iii) by delivering written notice to the Company, in a form acceptable to the Company (including such representations, warranties and indemnifications as the Company shall require a Participant to make to protect the Company's interests and ensure that this Nonstatutory Stock Option has been transferred under the circumstances approved by the Company), by gift to a Participant's spouse, former spouse, children, stepchildren, grandchildren, parent, stepparent, grandparent, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, persons having one of the foregoing types of relationship with a Participant due to adoption, any person sharing a Participant's household (other than a tenant or employee), a foundation in which these persons or the Participant control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. A transfer to an entity in which more than fifty percent of the voting interests are owned by these persons (or the Participant) in exchange for an interest in that entity is specifically included as a permissible type of transfer. In addition, a transfer to a trust created solely for the benefit (i.e., a Participant and/or any or all of the foregoing persons hold more than 50 percent of the beneficial interest in the trust) of a Participant and/or any or all of the foregoing persons is also a permissible transferee, or (iv) such other transferees as may be authorized by the Board in its sole and absolute discretion. During a Participant's life this Nonstatutory Stock Option is exercisable only by the Participant or a transferee satisfying the above conditions. Except in the event of a Participant's death, upon transfer of a Nonstatutory Stock Option to any or all of the foregoing persons, the Participant, as the Optionee, is liable for any and all taxes due upon exercise of those transferred Nonstatutory Stock Options. At no time will a transferee who is considered an affiliate under Rule 144(a)(1) be able to sell

any or all such Stock without complying with Rule 144. The right of a transferee to exercise the transferred portion of this Nonstatutory Stock Option shall terminate in accordance with the Participant's right of exercise under this Nonstatutory Stock Option and is further subject to such representations, warranties and indemnifications from the transferee that the Company requires the transferee to make to protect the Company's interests and ensure that this Nonstatutory Stock Option has been transferred under the circumstances approved by the Company. Once a portion of a Nonstatutory Stock Option is transferred, no further transfer may be made of that portion of the Nonstatutory Stock Option.

12

#### 6.5 EFFECT OF TERMINATION OF SERVICE.

(a) OPTION EXERCISABILITY. Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after a Participant's termination of Service only during the applicable time period determined in accordance with this Section and thereafter shall terminate.

(i) DISABILITY. If the Participant's Service terminates because of the Disability of the Participant, the Option shall continue for the period of such Disability under the terms and conditions of the Option Agreement and may be exercised by the Participant at any time during the period of Disability but in any event no later than the date of expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the "OPTION EXPIRATION DATE").

(ii) DEATH. If the Participant's Service terminates because of the death or because of the Disability of the Participant and such termination is subsequently followed by the death of the Participant, (A) the exercisability and vesting of the Option and, in the case of an immediately exercisable Option, any Shares acquired upon exercise thereof shall be accelerated effective upon the Participant's death, and (B) the Option, to the extent unexercised and exercisable on the date of the Participant's death, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date of the Participant's death, but in any event no later than the Option Expiration Date.

(iii) NORMAL RETIREMENT AGE. If the Participant's Service terminates at or after Normal Retirement Age of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(iv) TERMINATION AFTER LAYOFF. If the Participant's Service ceases as a result of "Layoff" (as defined below), then, subject to the Participant's execution of a general release of claims satisfactory to the Company, (A) the exercisability and vesting of the Option and, in the case of an immediately exercisable Option, any shares acquired upon the exercise thereof shall be accelerated effective as of the date on which the Participant's Service terminated by ten percent (10%) of the shares which would otherwise be unvested on such date, and (B) the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. Notwithstanding the foregoing, if the Company's auditors determine that the provisions or operation of the preceding sentence would cause the Company to incur a compensation expense and provided further that in the absence of the preceding sentence no such compensation expense would be incurred, then the preceding sentence shall be without force or effect, and the vesting and exercisability of each outstanding Option and any shares acquired

13

upon the exercise thereof shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

(v) TERMINATION UPON TRANSFER TO NON-CONTROL AFFILIATE. If at the request of the Company, Participant transfers Service to a Non-Control Affiliate and the Participant's Service ceases as a result, then, subject to the Participant's execution of a general release of claims form reasonably satisfactory to the Company, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(vi) TERMINATION AFTER CHANGE IN CONTROL. If the Participant's Service ceases as a result of Termination After Change in Control (as defined below), then (A) the exercisability and vesting of the Option and, in the case of an immediately exercisable Option, any shares acquired upon the exercise thereof shall be accelerated effective as of the date on which the Participant's Service terminated, and (B) the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(vii) OTHER TERMINATION OF SERVICE. If the Participant's Service with the Participating Company Group terminates prior to Normal Retirement Age for any reason except Disability, death, Layoff, Transfer to a Non-Control Affiliate, or Termination after Change in Control, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminates, may be exercised by the Participant at any time prior to the expiration of thirty (30) days after the date on which the Participant's Service terminates, but in any event no later than the Option Expiration Date.

(b) EXTENSION IF EXERCISE PREVENTED BY LAW.

Notwithstanding the foregoing, other than termination for Cause, if the exercise of an Option within the applicable time periods set forth in Section 6.5(a) is prevented by the provisions of Section 10 below, the Option shall remain exercisable until three (3) months after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) EXTENSION IF PARTICIPANT SUBJECT TO SECTION 16(b).

Notwithstanding the foregoing, other than termination for Cause, if a sale within the applicable time periods set forth in Section 6.5(a) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

14

(d) CERTAIN DEFINITIONS.

(i) "CAUSE" shall mean any of the following: (1)

the Participant's theft, dishonesty, or falsification of any Participating Company documents or records; (2) the Participant's improper use or disclosure of a Participating Company's confidential or proprietary information; (3) any action by the Participant which has a detrimental effect on a Participating Company's reputation or business; (4) the Participant's failure or inability to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure or inability; (5) any material breach by the Participant of any employment or service agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; (6) the Participant's conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Participant's ability to perform his or her duties with a Participating Company; or (7) violation of a material Company policy.

(ii) "GOOD REASON" shall mean any one or more of the following:

(1) without the Participant's express written consent, the assignment to the Participant of any duties, or any limitation of the Participant's responsibilities, substantially inconsistent with the Participant's positions, duties, responsibilities and status with the Participating Company Group immediately prior to the date of the Change in Control;

(2) without the Participant's express written consent, the relocation of the principal place of the Participant's employment or service to a location that is more than fifty (50) miles from the Participant's principal place of employment or service immediately prior to the date of the Change in Control, or the imposition of travel requirements substantially more demanding of the Participant than such travel requirements existing immediately prior to the date of the Change in Control;

(3) any failure by the Participating Company Group to pay, or any material reduction by the Participating Company Group of, (A) the Participant's base salary in effect immediately prior to the date of the Change in Control (unless reductions comparable in amount and duration are concurrently made for all other employees of the Participating Company Group with responsibilities, organizational level and title comparable to the



Participant's), or (B) the Participant's bonus compensation, if any, in effect immediately prior to the date of the Change in Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Participant);

(4) any failure by the Participating Company Group to (A) continue to provide the Participant with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee or service provider group which customarily includes a person holding the employment or service provider position or a comparable position with the Participating Company Group then held by the Participant, in any benefit or compensation plans and programs, including, but not limited to, the Participating Company Group's life, disability, health, dental, medical, savings, profit sharing, stock purchase

15

and retirement plans, if any, in which the Participant was participating immediately prior to the date of the Change in Control, or their equivalent, or (B) provide the Participant with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee group which customarily includes a person holding the employment or service provider position or a comparable position with the Participating Company Group then held by the Participant;

(5) any breach by the Participating Company Group of any material agreement between the Participant and a Participating Company concerning Participant's employment; or

(6) any failure by the Company to obtain the assumption of any material agreement between Participant and the Company concerning Participant's employment by a successor or assign of the Company.

(iii) "LAYOFF" shall mean the involuntary termination of the Participant's Service for reasons other than Cause, constructive termination, death, or Disability.

(iv) "TERMINATION AFTER CHANGE IN CONTROL" shall mean either of the following events occurring within twenty-four (24) months after a Change in Control:

(1) termination by the Participating Company Group of the Participant's Service with the Participating Company Group for any reason other than for Cause; or

(2) the Participant's resignation for Good Reason from all capacities in which the Participant is then rendering Service to the Participating Company Group within a reasonable period of time following the event constituting Good Reason.

Notwithstanding any provision herein to the contrary, Termination After Change in Control shall not include any termination of the Participant's Service with the Participating Company Group which (1) is for Cause; (2) is a result of the Participant's death or Disability; (3) is a result of the Participant's voluntary termination of Service other than for Good Reason; or (4) occurs prior to the effectiveness of a Change in Control.

