

QUALCOMM INC/DE  
Form 10-Q  
January 24, 2007

Table of Contents

UNITED STATES 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 December 31, 2006

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)

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

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

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 ☐

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on January 22, 2007, were as follows:

Class	Number of Shares
Common Stock, \$0.0001 per share par value	1,656,518,315

## INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4.</u> <u>Controls and Procedures</u>	43
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	44
<u>Item 1A.</u> <u>Risk Factors</u>	44
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	44
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	44
<u>Item 5.</u> <u>Other Information</u>	44
<u>Item 6.</u> <u>Exhibits</u>	44
 <u>SIGNATURES</u>	
<u>CERTIFICATIONS</u>	
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	
<u>EXHIBIT 32.2</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**QUALCOMM Incorporated**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In millions, except per share data)  
(Unaudited)

	December 31, 2006	September 24, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,649	\$ 1,607
Marketable securities	3,298	4,114
Accounts receivable, net	693	700
Inventories	330	250
Deferred tax assets	229	235
Other current assets	180	143
Total current assets	7,379	7,049
Marketable securities	4,598	4,228
Property, plant and equipment, net	1,559	1,482
Goodwill	1,320	1,230
Deferred tax assets	441	512
Other assets	1,041	707
Total assets	\$ 16,338	\$ 15,208
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 471	\$ 420
Payroll and other benefits related liabilities	205	273
Dividends payable	198	
Unearned revenue	253	197
Other current liabilities	631	532
Total current liabilities	1,758	1,422
Unearned revenue	144	141
Other liabilities	261	239
Total liabilities	2,163	1,802

Commitments and contingencies (Note 6)

Stockholders' equity:

Edgar Filing: QUALCOMM INC/DE - Form 10-Q

Preferred stock, \$0.0001 par value; issuable in series; 8 shares authorized; none outstanding at December 31, 2006 and September 24, 2006

Common stock, \$0.0001 par value; 6,000 shares authorized; 1,655 and 1,652 shares issued and outstanding at December 31, 2006 and September 24, 2006, respectively

Paid-in capital	7,427	7,242
Retained earnings	6,549	6,100
Accumulated other comprehensive income	199	64
Total stockholders' equity	14,175	13,406
Total liabilities and stockholders' equity	\$ 16,338	\$ 15,208

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

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

	<b>Three Months Ended December 31, 2006</b>	<b>December 25, 2005</b>
Revenues:		
Equipment and services	\$ 1,342	\$ 1,150
Licensing and royalty fees	677	591
Total revenues	2,019	1,741
Operating expenses:		
Cost of equipment and services revenues	634	517
Research and development	440	340
Selling, general and administrative	369	239
Total operating expenses	1,443	1,096
Operating income	576	645
Investment income, net (Note 3)	203	91
Income before income taxes	779	736
Income tax expense	(131)	(116)
Net income	\$ 648	\$ 620
Basic earnings per common share	\$ 0.39	\$ 0.38
Diluted earnings per common share	\$ 0.38	\$ 0.36
Shares used in per share calculations:		
Basic	1,653	1,645
Diluted	1,685	1,702
Dividends per share announced	\$ 0.12	\$ 0.09

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

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

	<b>Three Months Ended</b> <b>December</b> <b>31,</b> <b>2006</b>	<b>December</b> <b>25,</b> <b>2005</b>
<b>Operating Activities:</b>		
Net income	\$ 648	\$ 620
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91	58
Non-cash portion of share-based compensation expense	130	122
Incremental tax benefits from stock options exercised	(32)	(101)
Net realized gains on marketable securities and other investments	(64)	(20)
Equity in losses of investees		20
Non-cash income tax expense	54	104
Other items, net	5	(16)
Changes in assets and liabilities, net of effects of acquisitions (Note 8):		
Accounts receivable, net	(9)	(171)
Inventories	(81)	(18)
Other assets	(98)	16
Trade accounts payable	47	87
Payroll, benefits and other liabilities	38	(86)
Unearned revenue	60	(19)
Net cash provided by operating activities	789	596
<b>Investing Activities:</b>		
Capital expenditures	(322)	(213)
Purchases of available-for-sale securities	(1,673)	(3,318)
Proceeds from sale of available-for-sale securities	2,436	2,160
Other investments and acquisitions, net of cash acquired	(220)	(6)
Other items, net	(2)	4
Net cash provided (used) by investing activities	219	(1,373)
<b>Financing Activities:</b>		
Proceeds from issuance of common stock	97	181
Repurchase and retirement of common stock	(96)	
Incremental tax benefits from stock options exercised	32	101
Net cash provided by financing activities	33	282
Effect of exchange rate changes on cash	1	2
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,042</b>	<b>(493)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,607</b>	<b>2,070</b>



<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,649</b>	<b>\$ 1,577</b>
---	-----------------	-----------------

See Notes to Condensed Consolidated Financial Statements.

5

---

**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, 2006 was derived from the audited financial statements at that date but may not include all disclosures required by accounting principles generally accepted in the United States. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month periods ended December 31, 2006 and December 25, 2005 included 14 weeks and 13 weeks, 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 statement of results of operations, financial position and cash flows. 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, 2006. 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.

***Principles of Consolidation.*** The Company's condensed consolidated financial statements include the assets, liabilities and operating results of majority-owned subsidiaries. The ownership of the other interest holders of consolidated subsidiaries is reflected as minority interest and is not significant. All significant intercompany accounts and transactions have been eliminated. Certain of the Company's foreign subsidiaries are included in the consolidated financial statements one month in arrears to facilitate the timely inclusion of such entities in the Company's condensed consolidated financial statements. The Company does not have any investments in entities it believes are variable interest entities for which the Company is the primary beneficiary.

***Earnings Per Common Share.*** Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money shares, which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of a share, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the amount of estimated tax benefits that would be recorded in paid-in capital, if any, when the share is exercised are assumed to be used to repurchase shares in the current period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months ended December 31, 2006 and December 25, 2005 were 32,063,000 and 56,798,000, respectively.

Employee stock options to purchase approximately 104,145,000 and 40,053,000 shares of common stock during the three months ended December 31, 2006 and December 25, 2005, respectively, were outstanding but not included in the computation of diluted earnings per common share because the effect on diluted earnings per share would be anti-dilutive. A put option outstanding at December 25, 2005 to purchase 5,750,000 shares of common stock was not included in the diluted earnings per common share computation for the three months ended December 25, 2005 because the put option's exercise price was less than the average market price of the common stock while it was outstanding, and therefore, the effect on diluted earnings per common share would be anti-dilutive.



Table of Contents

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

**Comprehensive Income.** Total comprehensive income consisted of the following (in millions):

	<b>Three Months Ended December 31, 2006</b>	<b>December 25, 2005</b>
Net income	\$ 648	\$ 620
Other comprehensive income (loss):		
Foreign currency translation	8	(6)
Unrealized net gains on securities and derivative instruments, net of income taxes	166	25
Reclassification adjustment for net realized gains on securities and derivative instruments included in net income, net of income taxes	(38)	(21)
Other	(1)	2
Total other comprehensive income	135	
Total comprehensive income	\$ 783	\$ 620

Components of accumulated other comprehensive income consisted of the following (in millions):

	<b>December 31, 2006</b>	<b>September 24, 2006</b>
Unrealized net gains on marketable securities and derivative instruments, net of income taxes	\$ 214	\$ 87
Foreign currency translation	(15)	(23)
	\$ 199	\$ 64

**Share-Based Payments.** Total estimated share-based compensation expense was as follows (in millions, except per share data):

	<b>Three Months Ended December 31, 2006</b>	<b>December 25, 2005</b>
Cost of equipment and services revenues	\$ 10	\$ 12
Research and development	58	52
Selling, general and administrative	64	58
Share-based compensation expense before taxes	132	122
Related income tax benefits	(45)	(40)
Share-based compensation expense, net of taxes	\$ 87	\$ 82

Net share-based compensation expense, per common share:

Basic	\$ 0.05	\$ 0.05
Diluted	\$ 0.05	\$ 0.05

The Company recorded \$10 million and \$9 million in share-based compensation expense during the three months ended December 31, 2006 and December 25, 2005, respectively, related to share-based awards granted during those periods. In addition, for the three months ended December 31, 2006 and December 25, 2005, \$32 million and \$101 million, respectively, was reclassified to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities to reflect the incremental tax benefits from stock options exercised in those periods. At December 31, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was \$1.3 billion, which is expected to be recognized over a weighted-average period of 1.8 years. Net stock options, after forfeitures and cancellations, granted during the three months ended December 31, 2006 and December 25, 2005 represented 1.2% and 1.0%, respectively, of outstanding shares as of the beginning of each fiscal period. Total stock options granted during the three months ended December 31, 2006 and December 25, 2005 represented 1.3% and 1.0%, respectively, of outstanding shares as of the end of each fiscal period.

Table of Contents

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

**Future Accounting Requirements.** In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48)

Accounting for Uncertainty in Income Taxes which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company's fiscal 2008 beginning October 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its consolidated financial statements.

**Note 2 Composition of Certain Financial Statement Items**

**Marketable Securities.**

	Current		Noncurrent	
	December	September	December	September
	31,	24,	31,	24,
	2006	2006	2006	2006
	(In millions)		(In millions)	
Trading:				
Convertible corporate bonds	\$ 1	\$	\$	\$
	1			
Available-for-sale:				
U.S. Treasury securities	70	73		
Government-sponsored enterprise securities	358	667		
Municipal bonds		5		
Foreign government bonds	7	17		
Corporate bonds and notes	2,412	2,693	25	23
Mortgage- and asset-backed securities	408	617		
Non-investment grade debt securities	25	24	1,529	1,368
Debt mutual funds			100	
Equity mutual funds			1,424	1,519
Equity securities	17	18	1,520	1,318
	3,297	4,114	4,598	4,228
	\$ 3,298	\$ 4,114	\$ 4,598	\$ 4,228

**Property, Plant and Equipment.**

**December**      **September**  
**31,**              **24,**  
**2006**           **2006**  
(In millions)

Edgar Filing: QUALCOMM INC/DE - Form 10-Q

Land	\$ 79	\$ 76
Buildings and improvements	885	853
Computer equipment	693	659
Machinery and equipment	846	764
Furniture and office equipment	47	43
Leasehold improvements	174	171
	2,724	2,566
Less accumulated depreciation and amortization	(1,165)	(1,084)
	\$ 1,559	\$ 1,482

The net book values of property under capital leases included in buildings and improvements totaled \$65 million and \$58 million at December 31, 2006 and September 24, 2006, respectively. Capital lease additions were \$8 million during each of the quarters ended December 31, 2006 and December 25, 2005.

Table of Contents

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

**Intangible Assets.** Net technology-based intangible assets, which are included in other assets, increased to \$428 million at December 31, 2006 from \$214 million at September 24, 2006. During the first quarter of fiscal 2007, the Company entered into an agreement whereby the Company made a payment to obtain a license from the other party for certain patents not previously licensed to the Company, as well as the right to pass-through rights under certain patents to the Company's integrated circuits customers. The increase in technology-based intangible assets resulted primarily from the acquisition of these rights and from business acquisitions during the first quarter of fiscal 2007 (Note 8). As a result of these transactions, the weighted-average amortization period for technology-based intangible assets decreased to 12 years at December 31, 2006 from 15 years at September 24, 2006. The weighted-average amortization periods for other intangible assets were not significantly affected.

**Note 3 Investment Income, Net**

	<b>Three Months Ended</b>	
	<b>December 31, 2006</b>	<b>December 25, 2005</b>
	<b>(In millions)</b>	
Interest and dividend income	\$ 143	\$ 91
Interest expense	(2)	(1)
Net realized gains on marketable securities	64	20
Other-than-temporary losses on marketable securities	(1)	(3)
(Losses) gains on derivative instruments	(1)	4
Equity in losses of investees		(20)
	<b>\$ 203</b>	<b>\$ 91</b>

**Note 4 Income Taxes**

The Company currently estimates its annual effective income tax rate to be approximately 21% for fiscal 2007, compared to the 22% effective income tax rate in fiscal 2006. During the first quarter of fiscal 2007, Congress passed the Tax Relief and Health Care Act of 2006, which extended the federal research and development tax credit for two years to include qualified research expenditures paid or incurred after December 31, 2005 and before January 1, 2008. The Company recorded a tax benefit of \$33 million related to fiscal 2006 in the first quarter of fiscal 2007 due to the retroactive extension of this credit. The effective tax rate for the first quarter of fiscal 2007 was 17%, primarily as a result of this benefit.

The estimated annual effective tax rate for fiscal 2007 is 14% lower than the United States federal statutory rate primarily due to benefits of approximately 17% related to foreign earnings taxed at less than the United States federal rate and 3% related to research and development tax credits, partially offset by state taxes of approximately 5%. The prior fiscal year rate was lower than the United States federal statutory rate due to foreign earnings taxed at less than the United States federal rate, an increase in the forecast of our ability to use capital loss carryforwards and the generation of research and development credits, partially offset by state taxes and other permanent differences.

The Company has not provided United States income taxes and foreign withholding taxes on a cumulative total of approximately \$3.0 billion of undistributed earnings of certain non-United States subsidiaries indefinitely invested outside the United States. Should the Company decide to repatriate foreign earnings, the Company would have to adjust the income tax provision in the period management determined that the earnings will no longer be indefinitely invested outside the United States.

The Company believes, more likely than not, that it will have sufficient taxable income after share-based related deductions to utilize the majority of its deferred tax assets. As of December 31, 2006, the Company has provided a



valuation allowance of \$16 million related to previously incurred capital losses. This valuation allowance reflects the uncertainty surrounding the Company's ability to generate sufficient capital gains to utilize all capital losses. In addition, the Company has provided a valuation allowance of \$5 million related to foreign net operating loss carryforwards that are expected to expire unutilized. Deferred tax assets, net of valuation allowance, decreased by approximately \$78 million from September 24, 2006 to December 31, 2006, primarily due to the use of tax credits as a result of continued profitable operations, partially offset by tax benefits from share-based compensation expense and net operating loss carryforwards recorded as a result of acquisitions (Note 8).

**Table of Contents**

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

**Note 5 Stockholders Equity**

Changes in stockholders equity for the three months ended December 31, 2006 were as follows (in millions):

Balance at September 24, 2006	\$ 13,406
Net income	648
Other comprehensive income	135
Repurchase of common stock	(76)
Net proceeds from the issuance of common stock	95
Share-based compensation	131
Tax benefits from exercise of stock options	30
Dividends	(198)
Other	4
 Balance at December 31, 2006	 \$ 14,175

**Stock Repurchase Program.** On November 7, 2005, the Company authorized the repurchase of up to \$2.5 billion of the Company's common stock under a program with no expiration date. In connection with the Company's stock repurchase program, the Company sold put options on its own stock during fiscal 2006 which were exercised during the three months ended December 31, 2006 requiring the Company to repurchase 2,000,000 shares of its common stock for approximately \$89 million (net of the put option premium received). Upon repurchase, the shares were retired. At December 31, 2006, no put options remain outstanding, and approximately \$905 million remained authorized for repurchase under the stock repurchase program.

