
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 June 30, 2002

OR

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

For the transition period from _____ to _____.

Commission File Number 0-19528

QUALCOMM Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

92121-1714
(Zip Code)

(858) 587-1121

(Registrant's telephone number, including area code)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on July 23, 2002:

Class	Number of Shares
Common Stock, \$0.0001 per share par value	777,143,936

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUALCOMM Incorporated

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

ASSETS

	June 30, 2002	September 30, 2001*
Current assets:		
Cash and cash equivalents	\$1,280,876	\$1,388,602
Marketable securities	1,098,912	894,577
Accounts receivable, net	548,095	517,557
Finance receivables, net	3,363	10,345
Inventories, net	79,659	95,863
Other current assets	171,624	147,814
Total current assets	3,182,529	3,054,758
Marketable securities	445,667	297,333
Finance receivables, net	778,042	674,391
Other investments	293,110	245,220
Property, plant and equipment, net	742,862	431,396
Goodwill, net	408,756	585,046
Other assets	441,249	381,589
Total assets	\$6,292,215	\$5,669,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 142,037	\$ 106,433
Payroll and other benefits related liabilities	102,745	117,795
Unearned revenue	201,934	184,461
Other current liabilities	124,205	112,300
Total current liabilities	570,921	520,989
Unearned revenue	254,191	295,005
Other liabilities	146,893	35,437
Total liabilities	972,005	851,431
Commitments and contingencies (Notes 2, 3 and 7)		
Minority interest in consolidated subsidiaries	74,748	5,887
Stockholders' equity:		
Preferred stock, \$0.0001 par value	—	—
Common stock, \$0.0001 par value	78	76
Paid-in capital	4,898,420	4,791,559
Retained earnings	414,342	244,947
Accumulated other comprehensive loss	(67,378)	(224,167)
Total stockholders' equity	5,245,462	4,812,415
Total liabilities and stockholders' equity	\$6,292,215	\$5,669,733

* As adjusted (Note 8)

See Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30, 2002	July 1, 2001*	June 30, 2002	July 1, 2001*
Revenues	\$ 770,917	\$ 656,598	\$2,165,674	\$2,028,955
Operating expenses:				
Cost of revenues	288,162	235,931	825,273	793,699
Research and development	118,086	107,414	341,709	299,790
Selling, general and administrative	152,072	104,175	376,797	271,411
Amortization of goodwill and other acquisition-related intangible assets	65,024	65,100	192,437	191,469
Asset impairment and related (credits) charges	—	(653)	—	472,030
Other	8,955	(5,855)	8,955	63,333
Total operating expenses	632,299	506,112	1,745,171	2,091,732
Operating income (loss)	138,618	150,486	420,503	(62,777)
Interest expense	(8,639)	16	(17,357)	(10,069)
Investment expense, net	(184,123)	(39,906)	(171,098)	(237,799)
Other	—	(119,862)	—	(176,428)
(Loss) income before income taxes and accounting changes	(54,144)	(9,266)	232,048	(487,073)
Income tax benefit (expense)	40,376	(184,250)	(62,653)	1,990
(Loss) income before accounting changes	(13,768)	(193,516)	169,395	(485,083)
Accounting changes, net of tax	—	—	—	(17,937)
Net (loss) income	\$ (13,768)	\$ (193,516)	\$ 169,395	\$ (503,020)
Basic net (loss) earnings per common share:				
(Loss) income before accounting changes	\$ (0.02)	\$ (0.26)	\$ 0.22	\$ (0.65)
Accounting changes, net of tax	—	—	—	(0.02)
Net (loss) income	\$ (0.02)	\$ (0.26)	\$ 0.22	\$ (0.67)
Diluted net (loss) earnings per common share:				
(Loss) income before accounting changes	\$ (0.02)	\$ (0.26)	\$ 0.21	\$ (0.65)
Accounting changes, net of tax	—	—	—	(0.02)
Net (loss) income	\$ (0.02)	\$ (0.26)	\$ 0.21	\$ (0.67)
Shares used in per share calculations:				
Basic	773,127	758,050	768,663	754,055
Diluted	773,127	758,050	809,169	754,055

* As adjusted (Notes 1 and 8)

See Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	June 30, 2002	July 1, 2001*
Operating Activities:		
Net income (loss)	\$ 169,395	\$ (503,020)
Depreciation and amortization	285,097	239,944
Asset impairment and related charges and credits	—	702,585
Other-than-temporary losses on marketable securities and other investments	183,935	192,603
Net losses (gains) on marketable securities and investments	1,458	(63,914)
Change in fair values of derivative investments	55,556	181,235
Minority interest in (loss) income of consolidated subsidiaries	(34,405)	2,323
Equity in losses of investees	60,696	131,001
Non-cash income tax provision (benefit)	2,538	(50,582)
Accounting changes, net of tax	—	17,937
Other non-cash charges and credits	11,351	(43,778)
Increase (decrease) in cash resulting from changes in:		
Net purchases of trading securities	(2,021)	—
Accounts receivable, net	(9,997)	47,023
Finance receivables, net	(96,542)	(354,908)
Inventories, net	21,117	(57,589)
Other assets	6,497	19,352
Trade accounts payable	(73,891)	3,649
Payroll, benefits, and other liabilities	(33,142)	(95,335)
Unearned revenue	(28,917)	10,379
Net cash provided by operating activities	518,725	378,905
Investing Activities:		
Capital expenditures	(108,421)	(82,935)
Purchase of wireless licenses	—	(83,774)
Purchases of available-for-sale securities	(1,063,172)	(1,042,002)
Proceeds from sale of available-for-sale securities	739,441	839,092
Purchases of held-to-maturity securities	(188,846)	(301,336)
Maturities of held-to-maturity securities	165,950	830,889
Issuance of notes receivable	(2,000)	(206,156)
Collection of notes receivable	3,615	14,443
Other investments and acquisitions	(289,843)	(211,452)
Other items, net	4,619	5,996
Net cash used by investing activities	(738,657)	(237,235)
Financing Activities:		
Net proceeds from issuance of common stock	102,992	110,110
Proceeds from minority shareholders in consolidated subsidiary	10,000	—
Other items, net	1,834	572
Net cash provided by financing activities	114,826	110,682
Effect of exchange rate changes on cash	(2,620)	(3,806)
Net (decrease) increase in cash and cash equivalents	(107,726)	248,546
Cash and cash equivalents at beginning of period	1,388,602	716,871
Cash and cash equivalents at end of period	\$ 1,280,876	\$ 965,417

* As adjusted (Notes 1 and 8)

See Notes to Condensed Consolidated Financial Statements.

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 30, 2001, as adjusted (Note 8), was derived from the audited consolidated balance sheet at that date which is not presented herein. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. As a result, the three months and nine months periods ended June 30, 2002 included 13 weeks and 39 weeks, respectively, as compared to 13 weeks and 40 weeks for the three months and nine months periods ended July 1, 2001.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001. 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.

Revenues

During the three months and nine months ended June 30, 2002, the Company recognized \$16 million and \$51 million, respectively, in income before income taxes and accounting changes, as compared to \$21 million and \$70 million for the three months and nine months ended July 1, 2001, respectively, related to revenue and expense recognized in prior years as a result of the adoption of Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements," as of the beginning of fiscal 2001. The statements of operations for the three months and nine months ended July 1, 2001, and the statement of cash flows for the nine months ended July 1, 2001 have been adjusted to reflect the adoption of this standard.

Net Earnings Per Common Share

Basic net earnings per common share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during the reporting period. Diluted net earnings per common share (diluted EPS) for the three months ended June 30, 2002 excluded the potential dilutive effect, calculated using the treasury stock method, of 35,809,000 additional common shares issuable upon the exercise of outstanding stock options due to their anti-dilutive effect as a result of the Company's loss before accounting changes. Diluted EPS for the nine months ended June 30, 2002 reflected the potential dilutive effect, calculated using the treasury stock method, of 40,505,000 additional common shares issuable upon exercise of outstanding stock options. The diluted base for the three months and nine months ended July 1, 2001 excluded the potential dilutive effect, calculated using the treasury stock method, of 48,852,000 and 52,544,000 additional common shares issuable upon exercise of outstanding stock options, respectively, due to their anti-dilutive effect as a result of the Company's loss before accounting changes.