## 7. STANDARD FORMS OF AGREEMENTS.

7.1 OPTION AGREEMENT. Unless otherwise provided by the Board at the time the Option is granted, an Option shall comply with and be subject to the terms and conditions set forth in the form of Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.

7.2 AUTHORITY TO VARY TERMS. The Board shall have the authority from time to time to vary the terms of any standard form of agreement described in this Section either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of agreement are not inconsistent with the terms of the Plan.

16

8. CHANGE IN CONTROL. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "ACQUIRING CORPORATION"), may, without the consent of any Participant, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options in connection with a Change in Control, the exercisability

and vesting of each such outstanding Option and any shares acquired upon the exercise thereof held by Participants whose Service has not terminated prior to such date shall be accelerated, effective as of the date ten (10) days prior to the date of the Change in Control. The exercise or vesting of any Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section and the provisions of such Option Agreement shall be conditioned upon the consummation of the Change in Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 2.1(u)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.

#### 9. TAX WITHHOLDING.

9.1 TAX WITHHOLDING IN GENERAL. The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through cash payment or otherwise, including by means of a Cashless Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Option or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to an Option Agreement until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

9.2 WITHHOLDING IN SHARES. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise of an Option, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

17

#### 10. COMPLIANCE WITH SECURITIES LAW.

The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Option may be exercised unless (A) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (B) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

#### 11. TERMINATION OR AMENDMENT OF PLAN.

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's stockholders, there shall be (A) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (B) no change in the class of persons eligible to receive Incentive Stock Options, and (C) no other amendment of the Plan that would require approval of

the Company's stockholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Participant, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

## 12. MISCELLANEOUS PROVISIONS.

12.1 REPURCHASE RIGHTS. Shares issued under the Plan may be subject to a right of first refusal, one or more repurchase options, or other conditions and restrictions as determined by the Board in its sole and absolute discretion at the time the Option is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18

12.2 PROVISION OF INFORMATION. Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholder.

19

QUALCOMM INCORPORATED

STOCK OPTION GRANT NOTICE

QUALCOMM INCORPORATED (the "Company"), pursuant to its 2001 Stock Option Plan (the "Plan") hereby grants to the Optionee named below a non-qualified stock option to purchase the number of shares of the Company's common stock set forth below. This non-qualified stock option is not intended to qualify for the federal income tax benefits available to an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. This option is subject to all of the terms and conditions as set forth herein and the Stock Option Agreement (attached hereto) and the Plan(1) which are incorporated herein in their entirety.

<TABLE>
<S>
Optionee/Emp #: [[ First\_Name ]] [[ Last\_Name ]] #[[ ID ]] Grant No.: [[ Number ]]
Date of Grant: [[ Option\_Date ]] Shares Subject to Option: [[ Shares\_Granted ]]
Exercise Price Per Share: [[ Option\_Price ]] Expiration Date: [[ Expiration\_Date\_Period\_1 ]]
</TABLE>

VESTING SCHEDULE

<TABLE>
<CAPTION>
Exercisable Shares Full Vesting Date Expiration Date
-----
<S>
[[ Shares\_Period\_1 ]] <C> [[ Vest\_Date\_Period\_1 ]] <C> [[ Expiration\_Date\_Period\_1 ]]
\*[[ Shares\_Period\_2 ]] [[ Vest\_Date\_Period\_2 ]] [[ Expiration\_Date\_Period\_1 ]]
</TABLE>

\*These option shares vest on each monthly anniversary date after [[ Vest\_Date\_Period\_1 ]] as to 1/60th of the total shares granted.

ADDITIONAL TERMS/ACKNOWLEDGMENTS: The undersigned Optionee acknowledges receipt of, and represents that the Optionee has read, understands, accepts and agrees to the terms of the following: this Grant Notice, the Stock Option Agreement and the Plan (including, but not limited to, the binding arbitration provision in Section 3.8 of the Plan). Optionee hereby accepts the Option subject to all of its terms and conditions and further acknowledges that as of the Date of Grant, this Grant Notice, the Stock Option Agreement and the Plan set forth the entire understanding between Optionee and the Company regarding the acquisition of stock in the Company and supersedes all prior oral and written agreements pertaining to this particular option.

NOTE: THE OPTIONEE IS SOLELY RESPONSIBLE FOR ANY ELECTION TO EXERCISE THE OPTION, AND THE COMPANY SHALL HAVE NO OBLIGATION WHATSOEVER TO PROVIDE NOTICE TO THE OPTIONEE OF ANY MATTER, INCLUDING, BUT NOT LIMITED TO, THE DATE THE OPTION TERMINATES.

QUALCOMM INCORPORATED: OPTIONEE:
By: \_\_\_\_\_ Signature \_\_\_\_\_
Richard Sulpizio
President
Dated: [[ Option\_Date ]] Date: \_\_\_\_\_

Attachment: Stock Option Agreement (A9)

QUALCOMM INCORPORATED
STOCK OPTION AGREEMENT

Pursuant to the Grant Notice and this Stock Option Agreement, QUALCOMM Incorporated (the "Company") has granted you an Option to purchase the number of shares of the Company's common stock ("Stock") indicated in the Grant Notice at the exercise price indicated in the Grant Notice. Defined terms not explicitly defined in this Stock Option Agreement but defined in the QUALCOMM Incorporated 2001 Stock Option Plan (the "Plan") shall have the same definitions as in the Plan.

The details of this Option are as follows:

1. VESTING. Except as otherwise provided in the Plan, this option will vest as provided in the Grant Notice.

## 2. EXERCISE OF THE OPTION.

2.1 METHOD OF EXERCISE. You may exercise the vested portion of this Option at any time prior to the expiration of the Option by delivering a notice of exercise in such form as may be designated by the Company from time to time together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours and prior to the expiration of the Option, together with such additional documents as the Company may then require pursuant to the terms of the Plan.

2.2 METHOD OF PAYMENT. Payment of the exercise price may be by cash (or check), or pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which, prior to the issuance of Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to a broker which provides for the payment of the aggregate exercise price to the Company, or a combination of the above methods, as the Company may designate from time to time.

2.3 TAX WITHHOLDING. By exercising this Option you agree that as a condition to any exercise of this Option, the Company may withhold from your pay and any other amounts payable to you, or require you to enter an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of this Option; (2) the lapse of any substantial risk of forfeiture to which the Stock is subject at the time of exercise; or (3) the disposition of Stock acquired upon such exercise.

2.4 RESPONSIBILITY FOR EXERCISE. You are responsible for taking any and all actions as may be required to exercise this Option in a timely manner and for properly executing any such documents as may be required for exercise in accordance with such rules and procedures as may be established from time to time. By signing this Agreement you acknowledge that information regarding the procedures and requirements for this exercise of the Option is available to you on request. The Company shall have no duty or obligation to notify you of the expiration date of this Option.

2

3. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, this Option may not be exercised unless the Stock issuable upon exercise of this Option is then registered under the Securities Act or, if such Stock is not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act.

4. TERMINATION OF THE OPTION. The term of this Option commences on the Date of Grant (as specified in the Grant Notice) and expires and shall no longer be exercisable upon the earliest of:

(a) the Expiration Date indicated in the Grant Notice;

(b) the tenth (10th) anniversary of the Date of Grant;

(c) the last day for exercising the Option following termination of your Service as described in the Plan; or

(d) a Change of Control, to the extent provided in the Plan.

5. OPTION NOT A SERVICE CONTRACT. This Option is not an employment or service contract and nothing in this Stock Option Agreement, the Grant Notice or the Plan shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Company, or of the Company to continue your service with the Company. In addition, nothing in your Option shall obligate the Company, its stockholders, Board, Officers or Employees to continue any relationship which you might have as a Director or Consultant for the Company.

6. NOTICES. Any notices provided for in this Stock Option Agreement, the Grant Notice or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

7. ARBITRATION. Any dispute or claim concerning any Options granted (or not granted) pursuant to the Plan and any other disputes or claims relating to or arising out of the Plan shall be fully, finally and exclusively resolved by binding arbitration conducted by the American Arbitration Association pursuant to the commercial arbitration rules in San Diego, California. By accepting an Option, Participants and the Company waive their respective rights to have any such disputes or claims tried by a judge or jury.

8. AMENDMENT. The Board may amend your Option at any time, provided no such amendment may adversely affect the Option or any unexercised portion of

your Option, without your consent unless such amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Stock Option Agreement shall be effective unless in writing or, in such electronic form as may be designated by the Company.

9. GOVERNING PLAN DOCUMENT. Your Option is subject to this Stock Option Agreement, the Grant Notice and all the provisions of the Plan, the provisions of which are

3

hereby made a part of this Stock Option Agreement, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Stock Option Agreement, the Grant Notice and those of the Plan, the provisions of the Plan shall control.