**Dividends.** Cash dividends announced in the three months ended December 31, 2006 and December 25, 2005 were \$0.12 and \$0.09 per share, respectively. During the three months ended December 31, 2006 and December 25, 2005, dividends charged to retained earnings were \$198 million and \$148 million, respectively. On January 12, 2007, the Company announced a cash dividend of \$0.12 per share on the Company's common stock, payable on March 30, 2007 to stockholders of record as of March 2, 2007, which will be recorded in the second fiscal quarter.

**Note 6 Commitments and Contingencies**

**Litigation.** *Zoltar Satellite Alarm Systems, Inc. v. QUALCOMM Incorporated and SnapTrack, Inc.:* On March 30, 2001, Zoltar Satellite Alarm Systems, Inc. filed suit against QUALCOMM and its subsidiary SnapTrack, Inc. in the United States District Court for the Northern District of California seeking monetary damages and injunctive relief based on the alleged infringement of three patents. Following a verdict and finding of no infringement of Zoltar's patent claims, the Court entered a judgment in favor of the Company and SnapTrack on Zoltar's complaint and awarded the Company and SnapTrack their costs of suit. Zoltar filed a notice of appeal that was dismissed as premature. While the Company has already obtained a verdict of non-infringement of Zoltar's patents, the Company's additional affirmative claims seeking declarations of the non-enforceability and invalidity of those patents were set to be retried in the same Court on October 10, 2006. However, Zoltar has informed the Court that it will covenant not to sue the Company or SnapTrack on the patents. As a result of Zoltar's covenant and abandonment of its claims against the Company, a dismissal was entered in December 2006 on the Company's remaining claims of invalidity, and the Court awarded to the Company costs and certain fees.

*Whale Telecom Ltd. v. QUALCOMM Incorporated:* On November 15, 2004, Whale Telecom Ltd. sued the Company in the New York State Supreme Court, County of New York, seeking monetary damages based on the claim that the Company fraudulently induced it to enter into certain infrastructure services agreements in 1999 and later interfered with their performance of those agreements. On March 15, 2006, the Court dismissed all claims against the Company. The plaintiff has filed a notice of appeal.

*Broadcom Corporation v. QUALCOMM Incorporated:* On May 18, 2005, Broadcom filed two actions in the United States District Court for the Central District of California against the Company alleging infringement of ten patents and seeking monetary damages and injunctive relief based thereon. On the same date, Broadcom also filed a complaint in the United States International Trade Commission (ITC) alleging infringement of five of the same patents at issue in the Central District Court cases seeking a determination and relief under Section 337 of the Tariff Act of 1930. On July 1, 2005, Broadcom filed an action in the United States District Court for the District of New Jersey against the Company alleging violations of state and federal antitrust and unfair competition laws as well as common law claims, generally relating to licensing and chip sales activities, seeking monetary damages and injunctive relief based thereon. On September 1, 2006, the New Jersey District Court dismissed the complaint; Broadcom has appealed. Discovery is underway in one of the Central District Court patent actions, with trial scheduled for May 2007. On December 12, 2005, the Central District Court ordered two of the Broadcom patent

**Table of Contents**

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

claims filed in the other Central District patent action (which is stayed pending completion of the ITC action) to be transferred to the Southern District of California to be considered in the case filed by the Company on August 22, 2005. That case now contains additional related claims filed by the Company and Broadcom. On February 14, 2006, the ITC hearing commenced as to three of the patents alleged. On October 10, 2006, the Administrative Law Judge (ALJ) issued an initial determination in which he recommended against any downstream remedies and found no infringement by the Company on two of the three remaining patents and most of the asserted claims of the third patent. The ALJ did find infringement on some claims of one patent. The ALJ did not recommend excluding chips accused by Broadcom but, instead, recommended a limited exclusion order directed only to a certain combination of chips that are already programmed with a specific software module. The Commission has adopted the ALJ's initial determination on violation and will issue its decision on remedy on March 8, 2007. The final determination is then subject to Presidential review.

*QUALCOMM Incorporated v. Broadcom Corporation:* On July 11, 2005, the Company filed an action in the United States District Court for the Southern District of California against Broadcom alleging infringement of seven patents, each of which is essential to the practice of either the GSM or 802.11 standards, and seeking monetary damages and injunctive relief based thereon. On September 23, 2005, Broadcom answered and counterclaimed, alleging infringement of six patents. On October 14, 2005, the Company filed another action in the United States District Court for the Southern District of California against Broadcom alleging infringement of two patents, each of which relates to video encoding and decoding for high-end multimedia processing, and seeking monetary damages and injunctive relief based thereon. That action began trial on January 9, 2007. On March 24, 2006, the Company filed another action in the United States District Court for the Southern District of California, alleging that Broadcom, during the period in which it has been attempting to bring to market a WCDMA baseband solution, misappropriated QUALCOMM confidential and trade secret information relating to QUALCOMM's WCDMA baseband chips, and relating to the Company's multimedia capabilities for such chips. The complaint also asserts another patent claim against Broadcom's wireless local area network products, including such capability bundled with Broadcom's WCDMA product offerings. Broadcom counterclaimed with the assertion of two patents. On October 27, 2006, the Court issued a preliminary injunction against Broadcom, prohibiting the future use or solicitation of certain of the Company's confidential business and technical documents and information.

*QUALCOMM Incorporated and SnapTrack, Inc. v. Nokia Corporation and Nokia Inc.:* On November 4, 2005, the Company, along with its wholly-owned subsidiary, SnapTrack, filed an action in the United States District Court for the Southern District of California against Nokia alleging infringement of eleven QUALCOMM patents and one SnapTrack patent relating to GSM/GPRS/EDGE and position location and seeking monetary damages and injunctive relief. The case is currently stayed pending a decision by the Federal Circuit regarding Nokia's arbitration demand. On May 24, 2006, the Company filed an action in the Chancery Division of the High Court of Justice for England and Wales against Nokia alleging infringement of two QUALCOMM patents relating to GSM/GPRS/EDGE technology seeking monetary damages and injunctive relief. On June 9, 2006, the Company filed a complaint with the ITC against Nokia alleging importation of products that infringe six QUALCOMM patents relating to power control, video encoding and decoding, and power conservation mode technologies and seeking an exclusionary order and a cease and desist order. On July 7, 2006, the ITC commenced an investigation. On August 9, 2006, the Company filed an action in the District Court of Dusseldorf, Federal Republic of Germany, against Nokia alleging infringement of two QUALCOMM patents relating to GSM/GPRS/EDGE technology seeking monetary damages and injunctive relief. On October 9, 2006, the Company filed an action in the High Court of Paris, France against Nokia alleging infringement of two patents relating to GSM/GPRS/EDGE technology seeking monetary damages and injunctive relief. On October 9, 2006, the Company filed an action in the Milan Court, Italy against Nokia alleging infringement of two patents relating to GSM/GPRS/EDGE technology seeking monetary damages and injunctive relief.

*Nokia Corporation and Nokia Inc. v. QUALCOMM Incorporated:* On August 9, 2006, Nokia Corporation and Nokia, Inc. filed a complaint in Delaware Chancery Court seeking declaratory and injunctive relief relating to alleged

commitments made by the Company to wireless industry standards setting organizations. The Company has moved to dismiss the complaint.

*Other:* The Company has been named, along with many other manufacturers of wireless phones, wireless operators and industry-related organizations, as a defendant in several purported class action lawsuits, and individually filed actions pending in Pennsylvania and Washington D.C., seeking monetary damages arising out of

**Table of Contents**

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

its sale of cellular phones. The courts that have reviewed similar claims against other companies to date have held that there was insufficient scientific basis for the plaintiffs' claims in those cases.

On October 28, 2005, it was reported that six companies (Broadcom, Nokia, Texas Instruments, NEC, Panasonic and Ericsson) filed complaints with the European Commission, alleging that the Company violated European Union competition law in its WCDMA licensing practices. The Company has received the complaints and has submitted a reply.

It has been reported that two U.S. companies (Texas Instruments and Broadcom) and two South Korean companies (Nextreaming Corp. and THINmultimedia Inc.) have filed complaints with the Korean Fair Trade Commission alleging that the Company's business practices are, in some way, a violation of South Korean anti-trust regulations. To date, the Company has not received the complaints.

The Japanese Fair Trade Commission has also received unspecified complaints alleging the Company's business practices are, in some way, a violation of Japanese law. The Company has not received the complaints.

Although there can be no assurance that unfavorable outcomes in any of the foregoing matters would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the claims made by other parties are without merit and will vigorously defend the actions. The Company has not recorded any accrual for contingent liability associated with the legal proceedings described above based on the Company's belief that a liability, while possible, is not probable. Further, any possible range of loss cannot be estimated at this time. The Company is engaged in numerous 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 operating results, liquidity or financial position. In addition, some matters that have previously been disclosed may no longer be described in this Note because of rulings in the case, settlements, changes in the Company's business or other developments rendering them, in the Company's judgment, no longer material to the Company's operating results, liquidity or financial position.

**Purchase Obligations.** The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Noncancelable obligations under these agreements as of December 31, 2006 for the remainder of fiscal 2007 and for each of the subsequent four years from fiscal 2008 through 2011 were approximately \$537 million, \$77 million, \$44 million, \$36 million and \$27 million, respectively, and \$18 million thereafter. Of these amounts, for the remainder of fiscal 2007 and for fiscal 2008 and fiscal 2009, commitments to purchase integrated circuit product inventories comprised \$389 million, \$41 million and \$5 million, respectively.

**Leases.** The Company leases certain of its facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 27 years and with provisions in certain leases for cost-of-living increases. The Company leases certain property under capital lease agreements that expire at various dates through 2036. Capital lease obligations are included in other liabilities. The future minimum lease payments for all capital leases and operating leases as of December 31, 2006 were as follows (in millions):

	<b>Capital Leases</b>	<b>Operating Leases</b>	<b>Total</b>
Remainder of fiscal 2007	\$ 3	\$ 56	\$ 59
2008	4	57	61
2009	4	49	53
2010	4	36	40
2011	5	26	31
Thereafter	124	114	238
Total minimum lease payments	\$ 144	\$ 338	\$ 482

Deduct: Amounts representing interest	(77)
Present value of minimum lease payments	67
Deduct: Current portion of capital lease obligations	
Long-term portion of capital lease obligations	\$ 67

***Other.*** The Company holds minority interests in Inquam Limited (Inquam), a wireless CDMA-based operator in Romania, and in Inquam's former subsidiaries in Portugal (the Portugal Companies). The Company and another

**Table of Contents**

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

investor have each guaranteed 50% of a portion of amounts owed under certain of Inquam's long-term financing arrangements, up to a combined maximum of \$48 million. The \$4 million fair value of this obligation was recorded in other current liabilities at both December 31, 2006 and September 24, 2006. The guarantee expires and the facilities mature on December 25, 2011.

**Note 7 Segment Information**

The Company is organized on the basis of products and services. The Company aggregates three of its divisions into the QUALCOMM Wireless & Internet segment. Reportable segments are as follows:

QUALCOMM CDMA Technologies (QCT) develops and supplies CDMA-based integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning system products;

QUALCOMM Technology Licensing (QTL) grants licenses to use portions of the Company's intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing cdmaOne, CDMA2000, WCDMA, CDMA TDD and/or OFDMA standards and their derivatives, and collects license fees and royalties in partial consideration for such licenses;

QUALCOMM Wireless & Internet (QWI) comprised of:

- QUALCOMM Internet Services (QIS) provides technology to support and accelerate the convergence of the wireless data market, including its BREW and QChat products and services;
- QUALCOMM Government Technologies (QGOV) provides development, hardware and analytical expertise to United States government agencies involving wireless communications technologies; and
- QUALCOMM Wireless Business Solutions (QWBS) provides satellite and terrestrial-based two-way data messaging, position reporting and wireless application services to transportation companies, private fleets, construction equipment fleets and other enterprise companies. QWBS also sells products that operate on the Globalstar low-Earth-orbit satellite-based telecommunications system and provides related services.

QUALCOMM Strategic Initiatives (QSI) manages the Company's strategic investment activities, including MediaFLO USA, Inc. (MediaFLO USA), the Company's wholly-owned wireless multimedia operator subsidiary. QSI also makes strategic investments to promote the worldwide adoption of CDMA-based products and services.

During the first quarter of fiscal 2007, the Company reassessed the intersegment royalty charged to QCT by QTL and determined that the royalty should be eliminated starting in fiscal 2007 for management reporting purposes to, among other reasons, recognize other value that QTL has increasingly been realizing from QCT. As a result, QCT did not record a royalty to QTL in the first quarter of fiscal 2007, and prior period segment information has been adjusted in the same manner for comparative purposes.

During the first quarter of fiscal 2007, the Company also reorganized the QUALCOMM Wireless Systems (QWS) division, which sells products and services to Globalstar, into the QWBS division in the QWI segment. Revenues and operating results related to the QWS business were included in other nonreportable segments as a component of reconciling items through the end of fiscal 2006. Prior period segment information has been adjusted to conform to the new segment presentation.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT). EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Certain income and charges are not allocated to segments in the Company's



management reports because they are not considered in evaluating the segments' operating performance. Unallocated income and charges include certain investment income, certain share-based compensation and certain research and development and marketing expenses not deemed to be directly related to the businesses of the segments. The table below presents revenues and EBT for reportable segments (in millions):

13

---

Table of Contents

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

	<b>QCT*</b>	<b>QTL*</b>	<b>QWI*</b>	<b>QSI</b>	<b>Reconciling Items*</b>	<b>Total</b>
<b>For the three months ended:</b>						
<b>December 31, 2006</b>						
Revenues	\$ 1,230	\$ 600	\$ 188	\$	\$ 1	\$ 2,019
EBT	316	498	20	(43)	(12)	779
<b>December 25, 2005</b>						
Revenues	\$ 1,033	\$ 526	\$ 179	\$	\$ 3	\$ 1,741
EBT	338	479	17	(48)	(50)	736

\* As adjusted

Reconciling items in the previous table were as follows (in millions):

	<b>Three Months Ended</b>	
	<b>December 31, 2006</b>	<b>December 25, 2005*</b>
<b>Revenues</b>		
Elimination of intersegment revenue	\$ (25)	\$ (5)
Other nonreportable segments	26	8
Reconciling items	\$ 1	\$ 3
<b>Earnings (loss) before income taxes</b>		
Unallocated research and development expenses	\$ (69)	\$ (70)
Unallocated selling, general and administrative expenses	(76)	(61)
Unallocated cost of equipment and services revenues	(10)	(12)
Unallocated investment income, net	199	108
Other nonreportable segments	(35)	(14)
Intracompany eliminations	(21)	(1)
Reconciling items	\$ (12)	\$ (50)

\* As adjusted

During the three months ended December 31, 2006 and December 25, 2005, unallocated research and development expenses included \$58 million and \$52 million, respectively, and unallocated selling, general and administrative expenses included \$63 million and \$58 million, respectively, of share-based compensation expense. Unallocated cost of equipment and services revenues was comprised entirely of share-based compensation expense.