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

Options outstanding during the three months ended June 30, 2002 and July 1, 2001 to purchase approximately 47,570,000 and 18,994,000 shares of common stock, respectively, and options outstanding during the nine months ended June 30, 2002 and July 1, 2001 to purchase approximately 37,995,000 and 12,680,000 shares of common stock, respectively, were not included in the treasury stock computation because the options' exercise price was greater than the average market price of the common stock during the period, and therefore, the effect on diluted EPS would be anti-dilutive.

Comprehensive Income

Components of accumulated other comprehensive loss consisted of the following:

	June 30, 2002	September 30, 2001
	(in thousands)	
Foreign currency translation	\$(46,895)	\$ (64,537)
Unrealized loss on marketable securities, net of income taxes	(20,483)	(159,630)
	\$(67,378)	\$ (224,167)

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

	Three Months Ended		Nine Months Ended	
	June 30, 2002	July 1, 2001	June 30, 2002	July 1, 2001
Net (loss) income	\$ (13,768)	\$(193,516)	\$169,395	\$(503,020)
Other comprehensive income (loss):				
Foreign currency translation	(13,405)	(13,587)	17,642	(30,953)
Unrealized losses on marketable securities, net of income taxes	(110,845)	(11,771)	(22,711)	(130,409)
Reclassification adjustment for other-than-temporary losses on marketable securities included in net income, net of income taxes	167,736	—	170,047	69,887
Reclassification adjustment for net realized (gains) losses included in net income, net of income taxes	(883)	4,011	(8,189)	(26,281)
Reclassification adjustment for losses included in accounting change, net of income taxes	—	—	—	3,925
Total other comprehensive income (loss)	42,603	(21,347)	156,789	(113,831)
Total comprehensive income (loss)	\$ 28,835	\$(214,863)	\$326,184	\$(616,851)

During the three months ended June 30, 2002, unrealized losses on marketable securities, net of income taxes, included \$82 million related to declines in the market values of investments in Leap Wireless International Inc. (Leap Wireless). The reclassification adjustment for other-than-temporary losses on marketable securities results from the recognition of unrealized losses in the statement of operations resulting from declines in the market prices of those securities deemed to be other than temporary. During the three months ended June 30, 2002, the reclassification adjustment for other-than-temporary losses on marketable securities related to losses on investments in Leap Wireless reclassified to the statement of operations. The reclassification adjustment for net realized gains results from the recognition of the net realized gains in the

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

statement of operations when the marketable securities are sold. The reclassification adjustment for losses included in the accounting change results from the recognition of unrealized losses attributable to derivative instruments as of the beginning of fiscal 2001 in the statement of operations as a result of the implementation of Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities." Unrealized losses on certain derivative instruments subject to FAS 133 were previously recorded as a component of other comprehensive income.

Future Accounting Requirements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (FAS 141), "Business Combinations," and No. 142 (FAS 142), "Goodwill and Other Intangible Assets." FAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, "Business Combinations." The provisions of FAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. FAS 141 also requires that, upon adoption of FAS 142, the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. FAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of FAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

FAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step (Step 1) is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete this step. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of fiscal 2003. Any impairment loss resulting from the transitional impairment tests would be reflected as the cumulative effect of a change in accounting principle in the first quarter 2003.

The Company will adopt the provisions of FAS 142 in its first quarter of fiscal 2003. The Company has determined its reporting units and the amounts of goodwill, intangible assets, other assets and liabilities allocable to those reporting units and expects to complete Step 1 in the first quarter of fiscal 2003. During the third quarter of fiscal 2002, the Company performed a preliminary Step 1 analysis. The Company will finalize its Step 1 analysis as of the date of adoption. Based on its preliminary Step 1 analysis, the Company does not expect the adoption of FAS 142 to have a material impact on its financial position. The Company will no longer record goodwill amortization starting in fiscal 2003. The Company recorded \$62 million and \$184 million in goodwill amortization expense during the three months and nine months ended June 30, 2002, respectively.

In August 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 replaces FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The FASB issued FAS 144 to establish a single accounting model, based on the framework established in FAS 121, as FAS 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB 30, "Reporting The Results of Operations — Reporting The Effects of Disposal of a Segment of a Business, and Extraordinary Unusual and Infrequently Occurring

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

Events and Transactions.” FAS 144 also resolves significant implementation issues related to FAS 121. Companies are required to adopt FAS 144 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company will adopt FAS 144 as of the beginning of fiscal 2003. The Company does not expect the adoption of FAS 144 to have a material impact on its operating results and financial position.