4

QUALCOMM INCORPORATED  
2001 EMPLOYEE STOCK PURCHASE PLAN

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 ESTABLISHMENT. The QUALCOMM Incorporated 2001 Employee Stock Purchase Plan (the "PLAN") is hereby established effective as of February 27, 2001 (the "EFFECTIVE DATE"), subject to the approval by Company shareholders.

1.2 PURPOSE. The purpose of the Plan is to advance the interests of Company and its stockholders by providing an incentive to attract, retain and reward Eligible Employees of the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan provides such Eligible Employees with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

1.3 TERM OF PLAN. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "BOARD" also means such Committee(s).

(b) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) "COMMITTEE" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) "COMPANY" means QUALCOMM Incorporated, a Delaware corporation, or any Successor.

(e) "COMPENSATION" means, with respect to any Offering Period, all salary, wages (including amounts elected to be deferred by the employee, that would otherwise

1

have been paid, under any cash or deferred arrangement established by the Company) and overtime pay, but excluding commissions, bonuses, payments under the 2-for 1 vacation program, profit sharing, the cost of employee benefits paid for by the Company, education or tuition reimbursements, imputed income arising under any Company group insurance or benefit program, traveling expenses, business and moving expense reimbursements, income received in connection with stock options, contributions made by the Company under any employee benefit plan, and similar items of compensation. Compensation shall also include payments while on a leave of absence during which participation continues pursuant to Section 2.1(g) to such extent as may be provided by the Company's leave policy.

(f) "ELIGIBLE EMPLOYEE" means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(g) "EMPLOYEE" means a person treated as an employee of a Participating Company for purposes of Section 423 of the Code. A Participant shall be deemed to have ceased to be an Employee either upon an actual termination of employment or upon the corporation employing the Participant ceasing to be a Participating Company. For purposes of the Plan, an individual shall not be deemed to have ceased to be an Employee while on any military leave or other leave of absence approved by the Company of ninety (90) days or less. If an individual's leave of absence exceeds ninety (90) days, the individual shall be deemed to have ceased to be an Employee on the ninety-first (91st) day of such leave unless the individual's right to reemployment with the Participating Company Group is guaranteed either by statute or by contract.

(h) "FAIR MARKET VALUE" means, as of any date:

(i) If the Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or if the stock is traded on more than one exchange or market, the exchange or market with the greatest volume of trading in the Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable. In the absence of such markets for the Stock, the Fair Market Value shall be determined in good faith by the Board.

(ii) For purposes of this Plan, if the date as of which the Fair Market Value is to be determined is not a market trading day, then solely for the purpose of determining Fair Market Value such date shall be: (A) in the case of the Offering Date, the first market trading day following the Offering Date; (B) in the case of the Purchase Date, the last market trading day prior to the Purchase Date.

(i) "OFFERING" means an offering of Stock as provided in Section 6.

(j) "OFFERING DATE" means, for any Offering, the first day of the Offering Period.

(k) "OFFERING PERIOD" means a period established in accordance with Section 6.

2

(l) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(m) "PARTICIPANT" means an Eligible Employee who has become a participant in an Offering Period in accordance with Section 7 and remains a participant in accordance with the Plan.

(n) "PARTICIPATING COMPANY" means the Company and any Parent Corporation or Subsidiary Corporation designated by the Board as a corporation the Employees of which may, if Eligible Employees, participate in the Plan. The Board shall have the sole and absolute discretion to determine from time to time which Parent Corporations or Subsidiary Corporations shall be Participating Companies.

(o) "PARTICIPATING COMPANY GROUP" means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(p) "PRIOR PLAN PURCHASE RIGHT" means, a purchase right granted under the Company's 1991 Employee Stock Purchase Plan which is outstanding on or after the date on which the Board adopts the Plan.

(q) "PURCHASE DATE" means, for any Offering, the last day of the Offering Period; provided, however, that the Board in its discretion may establish one or more additional Purchase Dates during any Offering Period.

(r) "PURCHASE PRICE" means the price at which a share of Stock may be purchased under the Plan, as determined in accordance with Section 9.

(s) "PURCHASE RIGHT" means an option granted to a Participant pursuant to the Plan to purchase such shares of Stock as provided in Section 8, which the Participant may or may not exercise during the Offering Period in which such option is outstanding. Such option arises from the right of a Participant to withdraw any accumulated payroll deductions of the Participant not previously applied to the purchase of Stock under the Plan and to terminate participation in the Plan during an Offering Period, in accordance with such rules and procedures as may be established by Board.

(t) "SPINOFF TRANSACTION" means a transaction in which the voting stock of an entity in the Participating Company Group is distributed to the shareholders of a parent corporation as defined by Section 424(e) of the Code, of such entity.

(u) "STOCK" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(v) "SUBSCRIPTION AGREEMENT" means an agreement in such form as specified by the Company which is delivered in written form or by communicating with the Company in such other manner as the Company may authorize, stating an Employee's election to participate in the Plan and authorizing payroll deductions under the Plan from the Employee's Compensation.



(w) "SUBSCRIPTION DATE" means the Offering Date of an Offering Period, or such earlier date as the Company shall establish.

(x) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(y) "SUCCESSOR" means a corporation into or with which the Company is merged or consolidated or which acquires all or substantially all of the assets of the Company and which is designated by the Board as a Successor for purpose of the Plan.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

### 3. ADMINISTRATION.

3.1 ADMINISTRATION BY THE BOARD. The Plan shall be administered by the Board and its designees. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights; provided, however, that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code in such Offering. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

3.2 AUTHORITY OF OFFICERS. Any officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the officer has actual authority with respect to such matter, right, obligation, determination or election. Any decision or determination of the Company made by an Officer having actual authority with respect thereto, shall be final, binding and conclusive on the Participating Company Group, any Participant, and all persons having an interest in the Plan, or any Option granted hereunder, unless such Officer's decision or determination is arbitrary or capricious, fraudulent, or made in bad faith.

3.3 POLICIES AND PROCEDURES ESTABLISHED BY THE COMPANY. The Company may, from time to time, consistent with the Plan and the requirements of Section 423 of the Code, establish, interpret change or terminate such rules, guidelines, policies, procedures, limitations, or adjustments as deemed advisable by the Company, in its discretion, for the proper administration of the Plan, including, without limitation, (a) a minimum payroll deduction amount required for participation in an Offering, (b) a limitation on the frequency or number of changes permitted in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld in a currency other than United States dollars, (d) a payroll deduction greater than or less than the amount designated by a Participant in order to adjust for the Company's delay or mistake in processing a Subscription Agreement or in otherwise effecting a Participant's election under the Plan or as advisable to comply with the requirements

of Section 423 of the Code, and (e) determination of the date and manner by which the Fair Market Value of a share of Stock is determined for purposes of administration of the Plan.

The Board's determination of the construction and interpretation of any provision of the Plan, and any actions taken, and any decisions or determinations made pursuant to the terms of the Plan, shall be final, binding and conclusive on the Participating Company Group, any Participant, and any person having an interest in the Plan or any Option granted hereunder unless the Board's action, decision or determination is arbitrary or capricious, fraudulent, or made in bad faith.

3.4 INDEMNIFICATION. In addition to such other rights of indemnification as they may have as members of the Board or Officers or Employees of the Participating Company Group, members of the Board and any Officers or Employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in

satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same and to retain complete control over the litigation and/or settlement of such suit, action or proceeding.

#### 4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be Twelve Million, Nine Hundred and Eight Thousand, Three Hundred and Nine (12,908,309), less the number of shares issued pursuant to exercise of a Prior Plan Purchase Right, and shall consist of authorized but unissued or reacquired shares of Stock, or any combination thereof. If an outstanding Purchase Right or Prior Plan Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of that Purchase Right or Prior Plan Purchase Right shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other reorganization in which the Company is a party, appropriate adjustments shall be made in the number and class of shares subject to the Plan, each Purchase Right, and in the Purchase Price. If a majority of the shares of the same class as the shares subject to outstanding Purchase Rights are exchanged for, converted into, or otherwise become (whether or not pursuant to an

5

Ownership Change Event) shares of another corporation (the "NEW SHARES"), the Board may unilaterally amend the outstanding Purchase Rights to provide that such Purchase Rights are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the Purchase Price of, the outstanding Purchase Rights shall be adjusted in a fair and equitable manner, as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the Purchase Price be decreased to an amount less than the par value, if any, of the stock subject to the Purchase Right.