Segment data includes intersegment revenues. Generally, revenues between segments are based on prevailing market rates for substantially similar products and services or an approximation thereof. Revenues from external customers and intersegment revenues were as follows (in millions):

**QCT                  QTL\*                  QWI\***

**For the three months ended:**

**December 31, 2006**

Revenues from external customers	\$ 1,225	\$ 600	\$ 186
Intersegment revenues	5		2

**December 25, 2005**

Revenues from external customers	\$ 1,031	\$ 525	\$ 177
Intersegment revenues	2	1	2

\* As adjusted

**Table of Contents**

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

Segment assets are comprised of accounts receivable and inventories for QCT, QTL and QWI. The QSI segment assets include certain marketable securities, notes receivable, wireless licenses, other investments and all assets of QSI's consolidated subsidiary, MediaFLO USA, including property, plant and equipment. QSI's assets related to the MediaFLO USA business totaled \$380 million and \$329 million at December 31, 2006 and September 24, 2006, respectively. Reconciling items included \$229 million and \$228 million at December 31, 2006 and September 24, 2006, respectively, of goodwill and other assets related to the QUALCOMM MEMS Technologies division, a nonreportable segment developing display technology for mobile devices and other applications. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of cash, cash equivalents, certain marketable securities, property, plant and equipment, deferred tax assets, goodwill, certain other intangible assets of nonreportable segments and capitalized share-based compensation. Segment assets and reconciling items were as follows (in millions):

	December 31, 2006	September 24, 2006
QCT	\$ 659	\$ 651
QTL	146	60
QWI*	200	215
QSI	830	660
Reconciling items	14,503	13,622
Total consolidated assets	\$ 16,338	\$ 15,208

\* As adjusted

The increase in QTL's assets resulted primarily from the usual periodic increase in accounts receivable from certain licensees that report royalties quarterly and make payments on a semi-annual basis.

**Note 8 Acquisitions**

During the first quarter of fiscal 2007, the Company acquired Airgo Networks, Inc., a California-based developer of chipsets, software and reference designs based on Multiple Input Multiple Output (MIMO) Orthogonal Frequency Division Multiplexing (OFDM) technology. In addition, the Company acquired certain assets and assumed certain liabilities related to the Bluetooth business of RF Micro Devices, Inc. and substantially all of the assets of nPhase LLC, a Chicago, Illinois-based provider of machine-to-machine products and services. The Company acquired these businesses for total cash consideration of \$178 million. Approximately \$6 million in consideration payable in cash through June 2008 was held back as security for the indemnification obligations of RF Micro Devices, Inc. The Company is in the process of finalizing the accounting for the acquisitions and does not anticipate material adjustments to the preliminary purchase price allocations. Goodwill recognized in these transactions, of which \$21 million is expected to be deductible for tax purposes, was assigned to the QCT and QWI segments in the amounts of \$74 million and \$10 million, respectively. Technology-based intangible assets recognized in the amount of \$45 million are being amortized on a straight-line basis over a weighted-average amortization period of 3 years. The condensed consolidated financial statements include the operating results of these businesses from their respective dates of acquisition. Pro forma results of operations have not been presented because the effects of the acquisitions were not material.

**Table of Contents**

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

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, 2006 contained in our 2006 Annual Report on Form 10-K.

In addition to historical information, 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 described in the section entitled Risk Factors and elsewhere in this Quarterly Report.

**Overview**

**Recent Highlights**

Revenues for the first quarter of fiscal 2007 were \$2.02 billion, with net income of \$648 million. During the first quarter of fiscal 2007, the following recent developments occurred with respect to key elements of our business or our industry:

Worldwide wireless subscribers grew by more than 5% to reach approximately 2.7 billion. <sup>(1)</sup>

CDMA subscribers, including both 2G (cdmaOne) and 3G (CDMA2000 1X, 1xEV-DO and WCDMA), grew to 17% of total worldwide wireless subscribers to date. <sup>(1)</sup>

3G subscribers (all CDMA-based) grew to approximately 430 million worldwide through December 2006, including approximately 330 million CDMA2000 1X/1xEV-DO subscribers and approximately 100 million WCDMA subscribers. <sup>(1)</sup>

CDMA-based handset shipments totaled approximately 76 million units, an increase of 46% over the 52 million units shipped in the year ago quarter. <sup>(2)</sup>

CDMA-based handset shipments grew faster than total worldwide handsets and represent an estimated 29% of the total (259 million) worldwide handset shipments, compared to 25% of the total (208 million) shipments in the year ago quarter. <sup>(3)</sup>

Average selling prices of CDMA-based handsets were approximately \$210, down 2% from the year ago quarter. <sup>(2)</sup>

We shipped approximately 59 million Mobile Station Modem (MSM) integrated circuits for CDMA-based phones and data modules, an increase of 26%, compared to approximately 47 million MSM integrated circuits in the year ago quarter.

We estimate the ratio of WCDMA reported royalties to total reported royalties was 44%, up from 40% reported in the year ago quarter.

We estimate that, in Western Europe, WCDMA handset sales represented approximately 41% of all manufacturer handset sales during the period from July 2006 through September 2006, up from 18% in the year ago quarter. <sup>(4)</sup>

We continued to invest through acquisitions and research and development. We acquired Airgo Networks, Inc., a developer of chipsets, software and reference designs based on MIMO OFDM technology; acquired certain assets and assumed certain liabilities related to the Bluetooth business of RF Micro Devices, Inc.; and acquired substantially all of the assets of nPhase LLC, a provider of machine-to-machine products and

services.

- (1) According to Wireless Intelligence, an independent source of wireless operator data.
- (2) Unit shipments and average selling prices are for the period from July through September based on reports provided during the first quarter of fiscal 2007 by our licensees/manufacturers.
- (3) Based on reports by Strategy Analytics, a global research and consulting firm in their Global Handset Market Share Updates.
- (4) Based on estimates derived from our licensee reports and estimates from the Yankee Group, a global market intelligence and advisory firm in the technology and telecommunications industry.

## **Table of Contents**

### **Our Business and Operating Segments**

We design, manufacture, have manufactured on our behalf and market digital wireless telecommunications products and services based on our CDMA technology and other technologies. We derive revenue principally from sales of integrated circuit products, from license fees and royalties for use of our intellectual property, from services and related hardware sales and from software development and licensing and related services. Operating expenses primarily consist of cost of equipment and services, research and development and selling, general and administrative expenses.

We conduct business primarily through four reportable segments. These segments are: QUALCOMM CDMA Technologies, or QCT; QUALCOMM Technology Licensing, or QTL; QUALCOMM Wireless & Internet, or QWI; and QUALCOMM Strategic Initiatives, or QSI.

QCT is a leading developer and supplier of CDMA-based integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning system products. QCT's integrated circuit products and system software are used in wireless devices, particularly mobile phones, data cards and infrastructure equipment. The integrated circuits for wireless phones include the Mobile Station Modem (MSM), Radio Frequency (RF) and Power Management (PM) devices. These integrated circuits for wireless phones and system software perform voice and data communication, multimedia and global positioning functions, radio conversion between RF and baseband signals and power management. QCT's system software enables the other phone components to interface with the integrated circuit products and is the foundation software enabling phone manufacturers to develop handsets utilizing the functionality within the integrated circuits. The infrastructure equipment integrated circuits and system software perform the core baseband CDMA modem functionality in the wireless operator's equipment providing wireless standards-compliant processing of voice and data signals to and from wireless phones. In addition to the key components in a wireless system, QCT provides system reference designs and development tools to assist in customizing wireless phones and user interfaces, to integrate our products with components developed by others, and to test interoperability with existing and planned networks. QCT revenues comprised 61% and 59% of total consolidated revenues for the first quarter of fiscal 2007 and 2006, respectively.

QCT utilizes a fabless production business model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. Integrated circuits are die, cut from silicon wafers, that have completed the assembly and final test manufacturing processes. Die, cut from silicon wafers, are the essential components of all of our integrated circuits and a significant portion of the total integrated circuit cost. We rely on independent third party suppliers to perform the manufacturing and assembly, and most of the testing, of our integrated circuits. Our suppliers are also responsible for the procurement of most of the raw materials used in the production of our integrated circuits. The majority of our integrated circuits are purchased on a turnkey basis, in which our foundry suppliers are responsible for delivering fully assembled and tested integrated circuits. We also employ a two-stage manufacturing business model in which we purchase completed die directly from semiconductor manufacturing foundries, and directly manage and contract with third party manufacturers for back-end assembly and test services. We refer to this two-stage manufacturing business model as Integrated Fabless Manufacturing (IFM). IBM, Taiwan Semiconductor Manufacturing Company, Ltd. and United Microelectronics are the primary foundry suppliers for our family of baseband and cell site modem integrated circuits. Atmel, Freescale Semiconductor, IBM and Semiconductor Manufacturing International Corporation are the primary foundry suppliers for our family of radio frequency and power management integrated circuits. Our fabless business model provides us the flexibility to select suppliers that offer advanced process technologies to manufacture, assemble and test our integrated circuits at a competitive price.

QTL grants licenses to use portions of our intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing cdmaOne, CDMA2000, WCDMA, CDMA TDD and/or OFDMA standards and their derivatives. QTL receives revenue from license fees as well as ongoing royalties based on worldwide sales by licensees of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments. Ongoing royalties are generally based upon a percentage of the wholesale selling price of licensed products, net of certain permissible deductions (e.g. certain shipping costs, packing costs, VAT, etc.). QTL revenues

comprised 30% of total consolidated revenues for the first quarters of both fiscal 2007 and 2006. The vast majority of such revenues has been generated primarily through our licensees' sales of cdmaOne, CDMA2000 and WCDMA products.



**Table of Contents**

QWI, which includes QUALCOMM Wireless Business Solutions (QWBS), QUALCOMM Internet Services (QIS) and QUALCOMM Government Technologies (QGOV), generates revenues primarily through mobile communication products and services, software and software development aimed at support and delivery of wireless applications. QWBS provides satellite and terrestrial-based two-way data messaging, position reporting and wireless application services to transportation companies, private fleets, construction equipment fleets and other enterprise companies. QWBS also sells products that operate on the Globalstar low-Earth-orbit satellite-based telecommunications system and provides related services. QIS provides BREW-based (Binary Runtime Environment for Wireless) products that include user interface and content delivery and management products and services for the wireless industry. QIS also provides QChat which enables virtually instantaneous push-to-talk functionality on CDMA-based wireless devices. The QGOV division provides development, hardware and analytical expertise to United States government agencies involving wireless communications technologies. QWI revenues comprised 9% and 10% of total consolidated revenues for the first quarter of fiscal 2007 and 2006, respectively.

QSI manages the Company's strategic investment activities, including MediaFLO USA, Inc. (MediaFLO USA), the Company's wholly-owned wireless multimedia operator subsidiary. QSI also makes strategic investments to promote the worldwide adoption of CDMA-based products and services. Our strategy is to invest in CDMA-based operators, licensed device manufacturers and start-up companies that we believe open new markets for CDMA technology, support the design and introduction of new CDMA-based products or possess unique capabilities or technology. Our MediaFLO USA subsidiary expects to offer a nationwide multicasting network based on our MediaFLO MDS and FLO technology. This network is expected to be utilized as a shared resource for wireless operators and their customers in the United States. The commercial availability of the MediaFLO USA network and service will be determined by our wireless operator partners. MediaFLO USA's network will use the 700 MHz spectrum for which we hold licenses for a nationwide footprint. Additionally, MediaFLO USA plans to procure, aggregate and distribute content in service packages which we will make available on a wholesale basis to our wireless operator customers (whether they operate on CDMA or GSM/WCDMA networks) in the United States. Distribution, marketing, billing and customer relationships are expected to remain services provided by our wireless operator partners. As part of our strategic investment activities, we may consider various corporate structuring and exit strategies at some point in the future, which may include distribution of our ownership interest in MediaFLO USA to our stockholders in a spin-off transaction.

Nonreportable segments include: the QUALCOMM MEMS Technologies division, which is developing an IMOD display technology based on micro-electro-mechanical-system (MEMS) structure combined with thin film optics; the QUALCOMM Flarion Technologies division, which is developing OFDM/OFDMA technologies; the MediaFLO Technologies division, which is developing our MediaFLO MDS and FLO technology for deployment outside of the United States; and other product initiatives.

**Looking Forward**

The deployment of 3G networks (CDMA2000 and WCDMA) enables higher voice capacity and data rates, thereby supporting more minutes of use and data intensive applications like multimedia. As a result, we expect continued growth in demand for 3G products and services around the world:

The deployment of CDMA2000 networks is expected to continue.

- More than 183 operators have launched CDMA2000 1X; <sup>(1)</sup>
- More than 51 operators have deployed the higher data speeds of 1xEV-DO and several are preparing to deploy EV-DO Revision A. <sup>(1)</sup>

GSM operators are expected to continue transitioning to WCDMA networks.

- More than 144 GSM operators have migrated their networks to WCDMA; <sup>(2)</sup>
- More than 92 operators have launched commercial HSDPA networks and manufacturers are beginning to trial the faster uplink speeds of HSUPA. <sup>(2)</sup>

**Table of Contents**

We expect WCDMA phone prices to segment into high and low end, with low-end prices decreasing significantly as volumes increase and competition intensifies among WCDMA phone manufacturers and integrated circuit suppliers, as happened with CDMA2000. We expect phone market share will change and competition will increase as WCDMA networks grow and expand beyond Japan and Western Europe into the United States and China.

To meet growing demand for advanced 3G phones and increased multimedia MSM functionality, we intend to continue to invest significant resources toward the development of multimedia products, software and services for the wireless industry. However, we expect that a portion of our research and development initiatives in fiscal 2007 will not reach commercialization until several years in the future.

We expect demand for low-end phones to continue, and we have invested resources to develop single chip products, which integrate the baseband, radio frequency and power management chips into one package, lowering component counts and enabling faster time-to-market for our customers. While we are moving aggressively to address the low-end market more effectively with CDMA-based products, we still face significant competition from GSM-based products at the very low end, particularly in Brazil and India.

We will continue to invest in the evolution of CDMA and a broad range of other technologies as part of our vision to enable a range of technologies, each optimized for specific services, including the following products and technologies:

- The BREW applications platform, content delivery services and user interfaces;
- The MediaFLO Media Distribution System (MDS) and FLO technology for delivery of multimedia content;
- The DO Multicarrier Multilink eXtensions (DMMX) and HSDPA Multicarrier Multilink eXtensions (HMMX) platforms to support the long-term roadmaps of 1xEV-DO and HSDPA;
- OFDM and OFDMA-based technologies;
- Our IMOD display technology.

We will continue to devote resources to working with and educating all participants in the wireless value chain as to the benefits of our business model in promoting a highly competitive and innovative wireless market. However, we expect that certain companies may continue to be dissatisfied with the need to pay reasonable royalties for the use of our technology and not welcome the success of our business model in enabling new, highly cost-effective competitors to their products. We expect that such companies will continue their attacks on our business model in various forums throughout the world.