Note 2 — Composition of Certain Financial Statement Captions

Marketable Securities

Marketable securities are comprised of certificates of deposit, commercial paper, U.S. government securities, corporate bonds, mortgage-backed and asset-backed securities and equity securities that are publicly traded. During the second quarter of fiscal 2002, the Company allocated \$300 million to institutional portfolio managers for investment in a diversified portfolio of non-investment grade securities, and at June 30, 2002, that amount was fully invested, primarily in corporate bonds with credit ratings of B/B2 and BB/Ba2.

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. Held-to-maturity securities are carried at amortized cost, which approximates fair value. Trading and available-for-sale securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date. Changes in fair value associated with trading securities are recorded in the statement of operations. Net unrealized gains or losses on available-for-sale securities are reported as a component of comprehensive income (loss).

In February 2000, the Company purchased 308,000 units of Leap Wireless’ senior discount notes with detachable warrants for \$150 million. The notes mature in April 2010 and bear interest at 14.5% payable beginning in 2005. In addition, the Company holds 489,000 shares of Leap Wireless’ stock at June 30, 2002. During the third quarter of fiscal 2002, management determined that declines in the market values of the Company’s investments in Leap Wireless were other than temporary. As a result, the Company recorded \$150 million and \$17 million in other-than-temporary losses on marketable securities for the notes and stock, respectively, during the third quarter of fiscal 2002. The Company also recorded \$27 million and \$56 million in losses related to changes in the fair values of Leap Wireless derivative investments for the three months and nine months ended June 30, 2002 (Note 4). The remaining recorded values of Leap Wireless investments totaled \$17 million at June 30, 2002, including \$3 million in derivative instruments. Under the terms of the senior credit facility with Leap Wireless, the Company is committed to fund up to \$125 million in connection with Leap Wireless’ bid for PCS spectrum in the FCC’s Auction No. 35 (Note 7).

Accounts Receivable

	<u>June 30, 2002</u>	<u>September 30, 2001</u>
<i>(in thousands)</i>		
Trade, net of allowance for doubtful accounts of \$86,246 and \$15,756, respectively	\$518,794	\$ 493,930
Long-term contracts:		
Billed	23,061	11,917
Unbilled	1,651	3,846
Other	4,589	7,864
	<u>\$548,095</u>	<u>\$ 517,557</u>

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

At June 30, 2002, trade accounts receivable and the allowance for doubtful accounts included \$114 million and \$74 million, respectively, related to the consolidation of Vesper Holding Ltd. (Vesper Holding) (Note 8).

Finance Receivables

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

	June 30, 2002	September 30, 2001
	(in thousands)	
Finance receivables	\$ 925,101	\$ 1,388,684
Allowance for doubtful receivables	(143,696)	(703,948)
	781,405	684,736
Current maturities, net	3,363	10,345
Noncurrent finance receivables, net	\$ 778,042	\$ 674,391

Gross finance receivables and the allowance for doubtful accounts decreased during the nine months ended June 30, 2002 primarily as a result of the write-off of \$622 million in finance receivables from Globalstar L.P. which were fully reserved.

At June 30, 2002, remaining commitments to extend long-term financing by the Company to certain CDMA customers of Ericsson totaled approximately \$473 million. The commitment to fund \$346 million of this amount expires on November 6, 2003. The funding of the remaining \$127 million, if it occurs, is not subject to a fixed expiration date. The financing commitments are subject to the CDMA customers meeting conditions prescribed in the financing arrangements and, in certain cases, to Ericsson also financing a portion of such sales and services. This financing is generally collateralized by the related equipment. Commitments represent the maximum amounts to be financed under these arrangements; actual financing may be in lesser amounts.