#### 5. ELIGIBILITY.

5.1 EMPLOYEES ELIGIBLE TO PARTICIPATE. Each Employee of a Participating Company is eligible to participate in the Plan and shall be deemed an Eligible Employee, except any Employee who is either: (a) customarily employed by the Participating Company Group for twenty (20) hours or less per week (b) customarily employed by the Participating Company Group for not more than five (5) months in any calendar year or (c) has not completed thirty (30) days of service with a Participating Company, or such other service requirement, up to a maximum of 2 years, which the Board may require.

5.2 EXCLUSION OF CERTAIN STOCKHOLDERS. Notwithstanding any provision of the Plan to the contrary, no Employee shall be treated as an Eligible Employee and granted a Purchase Right under the Plan if, immediately after such grant, the Employee would own or hold options to purchase stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation, as determined in accordance with Section 423(b)(3) of the Code. For purposes of this Section 5.2, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of such Employee.

5.3 DETERMINATION BY COMPANY. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee or an Eligible Employee and the effective date of such individual's attainment or termination of such status, as the case may be. For purposes of an individual's eligibility to participate in or other rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, unless the Company's determination is arbitrary or capricious, fraudulent, or made in bad faith notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

#### 6. OFFERINGS.

The Plan shall be implemented by sequential Offerings of approximately six (6) months duration or such other duration as the Board shall determine (an "OFFERING PERIOD"); provided, however, that the first Offering

Period (the "INITIAL OFFERING PERIOD") shall commence on July 1, 2001 and end on March 31, 2002. Subsequent Offering Periods shall commence on or about April 1 and October 1 of each year and end on or about the next September 30 and March 31, respectively, occurring thereafter. Notwithstanding the foregoing, the Board, in its sole and absolute discretion, may establish a different duration for one or more Offering Periods

6

or different commencing or ending dates for such Offering Periods including the Initial Offering Period; provided, however, that no Offering Period may have a duration exceeding twenty-seven (27) months.

#### 7. PARTICIPATION IN THE PLAN.

7.1 INITIAL PARTICIPATION. An Eligible Employee may become a Participant in an Offering Period by delivering a properly completed Subscription Agreement, in accordance with such rules and procedures as may be specified by the Company. An Eligible Employee who does not deliver a properly completed Subscription Agreement to the Company in the required time period shall not participate in the Plan for that Offering Period. Furthermore, the Eligible Employee may not participate in a subsequent Offering Period unless a properly completed Subscription Agreement is delivered to the Company on or before the Subscription Date for such subsequent Offering Period.

7.2 CONTINUED PARTICIPATION. A Participant shall automatically participate in the next Offering Period commencing immediately after the Purchase Date of each Offering Period in which the Participant participates provided that the Participant remains an Eligible Employee on the Offering Date of the new Offering Period and has not either (a) withdrawn from the Plan pursuant to Section 12.1 or (b) terminated employment as provided in Section 13. A Participant who may automatically participate in a subsequent Offering Period, as provided in this Section, is not required to deliver any additional Subscription Agreement for the subsequent Offering Period in order to continue participation in the Plan. However, a Participant may deliver a new Subscription Agreement for a subsequent Offering Period in accordance with the procedures set forth in Section 7.1 if the Participant desires to change any of the elections contained in the Participant's then effective Subscription Agreement.

#### 8. RIGHT TO PURCHASE SHARES.

##### 8.1 GRANT OF PURCHASE RIGHT.

(i) Except as set forth below (or as otherwise specified by the Board prior to the Offering Date), on the Offering Date of each Offering Period, each Participant in that Offering Period shall be granted automatically a Purchase Right consisting of an option to purchase that number of whole shares of Stock determined by either dividing fifteen percent (15%) of such Participant's Compensation during the Offering Period by the Purchase Price of a share of Stock for such Offering Period or by dividing Twelve Thousand Five Hundred Dollars (\$12,500) by the Fair Market Value of a share of Stock on such Offering Date, whichever is less. In connection with any Offering made under this Plan, the Board or the Committee may specify a maximum number of shares of Common Stock which may be purchased by any employee as well as a maximum aggregate number of shares of Common Stock which may be purchased by all eligible employees pursuant to such Offering. In addition, in connection with any Offering which contains more than one Purchase Date, the Board or the Committee may specify a maximum aggregate number of shares which may be purchased by all eligible employees on any given Purchase Date under the Offering.

7

(ii) Notwithstanding the foregoing, the aggregate number of shares for which Purchase Rights may be granted in any Offering Period may not exceed the maximum number of shares which have been, prior to the Offering Date for such Offering Period, reserved for the Plan and approved by the stockholders of the Company and not previously been purchased upon the exercise of Purchase Rights in any prior Offering Period.

(iii) If the aggregate purchase of shares of Common Stock upon exercise of rights granted under the Offering would exceed any such maximum aggregate number, the Board or the Committee shall make a pro rata allocation of the shares of Common Stock available in as nearly a uniform manner as shall be practicable and as it shall deem to be equitable. No Purchase Right shall be granted on an Offering Date to any person who is not, on such Offering Date, an Eligible Employee.

8.2 SUBSTITUTION OF RIGHTS. The grant of rights under an Offering may be done to carry out the substitution of rights under the Plan for pre-existing rights granted under another employee stock purchase plan, if such substitution is pursuant to a transaction described in Section 424(a) of the Code (or any successor provision thereto) and the characteristics of such

substitute rights conform to the requirements of Section 424(a) of the Code (or any successor provision thereto) and will not cause the disqualification of this Plan under Section 423 of the Code. Notwithstanding the other terms of the Plan, such substitute rights shall have the same characteristics as the characteristics associated with such pre-existing rights, including, but not limited to, the following:

(i) the date on which such pre-existing right was granted shall be the "Offering Date" of such substitute right for purposes of determining the date of grant of the substitute right;

(ii) the Offering (as defined below) for such substitute right shall begin on its Offering Date and end coincident on the applicable Purchase Date, but no later than the end of the offering (as determined under the terms of such offering) under which the pre-existing right was granted.

8.3 PRO RATA ADJUSTMENT OF PURCHASE RIGHT. If the Board establishes an Offering Period of any duration other than six months, then any limitation on the number of shares of Stock subject to each Purchase Right granted on the Offering Date of such Offering Period set forth in Section 8.1(i) shall be prorated based upon the ratio which the number of months in such Offering Period bears to six (6).

8.4 CALENDAR YEAR PURCHASE LIMITATION. Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted a Purchase Right which permits his or her right to purchase shares of Stock under the Plan to accrue at a rate which, when aggregated with such Participant's rights to purchase shares under all other employee stock purchase plans of a Participating Company intended to meet the requirements of Section 423 of the Code, exceeds Twenty-Five Thousand Dollars (\$25,000) in Fair Market Value (or such other limit, if any, as may be imposed by the Code) for each calendar year in which such Purchase Right is outstanding at any time. For purposes of the preceding sentence, the Fair Market Value of shares purchased during a given Offering Period shall be determined as of the Offering Date for such

8

Offering Period. The limitation described in this Section shall be applied in conformance with applicable regulations under Section 423(b)(8) of the Code.

#### 9. PURCHASE PRICE.

The Purchase Price for an Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date. Notwithstanding the foregoing, the Board, in its sole discretion, may establish the Purchase Price at which each share of Stock may be acquired in an Offering Period upon the exercise of all or any portion of a Purchase Right; provided, however, that the Purchase Price shall not be less than eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period or (b) the Fair Market Value of a share of Stock on the Purchase Date.

#### 10. ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION.

Shares of Stock acquired pursuant to the exercise of all or any portion of a Purchase Right may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period for which such Purchase Right was granted, and, if a payroll deduction is not permitted under a statute, regulation, rule of a jurisdiction, or is not administratively feasible, such other payments as may be approved by the Company, subject to the following:

10.1 AMOUNT OF PAYROLL DEDUCTIONS. Except as otherwise provided herein, the amount to be deducted under the Plan from a Participant's Compensation on each payday during an Offering Period shall be determined by the Participant's Subscription Agreement. The Subscription Agreement shall set forth the percentage of the Participant's Compensation to be deducted on each payday during an Offering Period in whole percentages, up to fifteen percent (15%). The Board may change the foregoing limits on payroll deductions effective as of any Offering Date.

10.2 COMMENCEMENT OF PAYROLL DEDUCTIONS. Payroll deductions shall commence on the first payday following the Offering Date and shall continue through the last payday prior to the end of the Offering Period unless sooner altered or terminated as provided herein.

10.3 ELECTION TO CHANGE OR STOP PAYROLL DEDUCTIONS. During an Offering Period, to the extent provided for in the Offering, a Participant may elect to decrease the rate of or to stop deductions from his or her Compensation by delivering to the Company an amended Subscription Agreement, in such form and manner as specified by the Company, authorizing such change on or before the Change Notice Date, as defined below. A Participant who elects, effective

following the first payday of an Offering Period, to decrease the rate of his or her payroll deductions to zero percent (0%) shall nevertheless remain a Participant in the current Offering Period unless such Participant withdraws from the Plan as provided in Section 12.1. The "CHANGE NOTICE DATE" shall be the day established in accordance with procedures established by the Company.