In addition, our license agreement with Nokia Corp. expires in part on April 9, 2007, with Nokia having an option exercisable through the end of 2008 to extend the agreement. If we cannot conclude an extension or a new license agreement beyond April 9, 2007, Nokia's rights to sell certain subscriber products (such as cellular phones and wireless personal digital assistant devices) under most of our patents will expire, as will our rights to sell integrated circuits under Nokia's patents. While we continue to work with Nokia to see if we can reach an agreement, there is no guarantee that we will be able to successfully resolve this matter before April 9, 2007 on terms which we find acceptable and little progress has been made to date. If we are unable to reach agreement, and Nokia continues to use our unlicensed intellectual property, we will aggressively pursue all our legal and business remedies and assume that Nokia will do likewise. We intend to pursue and obtain injunctions against Nokia's sales as well as damages (which will include interest from the date of infringement) for Nokia's



## **Table of Contents**

unlicensed sales after April 9, 2007. Nokia has publicly stated that they intend to continue to use our patents but not pay royalties after the expiration of their rights under those patents on April 9, 2007 should a new license agreement (or extension of the existing license agreement) not be reached by that time. As a result, under generally accepted accounting principles, we will be unable to record royalty revenue attributable to Nokia's sales until a court awards damages or agreement with Nokia is reached, potentially resulting in a negative impact on future royalty revenues reported by our QTL segment. We estimate the risk to fiscal 2007 results of approximately \$0.04 to \$0.06 diluted earnings per share, if Nokia does not pay royalties in the fourth quarter of fiscal 2007 for June quarter shipments.

- (1) According to public reports made available at [www.cdg.org](http://www.cdg.org).
- (2) As reported by the Global mobile Suppliers Association, an international organization of WCDMA and GSM (Global System for Mobile Communications) suppliers in their December 2006 and January 2007 reports.

Further discussion of risks related to our business is presented in the Risk Factors included in this Quarterly Report.

### **Revenue Concentrations**

Revenues from customers in South Korea, China, Japan, and the United States comprised 29%, 23%, 17%, and 13%, respectively, of total consolidated revenues for the first three months of fiscal 2007 as compared to 35%, 16%, 20%, and 12%, respectively, for the first three months of fiscal 2006. We distinguish revenue from external customers by geographic areas based on customer location. The increase in revenues from customers in China from 16% of total revenues to 23% is primarily attributable to the maturing of CDMA-based manufacturers in China that are experiencing wider adoption of their products in international markets for low priced CDMA2000 phones and WCDMA phones. Combined revenues from customers in South Korea, Japan and the United States decreased as a percentage of total revenues, from 67% to 59%, primarily due to increases in the percentage of revenues from WCDMA manufacturers in Western Europe and increased activity by manufacturers in China.

### **First Quarter of Fiscal 2007 Compared to First Quarter of Fiscal 2006**

**Revenues.** Total revenues for the first quarter of fiscal 2007 were \$2.02 billion, compared to \$1.74 billion for the first quarter of fiscal 2006.

Revenues from sales of equipment and services for the first quarter of fiscal 2007 were \$1.34 billion, compared to \$1.15 billion for the first quarter of fiscal 2006. Revenues from sales of integrated circuit products increased \$198 million, resulting primarily from an increase of \$226 million related to higher unit shipments, primarily MSM and accompanying RF and PM integrated circuits, partially offset by a decrease of \$35 million related to the net effects of reductions in average sales prices and changes in product mix.

Revenues from licensing and royalty fees for the first quarter of fiscal 2007 were \$677 million, compared to \$591 million for the first quarter of fiscal 2006. Revenues from licensing and royalty fees increased primarily as a

result of a \$72 million increase in royalty revenue, primarily consisting of royalties reported to QTL by our external licensees resulting from an increase in sales of CDMA-based products by licensees, partially offset by lower average selling prices.

**Cost of Equipment and Services.** Cost of equipment and services revenues for the first quarter of fiscal 2007 was \$634 million, compared to \$517 million for the first quarter of fiscal 2006. Cost of equipment and services revenues as a percentage of equipment and services revenues was 47% for the first quarter of fiscal 2007, compared to 45% for the first quarter of fiscal 2006. The decline in margin percentage in the first quarter of fiscal 2007 compared to fiscal 2006 was primarily due to a decrease in QCT margin percentage resulting from reductions in average sales prices and an increase in reserves for excess and obsolete inventory. Cost of equipment and services revenues in the first quarter of fiscal 2007 included \$10 million in share-based compensation, compared to \$12 million in the first quarter of fiscal 2006. Cost of equipment and services revenues as a percentage of equipment and services revenues may fluctuate in future quarters depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

**Research and Development Expenses.** For the first quarter of fiscal 2007, research and development expenses were \$440 million or 22% of revenues, compared to \$340 million or 20% of revenues for the first quarter of fiscal 2006. The dollar increase was primarily attributable to a \$90 million increase in costs related to integrated circuit products and other initiatives to support lower cost phones, multimedia applications, high-speed wireless Internet

**Table of Contents**

access and multimode, multiband, multinet network products and technologies, including CDMA2000 1X, 1xEV-DO, EV-DO Revision A, EV-DO Revision B, WCDMA (including GSM/GPRS/EDGE), HSDPA, HSUPA and OFDMA, and the development of our FLO technology, MediaFLO MDS and IMOD display products using MEMS technology. Research and development expenses for the first quarter of fiscal 2007 included share-based compensation of \$58 million, compared to \$52 million in the first quarter of fiscal 2006.

**Selling, General and Administrative Expenses.** For the first quarter of fiscal 2007, selling, general and administrative expenses were \$369 million or 18% of revenues, compared to \$239 million or 14% of revenues for the first quarter of fiscal 2006. The dollar increase was primarily attributable to a \$62 million increase in professional fees (primarily legal fees), a \$25 million increase in employee related expenses, a \$13 million increase in bad debt expense and a \$10 million increase in depreciation and amortization. Selling, general and administrative expenses for the first quarter of fiscal 2007 included share-based compensation of \$64 million, compared to \$58 million in the first quarter of fiscal 2006.

**Net Investment Income.** Net investment income was \$203 million for the first quarter of fiscal 2007, compared to \$91 million for the first quarter of fiscal 2006. The net increase was primarily comprised as follows (in millions):

	<b>Three Months Ended</b>		
	<b>December 31, 2006</b>	<b>December 25, 2005</b>	<b>Change</b>
Interest and dividend income:			
Corporate and other segments	\$ 142	\$ 90	\$ 52
QSI	1	1	
Interest expense	(2)	(1)	(1)
Net realized gains on investments:			
Corporate	63	20	43
QSI	1		1
Other-than-temporary losses on investments	(1)	(3)	2
(Losses) gains on derivative instruments	(1)	4	(5)
Equity in losses of investees		(20)	20
	\$ 203	\$ 91	\$ 112

The increase in interest and dividend income on cash and marketable securities held by corporate and other segments was a result of higher average cash and marketable securities balances and higher interest rates on interest-bearing securities. Net realized gains on corporate investments increased primarily as a result of the higher amount of investments in marketable equity securities in the first quarter of fiscal 2007, as compared to fiscal 2006. Gains on derivative instruments in the first quarter of fiscal 2006 related primarily to changes in the fair values of put options sold in connection with our stock repurchase program. Equity in losses of investees in the first quarter of fiscal 2006 resulted primarily from the effect of losses recognized by Inquam in the first quarter of fiscal 2006, of which our share was \$20 million.

**Income Tax Expense.** Income tax expense was \$131 million for the first quarter of fiscal 2007, compared to \$116 million for the first quarter of fiscal 2006. The effective tax rate for the first quarter of fiscal 2007 was 17%, compared to 16% for the first quarter of fiscal 2006. We recorded a tax benefit of \$33 million related to fiscal 2006 in the first quarter of fiscal 2007 due to the retroactive extension of the federal research and development tax credit. The 17% effective tax rate for the first quarter of fiscal 2007 was lower than the expected annual effective tax rate of 21% primarily as a result of this benefit. During the first quarter of fiscal 2006, we reduced the tax provision by \$56 million to reflect the expected impact of prior year tax audits completed during that quarter. The 16% effective tax rate for the first quarter of fiscal 2006 was lower than the annual effective tax rate of 22% due to this reduction.

The estimated annual effective tax rate for fiscal 2007 is 14% lower than the United States federal statutory rate primarily due to benefits of approximately 17% related to foreign earnings taxed at less than the United States federal rate and 3% related to research and development tax credits, partially offset by state taxes of approximately 5%.

As of December 31, 2006, we had a valuation allowance of approximately \$16 million on previously incurred capital losses. We also had a valuation allowance of \$5 million related to foreign net operating loss carryforwards that are expected to expire unutilized. We will continue to assess the realizability of the related deferred tax assets

**Table of Contents**

and adjust the amount of the valuation allowance as our ability to utilize the deferred tax assets changes. A change in the valuation allowance may impact the provision for income taxes in the period the change occurs.

**Our Segment Results for the First Quarter of Fiscal 2007 Compared to the First Quarter of Fiscal 2006**

The following should be read in conjunction with the first quarter financial results of fiscal 2007 for each reporting segment. See Notes to Condensed Consolidated Financial Statements, Note 7 Segment Information.

**QCT Segment.** QCT revenues for the first quarter of fiscal 2007 were \$1.23 billion, compared to \$1.03 billion for the first quarter of fiscal 2006. Equipment and services revenues, primarily from MSM and accompanying RF and PM integrated circuits, were \$1.20 billion for the first quarter of fiscal 2007, compared to \$999 million for the first quarter of fiscal 2006. The increase in equipment and services revenue was primarily comprised of \$226 million related to higher unit shipments, partially offset by a decrease of \$35 million related to the net effects of reductions in average sales prices and changes in product mix. Approximately 59 million MSM integrated circuits were sold during the first quarter of fiscal 2007, compared to approximately 47 million for the first quarter of fiscal 2006.

QCT's earnings before taxes for the first quarter of fiscal 2007 were \$316 million, compared to \$338 million for the first quarter of fiscal 2006. QCT's operating income as a percentage of its revenues (operating margin percentage) was 26% in the first quarter of fiscal 2007, compared to 33% in the first quarter of fiscal 2006. These decreases were primarily due to a decrease in gross margin percentage, resulting from reductions in average sales prices and an increase in reserves for excess and obsolete inventory, an increase in research and development expenses and an increase in selling, general and administrative expenses, primarily related to legal fees.

**QTL Segment.** QTL revenues for the first quarter of fiscal 2007 were \$600 million, compared to \$526 million for the first quarter of fiscal 2006. QTL's earnings before taxes for the first quarter of fiscal 2007 were \$498 million, compared to \$479 million for the first quarter of fiscal 2006. QTL's operating margin percentage was 82% in the first quarter of fiscal 2007, compared to 91% in the first quarter of fiscal 2006. The increase in revenues primarily resulted from a \$72 million increase in royalty revenue, largely consisting of royalties reported to us by our external licensees, which were \$586 million in the first quarter of fiscal 2007, compared to \$514 million in the first quarter of fiscal 2006. In the first quarter of fiscal 2007, our licensees reported sales of CDMA-based products during the fourth quarter of fiscal 2006 of approximately 76 million units, compared to approximately 52 million units reported in the first quarter of fiscal 2006 for sales during the fourth quarter of fiscal 2005. Revenues from amortized license fees were \$14 million in the first quarter of fiscal 2007, compared to \$11 million in the first quarter of fiscal 2006. The increase in QTL's earnings before taxes for the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006 was partially offset by increases in legal and bad debt expenses, which resulted in a corresponding decline in operating margin percentage.

**QWI Segment.** QWI revenues for the first quarter of fiscal 2007 were \$188 million, compared to \$179 million for the first quarter of fiscal 2006. Revenues increased primarily due to an increase in QIS revenue of \$17 million, partially offset by a decrease in QWBS revenue of \$12 million. The increase in QIS revenue was primarily attributable to increases in fees related to our expanded BREW customer base and products and increases in QChat revenue resulting from increased development efforts under the licensing agreement with Sprint. The decrease in QWBS revenue primarily resulted from lower product shipments. QWBS shipped approximately 33,600 terrestrial-based and satellite-based systems during the first quarter of fiscal 2007, compared to approximately 39,500 terrestrial-based and satellite-based systems in the first quarter of fiscal 2006.

QWI's earnings before taxes for the first quarter of fiscal 2007 were \$20 million, compared to \$17 million for the first quarter of fiscal 2006. QWI's operating margin percentage was 11% in the first quarter of fiscal 2007, compared to 10% in the first quarter of fiscal 2006. The increase in QWI's earnings before taxes was primarily due to a \$10 million increase in QIS operating margin largely resulting from the increase in revenues related to our expanded BREW customer base and products and QChat development efforts, partially offset by a \$7 million decrease in QWBS gross margin primarily due to a decrease in product shipments.

**QSI Segment.** QSI's losses before taxes for the first quarter of fiscal 2007 were \$43 million, compared to losses before taxes of \$48 million for the first quarter of fiscal 2006. QSI's losses before taxes included a \$16 million increase in our MediaFLO USA subsidiary's operating expenses. Equity in losses of investees during the first quarter of fiscal 2006 was \$20 million, primarily related to our investment in Inquam. Beginning in the second quarter of fiscal 2006,



we no longer apply the equity method of accounting to our investment in Inquam as a result of its restructuring.

**Table of Contents****Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations and proceeds from the issuance of common stock under our stock option and employee stock purchase plans. Cash, cash equivalents and marketable securities were \$10.5 billion at December 31, 2006, an increase of \$596 million from September 24, 2006. Our cash, cash equivalents and marketable securities at December 31, 2006 consisted of \$4.3 billion held by foreign subsidiaries with the remaining balance of \$6.2 billion held domestically. Due to tax considerations, we derive liquidity for operations primarily from investments held domestically. Cash provided by operating activities was \$789 million during the three months ended December 31, 2006, compared to \$596 million during the three months ended December 25, 2005. Net proceeds from the issuance of common stock under our stock option and employee stock purchase plans was \$97 million during the three months ended December 31, 2006, compared to \$181 million during the three months ended December 25, 2005.

On November 7, 2005, we authorized the repurchase of up to \$2.5 billion of our common stock under a stock repurchase program with no expiration date. During the three months ended December 31, 2006, we repurchased and retired 2,000,000 shares of common stock for \$96 million. Any shares repurchased upon exercise of the put options were retired. At December 31, 2006, \$905 million remains authorized for repurchases under our stock repurchase program. We will continue to actively evaluate repurchases under this program.

We announced dividends totaling \$198 million, or \$0.12 per share, during the three months ended December 31, 2006, which were paid on January 4, 2007. On January 12, 2007, we announced a cash dividend of \$0.12 per share on our common stock, payable on March 30, 2007 to stockholders of record as of March 2, 2007. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations that cash dividends are in the best interest of our stockholders.

Accounts receivable decreased slightly during the first quarter of fiscal 2007. Days sales outstanding, on a consolidated basis, were 32 days at December 31, 2006 compared to 29 days at September 24, 2006. The increase in days sales outstanding is primarily due to the contractual timing of cash receipts for royalty receivables, some of which are paid semi-annually.

We intend to continue our strategic investment activities to promote the worldwide adoption of CDMA-based products and the growth of CDMA-based wireless data and wireless Internet products. As part of these investment activities, we may provide financing to facilitate the marketing and sale of CDMA equipment by authorized suppliers. In the event additional needs or uses for cash arise, we may raise additional funds from a combination of sources including potential debt and equity issuance.

We believe our current cash and cash equivalents, marketable securities and cash generated from operations will satisfy our expected working and other capital requirements for the foreseeable future based on current business plans, including acquisitions, investments in other companies and other assets to support the growth of our business, financing and other commitments, the payment of dividends and possible additional stock repurchases.

**Contractual Obligations / Off-Balance Sheet Arrangements**

We have no significant contractual obligations not fully recorded on our condensed consolidated balance sheets or fully disclosed in the notes to our condensed consolidated financial statements. We have no material off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

Additional information regarding our financial commitments at December 31, 2006 is provided in the notes to our condensed consolidated financial statements. See Notes to Condensed Consolidated Financial Statements, Note 6 Commitments and Contingencies.

**Future Accounting Requirements**

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions.

**Table of Contents**

The accounting provisions of FIN 48 will be effective for our fiscal 2008 beginning October 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. We are in the process of determining the effect, if any, the adoption of FIN 48 will have on our consolidated financial statements.

**Risk Factors**

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 24, 2006, including our financial statements and the related notes.

*If CDMA and CDMA-related technology deployment does not expand as anticipated, our revenues may not grow as anticipated.*

We focus our business primarily on developing, patenting and commercializing CDMA technology for wireless telecommunications applications. In addition, with the acquisition of Flarion, we expect an increased emphasis on developing, patenting and commercializing OFDMA technology. Other digital wireless communications technologies, particularly GSM technology, have been more widely deployed than CDMA technology. OFDMA has not been widely deployed commercially. Notwithstanding our portfolio of OFDM/OFDMA intellectual property, technology and products, if CDMA technology does not become the preferred wireless communications industry standard in the countries where our products and those of our customers and licensees are sold, our business and financial results could suffer. If GSM wireless operators do not select CDMA for their networks or update their current networks to any CDMA-based third generation (3G) technology, our business and financial results could suffer since we generally have not generated revenues from GSM product sales, and there is no assurance that our OFDM/OFDMA licensing program will be as successful as our CDMA licensing program or that our OFDMA chipset business will be as successful as our CDMA chipset business. Further, if OFDMA technology is not adopted and deployed commercially, our investment in Flarion and OFDMA technology may not provide us an adequate return on our investment.

To increase our revenues in future periods, we are dependent upon the commercial deployment of 3G wireless communications equipment, products and services based on our CDMA technology. Although wireless network operators have commercially deployed CDMA2000 and WCDMA, we cannot predict the timing or success of further commercial deployments or expansions of CDMA2000, WCDMA or other CDMA systems. If existing deployments are not commercially successful or do not continue to grow their subscriber base, or if new commercial deployments of CDMA2000, WCDMA or other CDMA-based systems are delayed or unsuccessful, our business and financial results may be harmed. In addition, our business could be harmed if wireless network operators deploy competing technologies or switch existing networks from CDMA to GSM without upgrading to WCDMA or if wireless network operators introduce new technologies. A limited number of operators have started testing OFDMA technology, but there can be no assurance that OFDMA will be adopted or deployed commercially or that we will be successful in developing and marketing OFDMA products. Although the acquisition of Flarion brings us an additional and very strong portfolio of issued and pending patents related to OFDMA technology, and, prior to the acquisition, we had hundreds of issued or pending patents relating to applications of GPRS, EDGE, OFDM, OFDMA and multi in, multi out (MIMO), there can be no assurance that our patent portfolio licensing program in these areas would be as successful as our CDMA portfolio licensing program. Sprint Nextel has indicated that it is planning to deploy WiMax (an OFDMA based technology) in its 2.5 Ghz spectrum, also known as the Broadband Radio Services band. Other operators are investigating deployment of WiMax. Although we believe that our patented technology is essential and useful to implementation of the WiMax standard, there is no assurance that we will achieve the same royalty revenue on such WiMax deployments as on CDMA or other technology deployments or that we will achieve the same chipset market shares within a WiMax network.

Our business and the deployment of our technologies, products and services are dependent on the success of our customers, licensees and CDMA-based wireless operators, as well as the timing of their deployment of new services. Our licensees and CDMA-based wireless operators may incur lower operating margins on products or

## **Table of Contents**

services based on our technologies than on products using alternative technologies due to greater competition in the relevant market or other factors. If CDMA-based wireless operators, phone and/or infrastructure manufacturers exit the CDMA-based markets, the deployment of CDMA technology could be negatively affected, and our business could suffer.

*Our three largest customers accounted for 40% and 39% of consolidated revenues in the first quarter of fiscal 2007 and 2006, respectively, and 39% of consolidated revenues in both fiscal 2006 and 2005. The loss of any one of our major customers or any reduction in the demand for devices utilizing our CDMA technology could reduce our revenues and harm our ability to achieve or sustain desired levels of operating results.*

**QCT Segment.** Three customers, LG Electronics, Motorola Inc. and Samsung Electronics Company, constitute a significant portion of QCT's revenues such that the loss of any one of these customers or the delay, even if only temporary, or cancellation of significant orders from any of these customers would reduce our revenues in the period of the cancellation or deferral and harm our ability to achieve or sustain acceptable levels of operating results. Accordingly, unless and until our QCT segment diversifies and expands its customer base, our future success will significantly depend upon the timing and size of future purchase orders, if any, from these customers. Factors that may impact the size and timing of orders from customers of our QCT segment include, among others, the following:

the product requirements of our customers and the network operators;

the financial and operational success of our customers;

the success of our customers' products that incorporate our products;

changes in wireless penetration growth rates;

value added features which drive replacement rates;

shortages of key products and components;

fluctuations in channel inventory levels;

the success of products sold to our customers by licensed competitors;

the rate of deployment of new technology by the wireless network operators and the rate of adoption of new technology by the end consumers;

the extent to which certain customers successfully develop and produce CDMA-based integrated circuits and system software to meet their own needs;

general economic conditions;

changes in governmental regulations in countries where we or our customers currently operate or plan to operate; and

widespread illness.

**QTL Segment.** Our QTL segment derives royalty revenues primarily from sales of CDMA products by our licensees. Although we have more than 140 licensees, we derive a significant portion of our royalty revenue from a limited number of licensees. Our future success depends upon the ability of our licensees to develop, introduce and deliver high-volume products that achieve and sustain market acceptance. We have little or no control over the sales efforts of our licensees, and we cannot assure you that our licensees will be successful or that the demand for wireless communications devices and services offered by our licensees will continue to increase. Any reduction in the demand

for or any delay in the development, introduction or delivery of wireless communications devices utilizing our CDMA technology could have a material adverse effect on our business. Reductions in the average selling price of wireless communications devices utilizing our CDMA technology, without a comparable increase in the volumes of such devices sold, could have a material adverse effect on our business. Weakness in the value of foreign currencies in which our customers' products are sold may reduce the amount of royalties payable to us in U.S. dollars.

Royalties under our license agreements are generally payable to us for the life of the patents that we license under our agreements. The licenses granted to and from us under a number of our license agreements include only

**Table of Contents**

patents that are either filed or issued prior to a certain date, and, in a small number of agreements, royalties are payable on those patents for a specified time period. As a result, there are agreements with some licensees where later patents are not licensed by or to us under our license agreements. In order to license any such later patents, we will need to extend or modify our license agreements or enter into new license agreements with such licensees. Although in the past we have amended many of our license agreements to include later patents without affecting the material terms and conditions of our license agreements, there is no assurance that we will be able to modify our license agreements in the future to license any such later patents or extend such date(s) to incorporate later patents without affecting the material terms and conditions of our license agreements with such licensees. We have a license agreement with Nokia Corp., which in part expires on April 9, 2007. While the parties have been in discussions to conclude an extension or a new license agreement beyond that time period, there is no certainty as to when we will be able to conclude an agreement or the terms of any such agreement. There is also a possibility that the parties will not be able to conclude a new or extended agreement by April 2007. In that event after April 9, 2007, unless and until the existing agreement is extended or a new agreement is concluded, Nokia's right to sell certain subscriber products (such as cellular phones and wireless personal digital assistant devices) under most of our patents (including many that we have declared as essential to the CDMA, WCDMA and other standards) and therefore Nokia's obligation to pay royalties to us will both cease under the terms of the current agreement, and our rights to sell integrated circuits under Nokia's patents will likewise cease under the terms of the current agreement. Please refer to our discussion below under the subheadings entitled "The enforcement and protection of our intellectual property rights may be expensive and could divert our valuable resources" and "Claims by other companies that we infringe their intellectual property, that patents on which we rely are invalid, or that our business practices are in some way unlawful, could adversely affect our business" and note that any company that makes or sells products without a license under the applicable patents of another company would be exposed to patent infringement litigation by such other company. The patent holder, whether we or another company, would generally be entitled to seek all available legal remedies including an injunction against making and selling products infringing such patent without a license and damages for past unlicensed sales in the form of lost profits or a reasonable royalty (which damages may be trebled for willful infringement).

Although our patents apply to multiple technologies in addition to CDMA, such as GPRS, EDGE, OFDM, OFDMA (including WiMax) and MIMO, there can be no assurance that our patent portfolio will generate licensing income or be as valuable in generating licensing income with respect to other technologies, as compared to CDMA-based technologies.

*Efforts by some telecommunications equipment manufacturers and component suppliers to avoid paying fair and reasonable royalties for the use of our intellectual property may create uncertainty about our future business prospects, may require the investment of substantial management time and financial resources, and may result in legal decisions and/or political actions by foreign governments that harm our business.*

Since our founding in 1985, we have focused heavily on technology development and innovation. These efforts have resulted in a leading intellectual property portfolio related to wireless technology. Because all commercially deployed forms of CDMA and their derivatives require the use of our patents, our patent portfolio is the most widely and extensively licensed portfolio in the industry with over 140 licensees. Over the years a number of companies have challenged our patent position but at this time most, if not all, companies recognize that any company seeking to develop, manufacture and/or sell products that use CDMA technologies will require a patent license from us. Notwithstanding the strength of this intellectual property position, we have a policy of, and have succeeded in, licensing our technology to all interested companies on terms that are fair, reasonable and free from unfair discrimination. Unlike some other companies in our industry that hold back certain key technologies, we offer interested companies the opportunity to license essentially our entire patent portfolio. Our broad licensing strategy has been a catalyst for industry growth, helping to enable a wide range of companies offering a broad array of wireless products and features while driving down average and low-end selling prices for 3G handsets and other wireless devices. By licensing a wide range of equipment manufacturers, encouraging innovative applications, supporting equipment manufacturers with a total chipset and software solution, and focusing on improving the efficiency of the airlink for operators, we have helped 3G CDMA evolve, grow, and reduce handset pricing all at a faster pace than the

second generation technologies that preceded it (e.g. GSM).

Having failed in their efforts to challenge the strength of our intellectual property position and, in most cases, despite contracts with us that were freely and fairly negotiated and contain fair and reasonable terms and conditions including royalty provisions, a small number of companies have now initiated various strategies in an attempt to



**Table of Contents**

renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property in order to negatively affect our business model and that of our other licensees. These strategies have included (i) litigation, often alleging infringement of patents held by such companies or unfair competition of some variety, (ii) taking questionable positions on the interpretation of contracts with us, with royalty reduction as the likely true motive, (iii) appeals to governmental authorities, such as the complaints filed with the European Commission (EC) during the fourth calendar quarter of 2005 and with the Korean Fair Trade Commission (KFTC) and the Japan Fair Trade Commission (JFTC) during 2006, and (iv) lobbying with governmental regulators and elected officials for the purpose of seeking the imposition of some form of compulsory licensing and/or to weaken a patent holder's ability to enforce its rights or obtain a fair return for such rights.

We were notified by the Competition Directorate of the EC that six companies (Nokia, Ericsson, Panasonic, Texas Instruments, Broadcom and NEC) submitted separate formal complaints accusing our business practices, with respect to licensing of patents and sales of chipsets, to be in violation of Article 82 of the EC treaty. We received the complaints and have submitted a response. While we believe that none of our business practices violate the legal requirements of Article 82 of the EC treaty, if the EC decides to formally investigate these accusations and determines liability as to any of the alleged violations, it could impose fines and/or require us to modify our practices. Further, such an investigation could be expensive and time consuming to address, divert management attention from our business and harm our reputation. Although such potential adverse findings may be appealed within the EC legal system, an adverse final determination could have a significant negative impact on our revenues and/or earnings. We also understand that 1) two U.S. companies (Texas Instruments and Broadcom) and two South Korean companies (Nextreaming Corp. and THINmultimedia Inc.) have filed complaints with the KFTC alleging that our business practices are, in some way, a violation of South Korean competition laws and 2) unnamed parties filed a complaint with the JFTC allegedly claiming that our business practices are, in some way a violation of the Japan competition laws. While we have not seen any of these complaints in South Korea or Japan, we believe that none of our business practices violate the legal requirements of South Korean competition law or Japan competition law. However, any resulting investigation in South Korea and/or Japan could be expensive and time consuming to address, divert management attention from our business and harm our reputation. An adverse final determination on these charges could have a significant negative impact on our revenues and/or earnings.

Given our substantial investment in technology innovation, the demonstrable benefits provided by our intellectual property, and license agreements with more than 140 licensees including many of the world's foremost wireless equipment manufacturers (including major corporations in Korea and Japan), we believe that our royalty rates are reasonable and fair to the companies that benefit from our intellectual property and provide significant incentives for others to invest in CDMA applications, as evidenced by the significant growth in the CDMA portion of the wireless industry, the integration of new features and functionality into CDMA wireless products, and the rapid reduction in the price of low-end CDMA handsets over recent years. While the distractions caused by challenges to our business model and licensing program are undesirable and the legal and other costs associated with defending our position have been and continue to be significant, we believe that these challenges are without merit, and we will continue to vigorously defend our intellectual property rights and our right to continue to receive a fair return for our innovations. A ruling in New Jersey Federal district court granted our motion to dismiss unfounded claims by Broadcom that our business practices have been in violation of anti-trust law in the United States. These business practices are essentially the same as cited in the EC complaints. The court ruled that, assuming all the facts stated by Broadcom are correct (which we believe is not the case), we have not violated any anti-trust laws. This ruling is very important and favorable. Broadcom has appealed it. Regrettably, we assume, as should investors, that challenges of this nature will continue into the foreseeable future and may require the investment of substantial management time and financial resources to explain and defend our position.

Although there can be no guarantees as to the ultimate outcome of these challenges, we intend to expend appropriate resources to educate governmental authorities, elected officials, courts of law, our licensees, wireless service operators and the general public as to the true nature of these disputes. We believe that when such information is fairly evaluated by such parties, these challenges by the complainants to the EC, KFTC and JFTC will be seen for what they truly are, an attempt to avoid paying the agreed upon and fair compensation for the use of our significant

intellectual property portfolio, and to extend their domination of the second generation wireless handset market into the third generation.

## **Table of Contents**

*The enforcement and protection of our intellectual property rights may be expensive and could divert our valuable resources.*

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary information, technologies and processes, including our patent portfolio. Policing unauthorized use of our products and technologies is difficult and time consuming. We cannot be certain that the steps we have taken will prevent the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our proprietary rights as fully or as readily as United States laws. We cannot be certain that the laws and policies of any country, including the United States, or the practices of any of the international standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing, issuance of wireless licenses or the adoption of standards, will not be changed in a way detrimental to our licensing program or to the sale or use of our products or technology. Within the United States Congress, committee work has been initiated to draft a patent reform law. The end product of such work could be new patent legislation detrimental to our licensing program or to the sale or use of our products or technology. Any action we take to influence such potential changes could absorb significant management time and attention, which, in turn, could negatively impact our operating results.