9

10.4 COMPANY'S HOLDING OF DEDUCTION. All payroll deductions from a Participant's Compensation shall be deposited with the general funds of the Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose. Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan.

10.5 VOLUNTARY WITHDRAWAL OF DEDUCTIONS. A Participant may withdraw payroll deductions credited to the Plan and not previously applied toward the purchase of Stock only as provided in Section 12.1.

#### 11. PURCHASE OF SHARES.

11.1 EXERCISE OF PURCHASE RIGHT. On each Purchase Date, each Participant's accumulated payroll deductions and other additional payments specifically permitted by the Plan (without any increase for interest), will be applied to the purchase of whole shares of Stock, up to the maximum number of shares permitted pursuant to the terms of the Plan and the applicable Offering, at the Purchase Price for such Offering. No fractional shares shall be issued upon the exercise of Purchase Rights granted under the Plan. The amount, if any, of each Participant's accumulated payroll deductions remaining after the purchase of shares which is less than the amount required to purchase one share of Stock on the final Purchase Date of an Offering shall be retained in each such Participant's account for the purchase of shares under the next Offering under the Plan, unless such Participant withdraws from such next Offering, as provided in Section 12.1, or is no longer eligible to be granted rights under the Plan, as provided in Section 5, in which case such amount shall be distributed to the Participant after said final Purchase Date, without interest. The amount, if any, of each Participant's accumulated payroll deductions remaining after the purchase of shares which is equal to the amount required to purchase whole shares of Stock on the final Purchase Date of an Offering shall be refunded in full to the Participant after such Purchase Date, without interest.

11.2 PRO RATA ALLOCATION OF SHARES. If the number of shares of Stock which might be purchased by all Participants in the Plan on a Purchase Date exceeds the number of shares of Stock available in the Plan as provided in Section 4.1, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as practicable and as the Company determines to be equitable. Any fractional share resulting from such pro rata allocation to any Participant shall be disregarded.

11.3 DELIVERY OF SHARES. As soon as practicable after each Purchase Date, the Company shall arrange the delivery to each Participant of the shares acquired by the Participant on such Purchase Date; provided that the Company may deliver such shares to a broker designated by the Company that will hold such shares for the benefit of the Participant. Shares to be delivered to a Participant under the Plan shall be registered, or held in an account, in the name of the Participant, or, if requested by the Participant, such other name or names as the Company may permit under rules established for the operation and administration of the Plan.

11.4 TAX WITHHOLDING. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the

10

federal, state, local and foreign tax withholding obligations, if any, of the Participating Company Group which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.5 EXPIRATION OF PURCHASE RIGHT. A Purchase Right shall expire immediately upon the end of the Offering Period to the extent it exceeds the number of shares of Stock which are purchased with a Participant's accumulated payroll deductions or other permitted contribution during any Offering Period.

11.6 PROVISION OF REPORTS AND STOCKHOLDER INFORMATION TO PARTICIPANTS. Each Participant who has exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's account setting forth the total payroll deductions accumulated prior to such exercise, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the cash balance, if

any, remaining immediately after such purchase that is to be refunded or retained on behalf of the Participant pursuant to Section 11.1. The report required by this Section may be delivered in such form and by such means, including by electronic transmission, as the Company may determine. In addition, each Participant shall be given access to information concerning the Company equivalent to that information provided generally to the Company's common stockholders.

## 12. WITHDRAWAL FROM PLAN.

12.1 VOLUNTARY WITHDRAWAL FROM THE PLAN. A Participant may withdraw from the Plan by signing and delivering to the Company's designated office a written notice of withdrawal on a form provided by the Company for this purpose or by communicating with the Company in such other manner as the Company may authorize. A Participant who voluntarily withdraws from the Plan is prohibited from resuming participation in the Plan in the same Offering from which he or she withdrew, but may participate in any subsequent Offering by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal from the Plan be on file with the Company's designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal.

12.2 RETURN OF PAYROLL DEDUCTIONS. Upon a Participant's voluntary withdrawal from the Plan pursuant to Section 12.1, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares shall be refunded to the Participant as soon as practicable after the withdrawal, without the payment of any interest, and the Participant's participation in the Plan shall terminate. Such accumulated payroll deductions to be refunded in accordance with this Section may not be applied to any other Offering under the Plan.

## 13. TERMINATION OF EMPLOYMENT OR ELIGIBILITY.

13.1 Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, or upon the failure of a Participant to remain

11

an Eligible Employee, the Participant's participation in the Plan shall terminate immediately, except as otherwise provided in Section 2.1(g) and Section 13.3.

13.2 Upon termination of participation, the terminated Participant's accumulated payroll deductions which have not been applied toward the purchase of shares shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned pursuant to this Section 13. A Participant whose participation has been so terminated may again become eligible to participate in future Offerings under the Plan by satisfying the requirements of Sections 5 and 7.1.

13.3 Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, or upon the failure of a Participant to remain an Eligible Employee, the Participant's participation in the Plan shall continue, subject to the Participant's execution of a general release of claims satisfactory to the Company, for an additional ninety (90) days; provided, however, this Section shall not apply in the event of the Participant's death, a Spinoff Transaction, or to any Participant on a leave of absence governed by Section 2.1(g).

## 14. CHANGE IN CONTROL.

### 14.1 DEFINITIONS.

(a) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all, as determined by the Board in its sole discretion, of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A "CHANGE IN CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "TRANSACTION") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 14.1(a) (iii), the corporation or other business entity to

which the assets of the Company were transferred (the "TRANSFEREE"), as the case may be. The Board shall determine in its sole discretion whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related. Notwithstanding the preceding sentence, a Change in Control shall not include any Transaction in which the voting stock of an entity in the Participating Company Group is distributed to the shareholders of a parent corporation, as defined in Section 424(e) of the Code, of such entity. Any Ownership Change resulting from an underwritten public offering of the Company's Stock or the stock of any Participating Company shall not be deemed a Change in Control for any purpose hereunder.

12

14.2 EFFECT OF CHANGE IN CONTROL ON PURCHASE RIGHTS. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "ACQUIRING CORPORATION"), may assume the Company's rights and obligations under the Plan. If the Acquiring Corporation elects not to assume the Company's rights and obligations under outstanding Purchase Rights, the Purchase Date of the then current Offering Period shall be accelerated to a date before the date of the Change in Control specified by the Board, but the number of shares of Stock subject to outstanding Purchase Rights shall not be adjusted. All Purchase Rights which are neither assumed by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control.

15. NONTRANSFERABILITY OF PURCHASE RIGHTS.

Neither payroll deductions nor a Participant's Purchase Right may be assigned, transferred, pledged or otherwise disposed of in any manner other than as provided by the Plan or by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw from the Plan as provided in Section 12.1. A Purchase Right shall be exercisable during the lifetime of the Participant only by the Participant.

16. COMPLIANCE WITH SECURITIES LAW.

The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any securities exchange or market system upon which the Stock may then be listed. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

17. RIGHTS AS A STOCKHOLDER AND EMPLOYEE.

A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of shares purchased pursuant to the

13

exercise of the Participant's Purchase Right (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such share is issued, except as provided in Section 4.2. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

18. DISTRIBUTION ON DEATH.

If a Participant dies, the Company shall deliver any shares or cash credited to the Participant to the Participant's legal representative.

19. NOTICES.

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

20. AMENDMENT OR TERMINATION OF THE PLAN.

The Board may at any time amend or terminate the Plan, except that (a) such termination shall not affect Purchase Rights previously granted under the Plan, except as permitted under the Plan, and (b) no amendment may adversely affect a Purchase Right previously granted under the Plan (except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to obtain qualification or registration of the shares of Stock under applicable federal, state or foreign securities laws). In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would increase the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.1 or Section 4.2) or would change the definition of the corporations that may be designated by the Board as Participating Companies.

14

PLAN HISTORY

\_\_\_\_\_, 2000 Board adopts Plan, with an initial reserve of 12,908,309 shares.

\_\_\_\_\_, 2001 Stockholders approve Plan.



QUALCOMM INCORPORATED  
2001 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 ESTABLISHMENT. The QUALCOMM Incorporated 2001 Non-Employee Directors' Stock Option Plan (the "PLAN") is hereby established effective as of February 27, 2001 (the "EFFECTIVE DATE"), subject to the approval by Company shareholders.

1.2 PURPOSE. The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward Non-Employee Directors of the Company by creating an additional incentive for such persons to contribute to the growth and profitability of the Participating Company Group.