The vast majority of our patents and patent applications relate to our wireless communications technology and much of the remainder of our patents and patent applications relate to our other technologies and products. Litigation may be required to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our proprietary rights or incur substantial unexpected operating costs. Any action we take to enforce our intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results. In addition, failure to protect our trademark rights could impair our brand identity.

*Claims by other companies that we infringe their intellectual property, that patents on which we rely are invalid, or that our business practices are in some way unlawful, could adversely affect our business.*

From time to time, companies have asserted, and may again assert, patent, copyright and other intellectual proprietary rights against our products or products using our technologies or other technologies used in our industry. These claims have resulted (see Part II, Item 1. Legal Proceedings) and may again result in our involvement in litigation. We may not prevail in such litigation given the complex technical issues and inherent uncertainties in intellectual property litigation. If any of our products were found to infringe on another company's intellectual property rights, we could be required to redesign our products or license such rights and/or pay damages or other compensation to such other company. If we were unable to redesign our products or license such intellectual property rights used in our products, we could be prohibited from making and selling such products.

In addition, as the number of competitors in our market increases and the functionality of our products is enhanced and overlaps with the products of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. Any claims, with or without merit, could be time consuming to address, result in costly litigation, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have a material adverse effect upon our operating results. In any potential dispute involving other companies' patents or other intellectual property, our licensees could also become the targets of litigation. Any such litigation could severely disrupt the business of our licensees, which in turn could hurt our relations with our licensees and cause our revenues to decrease.

A number of other companies have claimed to own patents essential to various CDMA standards, GSM standards and implementations of OFDM and OFDMA systems. If we or other product manufacturers are required to obtain additional licenses and/or pay royalties to one or more patent holders, this could have a material adverse effect on the commercial implementation of our CDMA or multimode products and technologies, demand for our licensees products, and our profitability.

Our currently pending or future patent applications for IMOD may not result in issued patents. In addition, our issued IMOD patents may not contain claims sufficiently broad to protect us against third parties with similar technologies or products or from third parties infringing our patents or misappropriating our trade secrets or provide us with any competitive advantage.

Other companies or entities also may commence actions seeking to establish the invalidity of our patents. In the event that one or more of our patents are challenged, a court may invalidate the patent or determine that the patent is

---

**Table of Contents**

not enforceable, which could harm our competitive position. If any of our key patents are invalidated, or if the scope of the claims in any of these patents is limited by court decision, we could be prevented from licensing the invalidated or limited portion of such patents. Even if such a patent challenge is not successful, it could be expensive and time consuming to address, divert management attention from our business and harm our reputation.

*Successful attempts by certain companies to amend or modify Standards Development Organizations (SDO s) intellectual property policies could impact our licensing business.*

Our technologies, such as CDMA and OFDMA, are generally proposed and incorporated into standards adopted by SDO s throughout the world (e.g. European Telecommunications Standards Institute (ETSI), Telecommunications Industry Association, Telecommunications Technology Association, IEEE, etc.). These SDO s have policies with respect to intellectual property contributed by their member companies, which generally ask member companies whether they will commit to license their patents essential to the practice of the adopted standard on terms and conditions that are fair, reasonable and free from unfair discrimination (FRAND). We, as a member of these SDO s and a significant contributor to a number of adopted standards, have made a number of FRAND commitments. Some companies have proposed significant new SDO intellectual property policies, some of which would require a maximum aggregate intellectual property royalty rate for the use of all essential patents owned by its member companies to be applied to the selling price of any product implementing the adopted standard. They have further proposed that the maximum aggregate royalty rate be apportioned to each member company with essential patents based upon the size of its essential patent portfolio. Recently, NGMN Ltd., an industry standards development group organized by several wireless operators, has invited other companies in the industry to participate within NGMN Ltd. subject to IP restrictions substantially similar to these proposals. It is quite early in the process of discussing and evaluating these proposals but we expect that, once all parties analyze and understand the full impact of these proposals, they will come to understand that such proposals are not in the best interests of the industry and would have serious undesirable consequences. For example, these proposals, if adopted, would discourage research and development investment, invention and innovation, incentivize bulk filings of marginal patents, and encourage lobbying for introduction of needless features into standards. Further, they would discriminate against companies that develop new technology and enable other companies to manufacture and use products incorporating those new technologies in favor of such manufacturers and users. We are participating in the process and expect to channel it into useful improvements of the existing processes. Although the ETSI ad hoc IPR group has determined that such proposals should not be adopted as amendments to existing ETSI policies, there can be no assurance that such proposals as described above will not be adopted by other SDO s or industry groups, such as the recently formed NGMN Ltd., resulting in a disadvantage to our business model either by limiting our return on investment with respect to new technologies or forcing us to work outside of the SDO s or such other industry groups for promoting our new technologies.

*We depend upon a limited number of third party suppliers to manufacture component parts, subassemblies and finished goods for our products. If these third party suppliers do not allocate adequate manufacturing capacity in their facilities to manufacture products on our behalf, or if there are any disruptions in the operations of, or the loss of, any of these third parties, it could harm our ability to meet our delivery obligations to our customers, reduce our revenue, increase our cost of sales and harm our business.*

Our ability to meet customer demand depends, in part, on available manufacturing capacity and our ability to obtain timely and adequate delivery of parts and components from our suppliers. A reduction or interruption in our product supply source, an inability of our suppliers to react to shifts in product demand or an increase in component prices could have a material adverse effect on our business or profitability. Component shortages could adversely affect our ability and that of our customers to ship products on a timely basis and as a result our customers' demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain desired levels of profitability. Additionally, failure to meet customer demand in a timely manner could damage our reputation and harm our customer relationships potentially resulting in reduced market share.

Our operations may also be harmed by lengthy or recurring disruptions at any of our suppliers manufacturing facilities and by disruptions in the distribution channels from our suppliers and to our customers. These disruptions may include labor strikes, work stoppages, widespread illness, terrorism, war, political unrest, fire, earthquake,

flooding or other natural disasters. These disruptions could cause significant delays in shipments until we are able to shift the products from an affected manufacturer to another manufacturer. If the affected supplier was a sole source

**Table of Contents**

supplier, we may not be able to resource the product without significant cost and delay. The loss of a significant third party supplier or the inability of a third party supplier to meet performance and quality specifications or delivery schedules could harm our ability to meet our delivery obligations to our customers and negatively impact our revenues and business operations.

*QCT Segment.* A supplier's ability to meet our product manufacturing demand is limited mainly by their overall capacity and current capacity availability. Although we have entered into long-term contracts with our suppliers, most of these contracts do not provide for long-term capacity commitments. To the extent that we do not have firm commitments from our suppliers over a specific time period, or in any specific quantity, our suppliers may allocate, and in the past have allocated, capacity to the production of products for their other customers while reducing capacity to manufacture our products. Accordingly, capacity for our products may not be available when we need it or available at reasonable prices. We have experienced capacity limitations from our suppliers in the past and may experience it in the future. During fiscal 2004 and the first quarter of fiscal 2005, we experienced supply constraints which resulted in our inability to meet certain customer demand. While we were able to alleviate these supply constraints and improve the supply and delivery of the affected integrated circuits by working with our existing suppliers to increase available manufacturing capacity, and by increasing and extending our firm orders to our suppliers, there can be no assurance that we will not experience these or other supply constraints in the future, which could result in our failure to meet customer demand.

While our goal is to establish alternate suppliers for technologies that we consider critical, some of our integrated circuits products are only available from single sources, with which we do not have long-term contracts. Our reliance on sole or limited-source suppliers involves significant risks including possible shortages of manufacturing capacity, poor product performance and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs.

In the event of a loss of, or a decision to change a key third party supplier, qualifying a new foundry supplier and commencing volume production or testing could involve delay and expense, resulting in lost revenues, reduced operating margins and possible loss of customers. We work closely with our customers to expedite their processes for evaluating new integrated circuits from our foundry suppliers; however, in some instances, transition of integrated circuit production to a new foundry supplier may cause a temporary decline in shipments of specific integrated circuits to individual customers.

*QMT Division.* QMT needs to form and maintain reliable business relationships with flat panel display manufacturers or other targeted partners to support the manufacture of IMOD displays in commercial volumes. All of our current relationships have been for the development and limited production of certain IMOD display panels and/or modules. Some or all of these relationships may not succeed or, even if they are successful, may not result in the display manufacturers entering into material supply relationships with us.

*We are expanding our manufacturing model to purchase completed die from semiconductor manufacturing foundries and to contract directly with third party manufacturers for assembly and test services. This new production model may increase costs and lower our control over the manufacturing process.*

To further enable flexibility of supply and access to potential new foundry suppliers, and in response to the complexity of our product roadmap, starting in fiscal 2005, we expanded our manufacturing model to include purchasing completed die directly from semiconductor manufacturing foundries. Under our IFM model, we directly manage and contract with third party manufacturers for back-end assembly and test services, and we ship the completed integrated circuits to our customers. We expect to increase the volume of our purchases of completed die directly from our foundry suppliers under our IFM model and to continue to purchase the majority of our requirements for integrated circuit products on a turnkey basis. We have a limited history of working with these third party suppliers under this expanded manufacturing model, and their services and volume of activity may not be completely reliable during the initial stages. We cannot guarantee that this change will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers or increase our cost of sales.

*Our suppliers may also be our competitors putting us at a disadvantage for pricing and capacity allocation.*

One or more of our suppliers may obtain licenses from us to manufacture CDMA-based integrated circuits that compete with our products. In this event, the supplier could elect to allocate raw materials and manufacturing capacity

to their own products and reduce deliveries to us to our detriment. In addition, we may not receive reasonable pricing, manufacturing or delivery terms. We cannot guarantee that the actions of our suppliers will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers or increase our cost of sales.



## **Table of Contents**

*We, and our licensees, are subject to the risks of conducting business outside the United States.*

A significant part of our strategy involves our continued pursuit of growth opportunities in a number of international markets. We market, sell and service our products internationally. We have established sales offices around the world. We expect to continue to expand our international sales operations and enter new international markets. This expansion will require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels, and we cannot assure you that we will be successful or that our expenditures in this effort will not exceed the amount of any resulting revenues. If we are not able to maintain or increase international market demand for our products and technologies, we may not be able to maintain a desired rate of growth in our business.

Our international customers sell their products to markets throughout the world, including China, India, Japan, South Korea, North America, South America and Europe. We distinguish revenues from external customers by geographic areas based on customer location. Consolidated revenues from international customers as a percentage of total revenues were 87% and 88% in the first quarter of fiscal 2007 and 2006, respectively, and 87% and 82% in fiscal 2006 and 2005, respectively. Because most of our foreign sales are denominated in U.S. dollars, our products and those of our customers and licensees that are sold in U.S. dollars become less price-competitive in international markets if the value of the U.S. dollar increases relative to foreign currencies.

In many international markets, barriers to entry are created by long-standing relationships between our potential customers and their local service providers and protective regulations, including local content and service requirements. In addition, our pursuit of international growth opportunities may require significant investments for an extended period before we realize returns, if any, on our investments. Our business could be adversely affected by a variety of uncontrollable and changing factors, including:

- changes in legal or regulatory requirements, including regulations governing the materials used in our products;

- legal or regulatory limitations on the spectrum available for the deployment of CDMA-based technologies;

- difficulty in protecting or enforcing our intellectual property rights and/or contracts in a particular foreign jurisdiction, including challenges to our licensing practices under such jurisdictions' competition laws;

- our inability to succeed in significant foreign markets, such as China, India or Europe;

- cultural differences in the conduct of business;

- difficulty in attracting qualified personnel and managing foreign activities;

- recessions in economies outside the United States;

- longer payment cycles for and greater difficulties collecting accounts receivable;

- export controls, tariffs and other trade protection measures;

- fluctuations in currency exchange rates;

- inflation and deflation;

- nationalization, expropriation and limitations on repatriation of cash;

- social, economic and political instability;

natural disasters, acts of terrorism, widespread illness and war;

taxation; and

changes in laws and policies affecting trade, foreign investments, licensing practices and loans.

## **Table of Contents**

In addition to general risks associated with our international sales, licensing activities and operations, we are also subject to risks specific to the individual countries in which we do business. We cannot be certain that the laws and policies of any country with respect to intellectual property enforcement or licensing, issuance of wireless licenses or the adoption of standards will not be changed or enforced in a way detrimental to our licensing program or to the sale or use of our products or technology. Declines in currency values in selected regions may adversely affect our operating results because our products and those of our customers and licensees may become more expensive to purchase in the countries of the affected currencies. During the first quarter of fiscal 2007, 69% of our revenues were from customers and licensees based in South Korea, Japan and China, as compared to 71% during the first quarter of fiscal 2006. During fiscal 2006, 70% of our revenues were from customers and licensees based in South Korea, Japan and China, as compared to 69% during fiscal 2005. These customers sell their products to markets worldwide, including Japan, South Korea, China, India, North America, South America and Europe. A significant downturn in the economies of Asian countries where many of our customers and licensees are located, particularly the economies of South Korea, Japan and China, or the economies of the major markets they serve would materially harm our business.

The wireless markets in Brazil, China and India, among others, represent growth opportunities for us. If wireless operators in Brazil, China or India, or the governments of Brazil, China or India, make technology deployment or other decisions that result in actions that are adverse to the expansion of CDMA technologies, our business could be harmed.

We are subject to risks in certain global markets in which wireless operators provide subsidies on phone sales to their customers. Increases in phone prices that negatively impact phone sales can result from changes in regulatory policies related to phone subsidies. Limitations or changes in policy on phone subsidies in South Korea, Japan, China and other countries may have additional negative impacts on our revenues.

We expect that royalty revenues from international licensees based upon sales of their products outside of the United States will continue to represent a significant portion of our total revenues in the future. Our royalty revenues from international licensees are denominated in U.S. dollars. To the extent that such licensees' products are sold in foreign currencies, any royalties that we derive as a result of such sales are subject to fluctuations in currency exchange rates. In addition, if the effective price of products sold by our customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for the products could fall, which in turn would reduce our royalty revenues.

*Currency fluctuations could negatively affect future product sales or royalty revenue, harm our ability to collect receivables, or increase the U.S. dollar cost of the activities of our foreign subsidiaries and international strategic investments.*

We are exposed to risk from fluctuations in currencies, which may change over time as our business practices evolve, that could impact our operating results, liquidity and financial condition. We operate and invest globally. Adverse movements in currency exchange rates may negatively affect our business due to a number of situations, including the following:

Assets or liabilities of our consolidated subsidiaries and our foreign investees that are not denominated in the functional currency of those entities are subject to the effects of currency fluctuations, which may affect our reported earnings. Our exposure to foreign currencies may increase as we expand into new markets.

Investments in our consolidated foreign subsidiaries and in other foreign entities that use the local currency as the functional currency may decline in value as a result of declines in local currency values.

Certain of our revenues, such as royalty revenues, are derived from licensee or customer sales that are denominated in foreign currencies. If these revenues are not subject to foreign exchange hedging transactions, weakening of currency values in selected regions could adversely affect our anticipated revenues and cash flows.

**Table of Contents**

We may engage in foreign exchange hedging transactions that could affect our cash flows and earnings because they may require the payment of structuring fees, and they may limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies.

Our trade receivables are generally U.S. dollar denominated. Any significant increase in the value of the dollar against our customers' or licensees' functional currencies could result in an increase in our customers' or licensees' cash flow requirements and could consequently affect our ability to sell products and collect receivables.

Strengthening of currency values in selected regions may adversely affect our operating results because the activities of our foreign subsidiaries may become more expensive in U.S. dollars.

Strengthening of currency values in selected regions may adversely affect our cash flows and investment results because strategic investment obligations denominated in foreign currencies may become more expensive, and the U.S. dollar cost of equity in losses of foreign investees may increase.

*We may engage in acquisitions or strategic transactions that could result in significant changes or management disruption and fail to enhance stockholder value.*

From time to time, we engage in acquisitions or strategic transactions with the goal of maximizing stockholder value. We have acquired businesses, entered into joint ventures and made strategic investments in or loans to CDMA wireless operators, early-stage companies, or venture funds to support our business, including the global adoption of CDMA-based technologies and related services. Most of our 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. We cannot provide assurance that our acquisitions or strategic investments (either those we currently have completed or may undertake in the future) will generate financial returns or that they will result in increased adoption or continued use of our technologies.

Achieving the anticipated benefits of acquisitions will depend in part upon our ability to integrate the acquired businesses in an efficient and effective manner. The integration of two companies that have previously operated independently may result in significant challenges, and we may be unable to accomplish the integration smoothly or successfully. The difficulties of integrating two companies include, among others:

- retaining key employees;

- maintenance of important relationships of QUALCOMM and the acquired business;

- minimizing the diversion of management's attention from ongoing business matters;

- coordinating geographically separate organizations;

- consolidating research and development operations; and

- consolidating corporate and administrative infrastructures.

We cannot assure you that the integration of the acquired businesses with our business will result in the realization of the full benefits anticipated by us to result from the acquisition. We may not derive any commercial value from the acquired technology, products and intellectual property or from future technologies and products based on the acquired technology and/or intellectual property, and we may be subject to liabilities that are not covered by indemnification protection we may obtain.

We will continue to evaluate potential future transactions that we believe may enhance stockholder value. These potential future transactions may include a variety of different business arrangements, including acquisitions, spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and equity or debt investments. Although our goal is to maximize stockholder value, such transactions may impair stockholder value or otherwise adversely affect our business and the trading price of our stock. Any such transaction may require us to

incur non-recurring or other charges and/or to consolidate or record our equity in losses and may pose significant integration challenges and/or management and business disruptions, any of which could harm our operating results and business.

## **Table of Contents**

*Defects or errors in our products and services or in products made by our suppliers could harm our relations with our customers and expose us to liability. Similar problems related to the products of our customers or licensees could harm our business.*

Our products are inherently complex and may contain defects and errors that are detected only when the products are in use. Further, because our products and services are responsible for critical functions in our customers' products and/or networks, such defects or errors could have a serious impact on our customers, which could damage our reputation, harm our customer relationships and expose us to liability. Defects or impurities in our components, materials or software or those used by our customers or licensees, equipment failures or other difficulties could adversely affect our ability and that of our customers and licensees to ship products on a timely basis as well as customer or licensee demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain desired levels of profitability. We and our customers or licensees may also experience component or software failures or defects that could require significant product recalls, reworks and/or repairs which are not covered by warranty reserves and which could consume a substantial portion of the capacity of our third party manufacturers or those of our customers or licensees. Resolving any defect or failure related issues could consume financial and/or engineering resources that could affect future product release schedules. Additionally, a defect or failure in our products or the products of our customers or licensees could harm our reputation and/or adversely affect the growth of 3G wireless markets.

As our product complexities increase, we are required to migrate to integrated circuit technologies with smaller geometric feature sizes such as 90nm, 65nm, etc. The design process interface issues are more complex as we enter into these new domains of technology, which adds risks on yield and reliability. In addition, the timely readiness of our foundry suppliers to support such technology changes could impact our ability to meet customer demand, revenue, and cost expectations. The timing of acceptance of the smaller technology designs by our customers may subject us to the risk of excess inventories of earlier designs.

*Global economic conditions that impact the wireless communications industry could negatively affect our revenues and operating results.*

Global economic conditions can have wide-ranging effects on markets that we serve, particularly wireless communications equipment manufacturers and wireless network operators. We cannot predict negative events, such as war, that may have adverse effects on the economy or on phone inventories at CDMA-based equipment manufacturers and operators. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause disruptions to the global economy and to the wireless communications industry and create uncertainties. Recent reports suggest that inflation could have adverse effects on the global economy and capital markets. Inflation could adversely affect our customers, including their ability to obtain financing, upgrade wireless networks and purchase our products and services, and our end consumers, by lowering their standards of living and diminishing their ability to purchase wireless devices based on our technology. Inflation could also increase our costs of raw materials and operating expenses and harm our business in other ways. Should such negative events occur, subsequent economic recovery might not benefit us in the near term. If it does not, our ability to increase or maintain our revenues and operating results may be impaired. In addition, because we intend to continue to make significant investments in research and development and to maintain extensive ongoing customer service and support capability, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

*Our industry is subject to competition that could result in decreased demand for our products and the products of our customers and licensees and/or declining average selling prices for our licensees' products and our products, negatively affecting our revenues and operating results.*

We currently face significant competition in our markets and expect that competition will continue. Competition in the telecommunications market is affected by various factors, including:

comprehensiveness of products and technologies;

value added features which drive replacement rates;

manufacturing capability;

scalability and the ability of the system technology to meet customers' immediate and future network requirements;

**Table of Contents**

product performance and quality;

design and engineering capabilities;

compliance with industry standards;

time-to-market;

system cost; and

customer support.

This competition may result in increased development costs and reduced average selling prices for our products and those of our customers and licensees. Reductions in the average selling price of our licensees' products, unless offset by an increase in volumes, generally result in reduced royalties payable to us. While pricing pressures from competition may, to a large extent, be mitigated by the introduction of new features and functionality in our licensees' products, there is no guarantee that such mitigation will occur. We anticipate that additional competitors will enter our markets as a result of growth opportunities in wireless telecommunications, the trend toward global expansion by foreign and domestic competitors, technological and public policy changes and relatively low barriers to entry in selected segments of the industry.

Companies that promote non-CDMA technologies (e.g. GSM and WiMax) and companies that design competing CDMA-based integrated circuits are included amongst our competitors. Examples of such competitors (some of whom are strategic partners of ours in other areas) include Agere, Broadcom, EoNex Technologies, Ericsson, Freescale, Fujitsu, Intel, NEC, Nokia, Samsung, Texas Instruments and VIA Telecom. With respect to our QWBS business, our competitors are aggressively pricing products and services and are offering new value-added products and services which may impact margins, intensify competition in current and new markets and harm our ability to compete in certain markets.

Many of these current and potential competitors have advantages over us, including:

longer operating histories and presence in key markets;

greater name recognition;

motivation by our customers in certain circumstances to find alternate suppliers;

access to larger customer bases;

economies of scale and cost structure advantages; and

greater sales and marketing, manufacturing, distribution, technical and other resources than we have.

As a result of these and other factors, our competitors may be more successful than us. In addition, we anticipate additional competitors will enter the market for products based on 3G standards. These competitors may have more established relationships and distribution channels in markets not currently deploying CDMA-based wireless communications technology. These competitors also may have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. These relationships may affect our customers' decisions to purchase products or license technology from us. Accordingly, new competitors or alliances among competitors could emerge and rapidly acquire significant market share to our detriment.

While we continue to believe our IMOD displays will offer compelling advantages to the display market, there can be no assurance that other technologies will not continue to improve in ways that reduce the advantages we anticipate from our IMOD displays. The flat panel display market is currently, and we believe will likely continue to be for some time, dominated by displays based on liquid crystal display (LCD) technology. Numerous companies are making



substantial investments in, and conducting research to improve characteristics of LCDs. Additionally, several other flat panel display technologies have been, or are being, developed, including technologies for the production of organic light-emitting diode (OLED), field emission, inorganic electroluminescence, gas plasma and vacuum fluorescent displays. In each case, advances in LCD or other flat panel display technologies could result in technologies that are more cost effective, have fewer display limitations, or can be brought to market faster than our

## **Table of Contents**

IMOD technology. These advances in competing technologies might cause display manufacturers to avoid entering into commercial relationships with us, or not renew planned or existing relationships with us.

*Our business and operating results will be harmed if we are unable to manage growth in our business.*

Certain of our businesses have experienced periods of rapid growth and/or increased their international activities, placing significant demands on our managerial, operational and financial resources. In order to manage growth and geographic expansion, we must continue to improve and develop our management, operational and financial systems and controls, including quality control and delivery and service capabilities. We also need to continue to expand, train and manage our employee base. We must carefully manage research and development capabilities and production and inventory levels to meet product demand, new product introductions and product and technology transitions. We cannot assure you that we will be able to timely and effectively meet that demand and maintain the quality standards required by our existing and potential customers and licensees.

In addition, inaccuracies in our demand forecasts, or failure of the systems used to develop the forecasts, could quickly result in either insufficient or excessive inventories and disproportionate overhead expenses. If we ineffectively manage our growth or are unsuccessful in recruiting and retaining personnel, our business and operating results will be harmed.

*Our operating results are subject to substantial quarterly and annual fluctuations and to market downturns.*

Our revenues, earnings and other operating results have fluctuated significantly in the past and may fluctuate significantly in the future. General economic or other conditions causing a downturn in the market for our products or technology, and in turn affecting the timing of customer orders or causing cancellations or rescheduling of orders, could also adversely affect our operating results. Moreover, our customers may change delivery schedules, cancel or reduce orders without incurring significant penalties and generally are not subject to minimum purchase requirements.

Our future operating results will be affected by many factors, including, but not limited to: our ability to retain existing or secure anticipated customers or licensees, both domestically and internationally; our ability to develop, introduce and market new technology, products and services on a timely basis; management of inventory by us and our customers and their customers in response to shifts in market demand; changes in the mix of technology and products developed, licensed, produced and sold; seasonal customer demand; the Flarion acquisition; and other factors described elsewhere in this Quarterly Report and in these risk factors. Our cash investments represent a significant asset that may be subject to fluctuating or even negative returns depending upon interest rate movements and financial market conditions in fixed income and equity securities.

These factors affecting our future operating results are difficult to forecast and could harm our quarterly and/or annual operating results. If our operating results fail to meet the financial guidance we provide to investors, or the expectations of investment analysts or investors in any period, securities class action litigation could be brought against us and/or the market price of our common stock could decline.

*Our stock price may be volatile.*

The stock market in general, and the stock prices of technology-based and wireless communications companies in particular, have experienced volatility that often has been unrelated to the operating performance of any specific public company. The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future as well. Factors that may have a significant impact on the market price of our stock include:

- announcements concerning us or our competitors, including the selection of wireless communications technology by wireless operators and the timing of the roll-out of those systems;

- receipt of substantial orders or order cancellations for integrated circuits and system software products;

- quality deficiencies in services or products;

- announcements regarding financial developments or technological innovations;

- international developments, such as technology mandates, political developments or changes in economic policies;

lack of capital to invest in 3G networks;

36

---

**Table of Contents**

new commercial products;

changes in recommendations of securities analysts;

general stock market volatility;

government regulations, including share-based compensation accounting and tax regulations;

energy blackouts;

acts of terrorism and war;

inflation and deflation;

widespread illness;

proprietary rights or product or patent litigation against us or against our customers or licensees;

strategic transactions, such as acquisitions and divestitures; or

rumors or allegations regarding our financial disclosures or practices.

Our future earnings and stock price may be subject to volatility, particularly on a quarterly basis. Shortfalls in our revenues or earnings in any given period relative to the levels expected by securities analysts could immediately, significantly and adversely affect the trading price of our common stock.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Due to changes in the volatility of our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial uninsured costs and divert management's attention and resources. In addition, stock price volatility may be precipitated by failure to meet earnings expectations or other factors, such as the potential uncertainty in future reported earnings created by the assumptions used for share-based compensation and the related valuation models used to determine such expense. *Our industry is subject to rapid technological change, and we must make substantial investments in new products and technologies to compete successfully.*

New technological innovations generally require a substantial investment before they are commercially viable. We intend to continue to make substantial investments in developing new products and technologies, and it is possible that our development efforts will not be successful and that our new technologies will not result in meaningful revenues. In particular, we intend to continue to invest significant resources in developing integrated circuit products to support high-speed wireless Internet access and multimode, multiband, multinet network operation and multimedia applications, which encompass development of graphical display, camera and video capabilities, as well as higher computational capability and lower power on-chip computers and signal processors. While our research and development activities have resulted in inventions relating to applications of GPRS, EDGE, OFDM, OFDMA and MIMO, and hundreds of issued or pending patent applications, there can be no assurance that our patent portfolio licensing program in these areas would be as successful as our CDMA portfolio licensing program. Further, if OFDMA technology is not adopted and deployed commercially, our investment in Flarion and OFDMA technology may not provide us an adequate return on our investment. We also continue to invest in the development of our BREW applications development platform, our MediaFLO MDS and FLO technology and our IMOD display technology. All of these new products and technologies face significant competition, and we cannot assure you that the revenues generated from these products or the timing of the deployment of these products or technologies, which may be dependent on the actions of others, will meet our expectations. We cannot be certain that we will make the additional advances in development that may be essential to successfully commercialize our IMOD technology.



## **Table of Contents**

The market for our products and technology is characterized by many factors, including:  
rapid technological advances and evolving industry standards;

changes in customer requirements;

frequent introductions of new products and enhancements;

evolving methods for transmission of wireless voice and data communications; and

intense competition from companies with greater resources, customer relationships and distribution capabilities.

Our future success will depend on our ability to continue to develop and introduce new products, technology and enhancements on a timely basis. Our future success will also depend on our ability to keep pace with technological developments, protect our intellectual property, satisfy customer requirements, price our products competitively and achieve market acceptance. The introduction of products embodying new technologies and the emergence of new industry standards could render our existing products and technology, and products and technology currently under development, obsolete and unmarketable. If we fail to anticipate or respond adequately to technological developments or customer requirements, or experience any significant delays in development, introduction or shipment of our products and technology in commercial quantities, demand for our products and our customers' and licensees' products that use our technology could decrease, and our competitive position could be damaged.

*Changes in financial accounting standards related to share-based payments are expected to continue to have a significant effect on our reported results.*

On September 26, 2005, we adopted the revised statement of Financial Accounting Standards No. FAS 123 (FAS 123R), Share-Based Payment, which requires that we record compensation expense in the statement of operations for share-based payments, such as employee stock options, using the fair value method. The adoption of this new standard is expected to continue to have a significant effect on our reported earnings, although it will not affect our cash flows, and could adversely impact our ability to provide accurate guidance on our future reported financial results due to the variability of the factors used to estimate the values of share-based payments. If factors change and we employ different assumptions or different valuation methods in the application of FAS 123R in future periods, the compensation expense that we record under FAS 123R may differ significantly from what we have recorded in the current period, which could negatively affect our stock price and our stock price volatility.

*Potential tax liabilities could adversely affect our results.*

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. In such case, a material effect on our income tax provision and net income in the period or periods in which that determination is made could result.