1.3 TERM OF PLAN. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan have lapsed.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "AFFILIATE" means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities, or (iii) an entity which the Board designates as an Affiliate. For this purpose, the term "control" (including the term "controlled by") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

(b) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "BOARD" also means such Committee(s).

(c) A "CHANGE IN CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "TRANSACTION") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 2.1(u)(iii), the corporation or other business entity to which the assets of the Company

1

were transferred (the "TRANSFeree"), as the case may be. The Board shall determine in its sole discretion whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related. Notwithstanding the preceding sentence, a Change in Control shall not include a Spinoff Transaction.

(d) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(e) "COMMITTEE" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(f) "COMPANY" means QUALCOMM Incorporated, a Delaware corporation, or any Successor.

(g) "CONSULTANT" means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company.

(h) "DIRECTOR" means a member of the Board or of the board

of directors of any other Participating Company.

(i) "DIRECTOR FEES" mean a Non-Employee Director's annual retainer fee, meeting fees and any other compensation payable with respect to such individual's Service as a Director.

(j) "DISABILITY" means the Participant has been determined eligible for supplemental Security Income benefits by the Social Security Administration of the United States of America and also means the inability of the Participant, in the opinion of a qualified physician acceptable to the Company, to perform the duties of the Participant's position with the Participating Company Group because of sickness or other physical or mental incapacity.

(k) "EMPLOYEE" means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company; provided, however, that neither Service as a Director nor payment of a Director Fee shall be sufficient to constitute employment for purposes of the Plan.

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

(m) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market system or the Nasdaq SmallCap Market system of the Nasdaq Stock Market established by the National Association of Securities

2

Dealers, Inc., the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or if the stock is traded on more than one exchange or market, the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(n) "NON-CONTROL AFFILIATE" means any entity in which any Participating Company has an ownership interest and which the Board shall designate as a Non-Control Affiliate.

(o) "NON-EMPLOYEE DIRECTOR" means a member of the Board who is not an Employee of a Participating Company Group.

(p) "NONSTATUTORY STOCK OPTION" means an Option not intended to be (as set forth in the Option Agreement) or which does not qualify as an incentive stock option within the meaning of Section 422(b) of the Code.

(q) "NORMAL RETIREMENT AGE" means the date on which a Participant has attained the age of seventy (70) years and has completed nine years of continuous Service.

(r) "OFFICER" means any person designated by the Board as an officer of the Company.

(s) "OPTION" means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan.

(t) "OPTION AGREEMENT" means an agreement, in such form as the Board may approve, between the Company and a Participant setting forth the terms, conditions and restrictions of an Option granted to the Participant and any shares acquired upon the exercise thereof.

(u) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all, as determined by the Board in its discretion, of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(v) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(w) "PARTICIPANT" means any eligible person who has been

granted one or more Options.

3

(x) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation or Affiliate.

(y) "PARTICIPATING COMPANY GROUP" means, at any point in time, all entities collectively which are then Participating Companies.

(z) "PRIOR PLAN OPTION" means, any option granted pursuant to the Company's 1998 Non-Employee Directors' Stock Option Plan which is outstanding on or after the date on which the Board adopts the Plan or which is granted thereafter and prior to the Effective Date.

(aa) "RULE 16b-3" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(bb) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(cc) "SERVICE" means

(i) a Participant's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service to the Participating Company Group or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. The Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the entity for which the Participant performs Service ceasing to be a Participating Company; except that if the entity for which the Participant performs Service is a Subsidiary Corporation and ceases to be a Participating Company as a result of the distribution of the voting stock of such Subsidiary Corporation to the shareholders of the Company or a Parent Corporation, Service shall not be deemed to have terminated as a result of such distribution. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(ii) Notwithstanding any other provision of this Section, a Participant's Service shall not be deemed to have terminated merely because the Participating Company for which the Participant renders Service ceases to be a member of the Participating Company Group by reason of a Spinoff Transaction, nor shall Service be deemed to have terminated upon resumption of Service from the Spinoff Company to a Participating Company. For all purposes under this Plan, a Participant's Service shall include Service, whether in the capacity of an Employee, Director or a Consultant, for the Spinoff Company provided a Participant was employed by the Participating Company Group immediately prior to the Spinoff Transaction. Notwithstanding the foregoing, if the Company's auditors determine that the provisions or operation of the preceding two sentences would cause the Company to incur a compensation expense and provided further that in the absence of the preceding two sentences no such compensation expense would be incurred, then the two preceding sentences shall be without force or effect, and the vesting and exercisability of each outstanding Option and any shares

4

acquired upon the exercise thereof shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

(dd) "SPINOFF COMPANY" means a Participating Company which ceases to be such as a result of a Spinoff Transaction.

(ee) "SPINOFF TRANSACTION" means a transaction in which the voting stock of an entity in the Participating Company Group is distributed to the shareholders of a parent corporation as defined by Section 424(e) of the Code, of such entity.

(ff) "STOCK" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(gg) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(hh) "SUCCESSOR" means a corporation into or with which the Company is merged or consolidated or which acquires all or substantially all of the assets of the Company and which is designated by the Board as a Successor for purposes of the Plan.

2.2 CONSTRUCTION. Captions and titles contained herein are for

convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

### 3. ADMINISTRATION.

3.1 ADMINISTRATION BY THE BOARD. The Plan shall be administered by the Board and its designees.

3.2 AUTHORITY OF OFFICERS. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has actual authority with respect to such matter, right, obligation, determination or election. Any decision or determination of the Company made by an Officer having actual authority with respect thereto, shall be final, binding and conclusive on the Participating Company Group, any Participant, and all persons having an interest in the Plan, or any Option granted hereunder, unless such Officer's decision or determination is arbitrary or capricious, fraudulent, or made in bad faith.

3.3 POWERS OF THE BOARD. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

(a) To construe and interpret the provisions of the Plan and Options granted under it, in its discretion; to establish, amend and revoke rules and regulations for its administration, and to take all such actions and make all such decisions as may be necessary or

5

appropriate for the operation and administration of the Plan, including, without limitation, all such decisions and determinations as may be expressly delegated to the Board by the terms of the Plan. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem, in its discretion, necessary, desirable, appropriate or expedient to make the Plan fully effective.

(b) To amend the Plan or an Option as provided in Section 11.

(c) Generally, to exercise such powers and to perform such acts as the Board deems necessary, desirable, appropriate or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

(d) The Board's determination of the construction and interpretation of any provision of the Plan, and any actions taken, and any decisions or determinations made pursuant to the terms of the Plan which are made in good faith shall be final, binding and conclusive on the Participating Company Group, any Participant, and any person having an interest in the Plan or any Option granted hereunder.

3.4 POWERS OF THE COMMITTEE. If administration is delegated to the Committee, then the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board (and references in this Plan to the Board shall thereafter be deemed to refer also to such Committee), except as may be expressly limited in the delegation of power or as provided in the next sentence. Notwithstanding the foregoing, the powers of the Committee are limited as follows: (i) construction and interpretation of the Plan by the Committee shall be subject to review by the Board, as determined by the Board in its sole discretion, (ii) the requirements of the Delaware General Corporation Law shall be complied with at all times, and (iii) the Committee cannot make a discretionary grant under the Plan, nor amend the terms of an automatic grant under the Plan unless such grant would still be exempt from the application of Section 16 of the Exchange Act. The Board may abolish, or limit the powers of, the Committee at any time and revert in the Board all or some of the administration of the Plan.

3.5 INDEMNIFICATION. In addition to such other rights of indemnification as they may have as members of the Board or Officers or Employees of the Participating Company Group, members of the Board and any Officers or Employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in

relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the

6

Company, in writing, the opportunity at its own expense to handle and defend the same, and to retain complete control over the litigation and/or settlement of such suit, action or proceeding.

3.6 ARBITRATION. Any dispute or claim concerning any Options granted (or not granted) pursuant to this Plan and any other disputes or claims relating to or arising out of the Plan shall be fully, finally and exclusively resolved by binding arbitration conducted pursuant to the Commercial Arbitration Rules of the American Arbitration Association in San Diego, California. By accepting an Option, Participants and the Company waive their respective rights to have any such disputes or claims tried by a judge or jury.

#### 4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be Six Million Three Hundred Thousand (6,300,000). The share reserve shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. However, the share reserve, determined at any time, shall be reduced by the number of shares subject to the Prior Plan Options. If an outstanding Option, including a Prior Plan Option, for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company at the Participant's exercise or purchase price, the shares of Stock allocable to the unexercised portion of such Option or Prior Plan Option or such repurchased shares of Stock shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 2.1(u)) shares of another corporation (the "NEW SHARES"), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the stock subject to the Option.