*If we experience product liability claims or recalls, we may incur significant expenses and experience decreased demand for our products.*

Testing, manufacturing, marketing and use of our products and those of our licensees and customers entail the risk of product liability. The use of wireless devices containing our products to access un-trusted content creates a risk of exposing the system software in those devices to viral or malicious attacks. We continue to expand our focus on this issue and take measures to safeguard the software from this threat. However, this issue carries the risk of general product liability claims along with the associated impacts on reputation and demand. Although we carry product liability insurance to protect against product liability claims, we cannot assure you that our insurance coverage will be sufficient to protect us against losses due to product liability claims, or that we will be able to continue to maintain such insurance at a reasonable cost. Furthermore, not all losses associated with alleged product failure are insurable. Our inability to maintain insurance at an acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of our products and those of our licensees and customers and

harm our future operating results. In addition, a product liability claim or recall, whether against our licensees, customers, or us could harm our reputation and result in decreased demand for our products.

## **Table of Contents**

*The high amount of capital required to obtain radio frequency licenses, deploy and expand wireless networks and obtain new subscribers could slow the growth of the wireless communications industry and adversely affect our business.*

Our growth is dependent upon the increased use of wireless communications services that utilize our technology. In order to provide wireless communications services, wireless operators must obtain rights to use specific radio frequencies. The allocation of frequencies is regulated in the United States and other countries throughout the world, and limited spectrum space is allocated to wireless communications services. Industry growth may be affected by the amount of capital required to: obtain licenses to use new frequencies; deploy wireless networks to offer voice and data services; expand wireless networks to grow voice and data services; and obtain new subscribers. The significant cost of licenses, wireless networks and subscriber additions may slow the growth of the industry if wireless operators are unable to obtain or service the additional capital necessary to implement or expand 3G wireless networks. Our growth could be adversely affected if this occurs.

*If wireless phones pose safety risks, we may be subject to new regulations, and demand for our products and those of our licensees and customers may decrease.*

Concerns over the effects of radio frequency emissions, even if unfounded, may have the effect of discouraging the use of wireless phones, which would decrease demand for our products and those of our licensees and customers. In recent years, the FCC and foreign regulatory agencies have updated the guidelines and methods they use for evaluating radio frequency emissions from radio equipment, including wireless phones. In addition, interest groups have requested that the FCC investigate claims that wireless communications technologies pose health concerns and cause interference with airbags, hearing aids and medical devices. Concerns have also been expressed over the possibility of safety risks due to a lack of attention associated with the use of wireless phones while driving. Any legislation that may be adopted in response to these expressions of concern could reduce demand for our products and those of our licensees and customers in the United States as well as foreign countries.

*Our QWBS business depends on the availability of satellite and other networks.*

Our OmniTRACS and OmniVision systems currently operate in the United States market on leased Ku-band satellite transponders. Our primary data satellite transponder and position reporting satellite transponder lease runs through October 2012 and includes transponder and satellite protection (back-up capacity in the event of a transponder or satellite failure), which we believe will provide sufficient transponder capacity for our United States OmniTRACS and OmniVision operations through fiscal 2012. A failure to maintain adequate satellite capacity could harm our business, operating results, liquidity and financial position. QWBS terrestrial-based products rely on various wireless terrestrial communication networks operated by third parties. The unavailability or nonperformance of these network systems could harm our business.

*Our business and operations would suffer in the event of system failures.*

Despite system redundancy, the implementation of security measures and the existence of a Disaster Recovery Plan for our internal information technology networking systems, our systems are vulnerable to damages from computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure, accident or security breach that causes interruptions in our operations or to our customers or licensees operations could result in a material disruption to our business. To the extent that any disruption or security breach results in a loss or damage to our customers data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result. In addition, we may incur additional costs to remedy the damages caused by these disruptions or security breaches.

Message transmissions for QWBS operations are formatted and processed at the Network Management Center in San Diego, California, with a fully redundant backup Network Management Center located in Las Vegas, Nevada. Both centers, operated by us, are subject to system failures, which could interrupt the services and have an adverse effect on our operating results.

From time to time, we install new or upgraded business management systems. To the extent such systems fail or are not properly implemented, we may experience material disruptions to our business, delays in our external financial reporting or failures in our system of internal controls, that could have a material adverse effect on our results of operations.





## **Table of Contents**

*Noncompliance with environmental or safety regulations could cause us to incur significant expenses and harm our business.*

As part of the development of our IMOD display technology, we are operating a research and development fabrication facility. The development of IMOD display prototypes is a complex and precise process involving hazardous materials subject to environmental and safety regulations. Failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of development activities.

*We cannot assure stockholders that our stock repurchase program will result in a positive return of capital to stockholders.*

At December 31, 2006, we have remaining authority to repurchase up to \$0.9 billion of our common stock. There can be no assurance that stock repurchases will create value for stockholders because the market price of the stock may decline significantly below the levels at which we repurchased shares of stock. Our stock purchase program is intended to deliver stockholder value over the long-term, but short-term stock price fluctuations can reduce the program's effectiveness.

As part of our stock repurchase program, we may sell put options or engage in structured derivative transactions to reduce the cost of repurchasing stock. In the event of a significant and unexpected drop in stock price, these arrangements may require us to repurchase stock at price levels that are significantly above the then-prevailing market price of our stock. Such overpayments may have an adverse effect on the effectiveness of our overall stock repurchase program and may lose value for our stockholders.

*We cannot provide assurance that we will continue to declare dividends at all or in any particular amounts.*

We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations that cash dividends are in the best interest of our stockholders. Future dividends may be affected by, among other items, our views on potential future capital requirements, including those related to research and development, creation and expansion of sales distribution channels and investments and acquisitions, legal risks, stock repurchase programs, changes in federal income tax law and changes to our business model. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. A reduction in our dividend payments could have a negative effect on our stock price.

*Government regulation may adversely affect our business.*

Our products and those of our customers and licensees are subject to various regulations, including FCC regulations in the United States and other international regulations, as well as the specifications of national, regional and international standards bodies. Changes in the regulation of our activities, including changes in the allocation of available spectrum by the United States government and other governments or exclusion or limitation of our technology or products by a government or standards body, could have a material adverse effect on our business, operating results, liquidity and financial position.

*We may not be able to attract and retain qualified employees.*

Our future success depends largely upon the continued service of our board members, executive officers and other key management and technical personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified personnel. In addition, implementing our product and business strategy requires specialized engineering and other talent, and our revenues are highly dependent on technological and product innovations. The market for such specialized engineering and other talented employees in our industry is extremely competitive. In addition, existing immigration laws make it more difficult for us to recruit and retain highly skilled foreign national graduates of U.S. universities, making the pool of available talent even smaller. Key employees represent a significant asset, and the competition for these employees is intense in the wireless communications industry. In the event of a labor shortage, or in the event of an unfavorable change in prevailing labor and/or immigration laws, we could experience difficulty attracting and retaining qualified employees. We continue to anticipate increases in human resources, particularly in engineering, through fiscal 2007. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

We may have particular difficulty attracting and retaining key personnel in periods of poor operating performance given the significant use of incentive compensation by our competitors. We do not have employment agreements with

our key management personnel and do not maintain key person life insurance on any of our

40

---

## **Table of Contents**

personnel. The loss of one or more of our key employees or our inability to attract, retain and motivate qualified personnel could negatively impact our ability to design, develop and commercialize our products and technology.

Since our inception, we have used stock options and other long-term equity incentives as a fundamental component of our employee compensation packages. We believe that stock options and other long-term equity incentives directly motivate our employees to maximize long-term stockholder value and, using long-term vesting, encourage employees to remain with us. To the extent that new regulations make it less attractive to grant options to employees, we may incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could materially and adversely affect our business.

*Future changes in financial accounting standards or practices or existing taxation rules or practices may cause adverse unexpected revenue fluctuations and affect our reported results of operations.*

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New and often complex accounting pronouncements, taxation rules, and varying interpretations of accounting pronouncements and taxation practice have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

*Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.*

Changing laws, regulations and standards relating to corporate governance and public disclosure may create uncertainty regarding compliance matters. New or changed laws, regulations and standards are subject to varying interpretations in many cases. As a result, their application in practice may evolve over time. We are committed to maintaining high standards of corporate governance and public disclosure. Complying with evolving interpretations of new or changed legal requirements may cause us to incur higher costs as we revise current practices, policies and procedures, and may divert management time and attention from revenue generating to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation might also be harmed. In addition, it has become more difficult and more expensive for us to obtain director and officer liability insurance, and we have purchased reduced coverage at substantially higher cost than in the past. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business.

*Our charter documents and Delaware law could limit transactions in which stockholders might obtain a premium over current market prices.*

Our certificate of incorporation includes a provision that requires the approval of holders of at least 66 2/3% of our voting stock as a condition to certain mergers or other business transactions with, or proposed by, a holder of 15% or more of our voting stock. Under our charter documents, stockholders are not permitted to call special meetings of our stockholders or to act by written consent. These charter provisions may discourage certain types of transactions involving an actual or potential change in our control, including those offering stockholders a premium over current market prices. These provisions may also limit our stockholders' ability to approve transactions that they may deem to be in their best interests.

Further, our Board of Directors has the authority under Delaware law to fix the rights and preferences of and issue shares of preferred stock, and our preferred share purchase rights agreement will cause substantial dilution to the ownership of a person or group that attempts to acquire us on terms not approved by our Board of Directors. While our Board of Directors approved our preferred share purchase rights agreement to provide the board with greater ability to maximize shareholder value, these rights could deter takeover attempts that the board finds inadequate and make it more difficult to bring about a change in our ownership.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2006 Annual Report on Form 10-K. At December 31, 2006, there have been no other material changes to the market risks described at September 24, 2006 except as described below. Additionally, we do not anticipate any other near-term changes in the nature of our market risk exposures or in management's objectives and strategies with respect to managing such exposures.

**Interest Rate Risk.** We invest most of our cash in a number of diversified investment and non-investment grade fixed and floating rate securities, consisting of cash equivalents and marketable securities. The following table provides information about our financial instruments that are sensitive to changes in interest rates.

**Interest Rate Sensitivity**  
**Principal Amount by Expected Maturity**  
**Average Interest Rates**  
**(Dollars in millions)**

<b>December 31, 2006:</b>	<b>Remainder of 2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Thereafter</b>	<b>No Single Maturity</b>	<b>Total</b>
Fixed interest-bearing securities:								
Cash and cash equivalents	\$ 997	\$	\$	\$	\$	\$	\$	\$ 997
Interest rate	5.3%							
Available-for-sale securities:								
Investment grade	\$1,520	\$446	\$245	\$ 58	\$ 11	\$ 14	\$ 219	\$2,513
Interest rate	5.1%	4.6%	5.2%	4.9%	5.2%	7.2%	5.3%	
Non-investment grade	\$ 1	\$ 12	\$ 35	\$ 29	\$ 57	\$ 384	\$	\$ 518
Interest rate	7.2%	5.5%	6.7%	7.6%	7.5%	8.5%		
Floating interest-bearing securities:								
Cash and cash equivalents	\$1,533	\$	\$	\$	\$	\$	\$	\$1,533
Interest rate	5.3%							
Available-for-sale securities:								
Investment grade	\$ 120	\$101	\$178	\$ 80	\$ 14	\$ 87	\$ 287	\$ 867
Interest rate	5.0%	5.3%	5.6%	5.5%	5.5%	5.8%	5.7%	
Non-investment grade	\$ 5	\$ 15	\$ 15	\$ 29	\$ 77	\$ 370	\$ 525	\$1,036
Interest rate	5.9%	6.8%	6.9%	6.8%	7.2%	7.3%	6.8%	

Cash and cash equivalents and available-for-sale securities are recorded at fair value.

**Equity Price Risk.** We invest in a number of diversified marketable securities and mutual fund shares subject to equity price risk. The recorded values of marketable equity securities increased to \$1.54 billion at December 31, 2006 from \$1.34 billion at September 24, 2006. The recorded value of equity mutual fund shares decreased to \$1.42 billion at December 31, 2006 from \$1.52 billion at September 24, 2006. Our diversified investments in companies and industry segments may vary over time, and changes in the concentrations of these investments may affect the price volatility of our investments. A 10% decrease in the market price of our marketable equity securities and equity mutual fund shares at December 31, 2006 would cause a corresponding 10% decrease in the carrying amounts of these securities, or \$296 million.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures.*** Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

***Changes in Internal Control over Financial Reporting.*** There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

A review of our current litigation is disclosed in the notes to our condensed consolidated financial statements. See Notes to Condensed Consolidated Financial Statements, Note 6 Commitments and Contingencies. We are also engaged in other legal actions arising in the ordinary course of our business and believe that the ultimate outcome of these actions will not have a material adverse effect on our results of operations, liquidity or financial position.

**ITEM 1A. RISK FACTORS**

We have provided updated Risk Factors in the section labeled Risk Factors in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. The Risk Factors section provides updated information in certain areas, but we do not believe those updates have materially changed the type or magnitude of the risks we face in comparison to the disclosure provided in our most recent Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Issuer Purchases of Equity Securities (in millions, except share and per share data):

			<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(2)</sup></b>
	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share<sup>(1)</sup></b>		
September 25, 2006 to October 22, 2006	1,000,000	\$ 47.50	1,000,000	\$ 953
October 23, 2006 to November 26, 2006	1,000,000	\$ 48.00	1,000,000	\$ 905
November 27, 2006 to December 31, 2006				\$ 905
Total	2,000,000	\$ 47.75	2,000,000	\$ 905

(1) Average Price Paid Per Share excludes cash paid for commissions. We repurchased 2,000,000 shares in the first quarter of 2007 upon the exercise of two outstanding put options.

Premiums totaling \$6 million were excluded from the average price paid per share. If the premiums had been included, the average price paid per share for the purchases of shares made during the first quarter would have been \$44.74.

- (2) On November 7, 2005, the Company announced that it had authorized the expenditure of up to \$2.5 billion to repurchase shares of the Company's stock with no expiration date.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

Not applicable.

### **ITEM 5. OTHER INFORMATION**

Not applicable.

### **ITEM 6. EXHIBITS**

#### **Exhibits**

- 3.1 Restated Certificate of Incorporation. (1)
- 3.2 Certificate of Amendment of Certificate of Designation. (2)
- 3.4 Amended and Restated Bylaws. (3)



**Table of Contents**

- 10.75 2006 Bonuses and 2007 Annual Base Salary for Named Executive Officers. (4)
- 10.76 Summary of 2007 Annual Bonus Program for Named Executive Officers. (5)
- 10.77 Amendment dated December 7, 2006 to the Amended and Restated Rights Agreement between the Company and Computershare Investor Services LLC, as Rights Agent. (6)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Paul E. Jacobs.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for William E. Keitel.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Paul E. Jacobs.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for William E. Keitel.
- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 13, 2006.
- (2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 30, 2005.
- (3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 22, 2006.
- (4) Filed under item 1.01 of the Registrant's Current Report on Form 8-K filed on November 13, 2006.
- (5) Filed under item 5.02 of the Registrant's Current Report on Form 8-K filed on December 1, 2006.
- (6) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 12, 2006.

**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/ William E. Keitel

William E. Keitel  
Executive Vice President and  
Chief Financial Officer

Dated: January 24, 2007