#### 5. ELIGIBILITY FOR PARTICIPATION.

Only those persons who, at the time of grant, are serving as Non-Employee Directors shall be eligible to become Participants and to be granted an Option.

7

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

Options shall be evidenced by Option Agreements specifying, among other things, the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 AUTOMATIC GRANT. Subject to the execution by a Non-Employee Director of an appropriate Option Agreement, Options shall be granted automatically and without further action of the Board, as follows:

(a) INITIAL OPTION. Each Non-Employee Director shall be granted an Option to purchase twenty thousand (20,000) shares of Stock (an "INITIAL OPTION") on the date such person first becomes a Non-Employee Director after the Effective Date; provided, however, that an Initial Option shall not be granted to a Director who is an Employee and who subsequently becomes a Non-Employee Director as a result of the termination of his or her status as an Employee.

(b) ANNUAL OPTION. Each Non-Employee Director (including any Non-Employee Director who previously did not qualify as a Non-Employee Director because of his or her status as an Employee) shall be granted on the date of each annual meeting of the stockholders of the Company (an "ANNUAL MEETING") immediately following which such person remains a Non-Employee Director, an Option to purchase ten thousand (10,000) shares of Stock (an "ANNUAL OPTION"); provided, however, that a Non-Employee Director granted an Initial Option on, or within a period of 270 days prior to, the date of an Annual Meeting shall not be granted an Annual Option for such Annual Meeting.

(c) RIGHT TO DECLINE OPTION. Notwithstanding the foregoing, any person may elect not to receive an Option pursuant to this Section by delivering written notice of such election to the Board no later than the day prior to the date such Option would otherwise be granted. A person so declining an Option shall receive no payment or other consideration in lieu of such declined Option. A person who has declined an Option may revoke such election by delivering written notice of such revocation to the Board no later than the day prior to the date such Option would be granted pursuant to Section 6.1(a) or (b), as the case may be.

6.2 EXERCISE PRICE. The exercise price per share of Stock subject to an Option shall be the Fair Market Value of a share of Stock on the date of grant of the Option.

6.3 EXERCISABILITY AND TERM OF OPTIONS. Each Option shall vest and become exercisable as set forth below and shall terminate and cease to be exercisable on the tenth (10) anniversary date of grant of the Option, unless earlier terminated in accordance with the terms of the Plan or the Option Agreement evidencing such Option.

(a) INITIAL OPTIONS. Except as otherwise provided in the Plan or in the Option Agreement evidencing such Option, each Initial Option shall vest and become exercisable as follows: (i) twenty percent (20%) of the Initial Option shall vest and become exercisable on the first anniversary of the date of grant of the Option, and (ii) 1/60th of the Initial Option shall vest and become exercisable each month, beginning on the date thirteen (13) months

8

after the date of grant of the Option, provided the Participant's Service has not been terminated prior to such date.

(b) ANNUAL OPTIONS. Except as otherwise provided in the Plan or in the Option Agreement evidencing such Option, each Annual Option shall vest and become exercisable as follows: (i) ten percent (10%) of the Annual Option shall vest and become exercisable on the date six (6) months after the grant of the Option, and (ii) 1/60th of the Annual Option shall vest and become exercisable each month, beginning on the date seven (7) months after the date of grant of the Option, provided the Participant's Service has not terminated prior to such date.

6.4 EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionholder may elect at any time while an Employee, Director or Consultant to exercise the Option as to any part or all of the shares subject to the Option prior to the full vesting of the Option. Any unvested shares so purchased shall be subject to a repurchase right in favor of the Company, with the repurchase price to be equal to the original purchase price of the Common Stock, or to any other restriction the Board determines to be appropriate; provided, however, that (i) the right to repurchase at the original purchase price shall lapse at the same rate as the Option vests as described elsewhere in the Plan, and (ii) such right shall be exercisable only within (A) the ninety (90) day period following the termination of the Participant's Service or (B) such longer period as may be agreed to by the Company and the Participant.

6.5 PAYMENT OF EXERCISE PRICE.

(a) FORMS OF CONSIDERATION AUTHORIZED. Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "CASHLESS EXERCISE"), (iv) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (v) by any combination thereof. The Board may at any time or from time to time, by approval of or amendment to the standard form of Option Agreement, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more

forms of consideration.

(b) LIMITATIONS ON FORMS OF CONSIDERATION.

(i) TENDER OF STOCK. Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or

9

attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months (and were not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) CASHLESS EXERCISE. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

6.6 TRANSFERABILITY. An Option shall not be transferable in any manner (including without limitation, sale, alienation, anticipation, pledge, encumbrance, or assignment) other than, (i) by will or by the laws of descent and distribution, (ii) by written designation of a beneficiary, in a form acceptable to the Company, with such designation taking effect upon the death of a Participant, (iii) by delivering written notice to the Company, in a form acceptable to the Company (including such representations, warranties and indemnifications as the Company shall require a Participant to make to protect the Company's interests and ensure that this Option has been transferred under the circumstances approved by the Company), by gift to a Participant's spouse, former spouse, children, stepchildren, grandchildren, parent, stepparent, grandparent, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, persons having one of the foregoing types of relationship with a Participant due to adoption, any person sharing a Participant's household (other than a tenant or employee), a foundation in which these persons or the Participant control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. A transfer to an entity in which more than fifty percent of the voting interests are owned by these persons (or the Participant) in exchange for an interest in that entity is specifically included as a permissible type of transfer. In addition, a transfer to a trust created solely for the benefit (i.e., a Participant and/or any or all of the foregoing persons hold more than 50 percent of the beneficial interest in the trust) of a Participant and/or any or all of the foregoing persons is also a permissible transferee, or (iv) such other transferees as may be authorized by the Board in its sole and absolute discretion. During a Participant's life this Option is exercisable only by the Participant or a transferee satisfying the above conditions. Except in the event of a Participant's death, upon transfer of a Option to any or all of the foregoing persons, the Participant, as the Optionee, is liable for any and all taxes due upon exercise of those transferred Options. At no time will a transferee who is considered an affiliate under Rule 144(a)(1) be able to sell any or all such Stock without complying with Rule 144. The right of a transferee to exercise the transferred portion of this Option shall terminate in accordance with the Participant's right of exercise under this Option and is further subject to such representations, warranties and indemnifications from the transferee that the Company requires the transferee to make to protect the Company's interests and ensure that this Option has been transferred under the circumstances approved by the Company. Once a portion of a Option is transferred, no further transfer may be made of that portion of the Option.

6.7 EFFECT OF TERMINATION OF SERVICE.

(a) OPTION EXERCISABILITY. Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after a

10

Participant's termination of Service only during the applicable time period determined in accordance with this Section and thereafter shall terminate.

(i) DISABILITY AND NORMAL RETIREMENT AGE. If a Participant's Service terminates because of the Participant's Disability or after the Participant reaches Normal Retirement Age, then except as otherwise provided in Section 6.7(a)(ii), (A) the Participant's Service shall be deemed to continue and the exercisability and vesting of the Option and, in the case of an immediately exercisable option, the shares acquired upon exercise thereof shall continue under the terms and conditions of the Option Agreement, and (B) the

Option to the extent unexercised and exercisable may be exercised by the Participant (or, the Participant's guardian or legal representative) at any time prior to the expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the "Option Expiration Date").

(ii) DEATH. If the Participant's Service terminates because of the death of the Participant, or if the Participant dies after attaining Normal Retirement Age, or after the Disability of the Participant then, (A) the exercisability and vesting of the Option and any shares acquired on the exercise thereof shall be accelerated effective as of the date of the Participant's death, and (B) the Option, to the extent unexercised and exercisable on the date of the Participant's death, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date of the Participant's death, but in any event no later than the Option Expiration Date.

(iii) OTHER TERMINATION OF SERVICE. If the Participant's Service with the Participating Company Group terminates prior to Normal Retirement Age for any reason except Disability, or death, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminates, may be exercised by the Participant at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminates, but in any event no later than the Option Expiration Date.

(b) EXTENSION IF EXERCISE PREVENTED BY LAW.

Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.7(a) is prevented by the provisions of Section 10 below, the Option shall remain exercisable until three (3) months after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) EXTENSION IF PARTICIPANT SUBJECT TO SECTION 16(b).

Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.7(a) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

11

## 7. STANDARD FORMS OF AGREEMENTS.

7.1 OPTION AGREEMENT. Unless otherwise provided by the Board at the time the Option is granted, an Option shall comply with and be subject to the terms and conditions set forth in the form of Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.

7.2 AUTHORITY TO VARY TERMS. The Board shall have the authority from time to time to vary the terms of any standard form of agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of agreement are not inconsistent with the terms of the Plan.

8. CHANGE IN CONTROL. In the event of a Change in Control, any unexercisable or unvested portions of outstanding Options and any shares acquired upon the exercise thereof held by Participants whose Service has not terminated prior to such date shall be immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control. The exercise or vesting of any Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section shall be conditioned upon the consummation of the Change in Control. In addition, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "ACQUIRING CORPORATION"), may either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 2.1(u)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an



affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.

#### 9. TAX WITHHOLDING.

9.1 TAX WITHHOLDING IN GENERAL. The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through cash payment or otherwise, including by means of a Cashless Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Option or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to an Option Agreement until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

12

9.2 WITHHOLDING IN SHARES. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise of an Option, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

#### 10. COMPLIANCE WITH SECURITIES LAW.

The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Option may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

#### 11. TERMINATION OR AMENDMENT OF PLAN.

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), and (b) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Participant, unless such termination or amendment is necessary to comply with any applicable law, regulation or rule.

#### 12. MISCELLANEOUS PROVISIONS.

12.1 REPURCHASE RIGHTS. Shares issued under the Plan may be subject to a right of first refusal, one or more repurchase options, or other conditions and restrictions as determined by the Board in its sole and absolute discretion at the time the Option is granted. The

13

Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company

any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

12.2 PROVISION OF INFORMATION. Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

14

PLAN HISTORY

_____ , 2000	Board adopts Plan, with an initial reserve of 6,300,000 shares.
_____ , 2001	Stockholders approve Plan.

QUALCOMM INCORPORATED  
 2001 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN  
 STOCK OPTION GRANT NOTICE

QUALCOMM INCORPORATED (the "Company"), pursuant to its 2001 Non-Employee Directors' Stock Option Plan (the "Plan") hereby grants to the Optionee named below a non-qualified stock option to purchase the number of shares of the Company's common stock set forth below. This non-qualified stock option is not intended to qualify for the federal income tax benefits available to an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. This option is subject to all of the terms and conditions as set forth herein and the Stock Option Agreement (attached hereto) and the Plan which are incorporated herein in their entirety.

<TABLE>	
<S>	<C>
Optionee/ID #: [[ First_Name ]] [[ Last_Name ]] #[[ ID ]]	Grant No.: [[ Number ]]
Date of Grant: [[ Option_Date ]]	Shares Subject to Option: [[ Shares_Granted ]]
Exercise Price Per Share: [[ Option_Price ]]	Expiration Date: [[ Expiration_Date_Period_1 ]]
</TABLE>	

VESTING SCHEDULE

<TABLE>		
<CAPTION>		
Exercisable Shares	Full Vesting Date	Expiration Date
-----	-----	-----
<S>	<C>	<C>
[[ Shares_Period_1 ]]	[[ Vest_Date_Period_1 ]]	[[ Expiration_Date_Period_1 ]]
*[[ Shares_Period_2 ]]	[[ Vest_Date_Period_2 ]]	[[ Expiration_Date_Period_1 ]]
</TABLE>		

\*These option shares vest on each monthly anniversary date after [[ Vest\_Date\_Period\_1 ]] as to 1/60th of the total shares granted.

ADDITIONAL TERMS/ACKNOWLEDGMENTS: The undersigned Optionee acknowledges receipt of, and represents that the Optionee has read, understands, accepts and agrees to the terms of the following: this Grant Notice, the Stock Option Agreement and the Plan (including, but not limited to, the binding arbitration provision in Section 3.6 of the Plan). Optionee hereby accepts the Option subject to all of its terms and conditions and further acknowledges that as of the Date of Grant, this Grant Notice, the Stock Option Agreement and the Plan set forth the entire understanding between Optionee and the Company regarding the acquisition of stock in the Company and supersedes all prior oral and written agreements pertaining to this particular option.

NOTE: THE OPTIONEE IS SOLELY RESPONSIBLE FOR NOTIFYING THE COMPANY, IN A TIMELY MANNER, OF ANY ELECTION TO EXERCISE THE OPTION, AND THE COMPANY SHALL HAVE NO OBLIGATION WHATSOEVER TO PROVIDE NOTICE TO THE OPTIONEE OF ANY MATTER, INCLUDING, BUT NOT LIMITED TO, THE DATE THE OPTION TERMINATES.

QUALCOMM INCORPORATED:	OPTIONEE:
By: _____	_____
Richard Sulpizio	Signature
President	
Dated: [[ Option_Date ]]	Date: _____

Attachment: Stock Option Agreement (A10-DIR)

QUALCOMM INCORPORATED  
 2001 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN  
 STOCK OPTION AGREEMENT

Pursuant to the Grant Notice and this Stock Option Agreement, QUALCOMM Incorporated (the "Company") has granted you an Option to purchase the number of shares of the Company's common stock ("Stock") indicated in the Grant Notice at the exercise price indicated in the Grant Notice. Defined terms not explicitly defined in this Stock Option Agreement but defined in the QUALCOMM Incorporated 2001 Non-Employee Directors' Stock Option Plan (the "Plan") shall have the same definitions as in the Plan.

The details of this Option are as follows:

1. VESTING. Subject to the limitations contained herein, this Option will vest as provided in the Grant Notice, provided that vesting will cease upon the termination of your Service, unless such termination is due to Disability or death. If termination of Service is due to Disability or death, then the

exercisability and vesting of the Option shall continue or accelerate to the extent provided for in the Plan and this Agreement.

## 2. EXERCISE OF THE OPTION.

2.1 METHOD OF EXERCISE. You may exercise the vested portion of this Option at any time prior to the expiration of the Option by delivering a notice of exercise in such form as may be designated by the Company from time to time together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours and prior to the expiration of the Option, together with such additional documents as the Company may then require pursuant to the terms of the Plan.

2.2 METHOD OF PAYMENT. Payment of the exercise price may be by cash (or check), or pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which, prior to the issuance of Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to a broker which provides for the payment of the aggregate exercise price to the Company, or a combination of the above methods, as the Company may designate from time to time.

2.3 TAX WITHHOLDING. By exercising this Option you agree that as a condition to any exercise of this Option, the Company may withhold from your pay and any other amounts payable to you, or require you to enter an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of this Option; (2) the lapse of any substantial risk of forfeiture to which the Stock is subject at the time of exercise; or (3) the disposition of Stock acquired upon such exercise.

2.4 RESPONSIBILITY FOR EXERCISE. You are responsible for taking any and all actions as may be required to exercise this Option in a timely manner and for properly executing any such documents as may be required for exercise in accordance with such rules and

2

procedures as may be established from time to time. By signing this Agreement you acknowledge that information regarding the procedures and requirements for this exercise of the Option is available to you on request. The Company shall have no duty or obligation to notify you of the expiration date of this Option.

3. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, this Option may not be exercised unless the Stock issuable upon exercise of this Option is then registered under the Securities Act or, if such Stock is not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act.

4. TERMINATION OF THE OPTION. The term of this Option commences on the Date of Grant (as specified in the Grant Notice) and expires and shall no longer be exercisable upon the earliest of:

(a) the Expiration Date indicated in the Grant Notice;

(b) the tenth (10th) anniversary of the Date of Grant;

(c) the last day for exercising the Option following termination of your Service as described in the Plan; or

(d) a Change of Control, to the extent provided in the Plan.

5. OPTION NOT A SERVICE CONTRACT. This Option is not an employment or service contract and nothing in this Stock Option Agreement, the Grant Notice or the Plan shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Company, or of the Company to continue your service with the Company. In addition, nothing in your Option shall obligate the Company, its stockholders, Board, Officers or Employees to continue any relationship which you might have as a Director or Consultant for the Company.

6. NOTICES. Any notices provided for in this Stock Option Agreement, the Grant Notice or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

7. ARBITRATION. Any dispute or claim concerning any Options granted (or not granted) pursuant to the Plan and any other disputes or claims relating to or arising out of the Plan shall be fully, finally and exclusively resolved by binding arbitration conducted by the American Arbitration Association pursuant to the commercial arbitration rules in San Diego, California. By accepting an Option, Participants and the Company waive their respective rights to have any

such disputes or claims tried by a judge or jury.

8. AMENDMENT. The Board may amend your Option at any time, provided no such amendment may adversely affect the Option or any unexercised portion of your Option, without your consent unless such amendment is necessary to comply with any applicable law or

3

government regulation. No amendment or addition to this Stock Option Agreement shall be effective unless in writing or, in such electronic form as may be designated by the Company.

9. GOVERNING PLAN DOCUMENT. Your Option is subject to this Stock Option Agreement, the Grant Notice and all the provisions of the Plan, the provisions of which are hereby made a part of this Stock Option Agreement, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Stock Option Agreement, the Grant Notice and those of the Plan, the provisions of the Plan shall control.

4