Inventories

	June 30, 2002	September 30, 2001
	(in thousands)	
Raw materials	\$19,460	\$ 18,251
Work-in-process	3,294	3,346
Finished goods	56,905	74,266
	\$79,659	\$ 95,863

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

Property, Plant and Equipment

	June 30, 2002	September 30, 2001
	(in thousands)	
Land	\$ 43,383	\$ 38,093
Buildings and improvements	294,334	280,851
Computer equipment	364,314	283,293
Machinery and equipment	461,882	176,300
Furniture and office equipment	36,817	16,393
Leasehold improvements	48,620	44,990
	1,249,350	839,920
Less accumulated depreciation and amortization	(506,488)	(408,524)
	\$ 742,862	\$ 431,396

Property, plant and equipment increased during the nine months ended June 30, 2002 primarily as a result of the acquisition of Vesper Holding (Note 8).

Intangible Assets

At June 30, 2002 and September 30, 2001, goodwill is presented net of \$571 million and \$389 million in accumulated amortization, respectively. During fiscal 2002, the Company acquired intangible assets, including wireless licenses, as a result of its acquisitions (Note 8). At June 30, 2002 and September 30, 2001, intangible assets totaled \$197 million and \$121 million, respectively, net of accumulated amortization of \$40 million and \$21 million, respectively.

Note 3 — Investments in Other Entities

VeloCom, Inc.

On November 29, 2001, the Company forgave \$119 million under its debt facility with VeloCom, Inc. (VeloCom), an investor in Vesper Holding (Note 8) and converted its remaining \$56 million convertible promissory note into equity securities of VeloCom (the VeloCom exchange) in conjunction with its acquisition of Vesper Holding. The VeloCom exchange increased the Company's equity interest in VeloCom to 49.9%. The Company uses the equity method to account for its investment in VeloCom.

Reliance Infocomm Limited

In December 2001, QUALCOMM agreed to invest up to \$200 million in exchange for up to 4% of the common shares of Reliance Infocomm Limited (RIL), formerly Reliance Communications Limited, a wireless carrier in India. RIL intends to construct and operate a CDMA commercial network deploying CDMA2000 1X technology to provide basic telephone services, Wireless Local Loop (WLL) with limited mobility and national long distance services in India. At June 30, 2002, because certain conditions precedent under the agreement had not been satisfied, the Company's obligation to make this investment had become non-binding. However, QUALCOMM retains the option to purchase the shares contingent upon RIL's completion of certain performance milestones. Funding would occur through September 2003 if the Company completes the investment. At June 30, 2002, QUALCOMM had not purchased any shares related to this agreement.

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

Inquam Limited

In October 2000, the Company agreed to invest \$200 million in the convertible preferred shares of Inquam Limited (Inquam). Inquam was formed to acquire, own, develop and manage wireless communications systems, either directly or indirectly, with the primary intent of deploying CDMA-based technology. In addition, QUALCOMM advanced \$10 million under a promissory note that matured on January 31, 2002. In April 2002, Inquam used equity funding from QUALCOMM to repay the promissory note. At June 30, 2002, \$49 million of the equity funding commitment was outstanding. The Company expects to fund the remaining commitment through December 2002.

Wingcast, LLC

On June 3, 2002, Wingcast, LLC (Wingcast), a joint venture created by Ford Motor Company and QUALCOMM to provide telematics services, initiated liquidation through an assignment for the benefit of creditors. Ford Motor Company had been the sole contributor of funding to Wingcast since May 2001. QUALCOMM had previously invested \$25 million in exchange for an approximate 15% equity stake in Wingcast. As a result of the dissolution of Wingcast, the Company recorded a realized loss of \$9 million to write off its remaining investment in Wingcast during the third quarter of fiscal 2002 (Note 4).

Other

Funding commitments related to other investments totaled \$32 million at June 30, 2002, which the Company expects to fund through fiscal 2009. Such commitments are subject generally to the investees meeting certain conditions; actual equity funding may be in lesser amounts.

Note 4 — Investment Expense, Net

Investment expense was comprised as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	June 30, 2002	July 1, 2001*	June 30, 2002	July 1, 2001*
Interest income	\$ 31,137	\$ 65,559	\$ 96,142	\$ 205,449
Net realized gains on marketable securities	1,294	11,371	8,488	62,143
Net realized (losses) gains on other investments	(9,480)	1,312	(9,480)	1,312
Net realized gains (losses) on derivative investments	—	459	(466)	459
Other-than-temporary losses on marketable securities	(167,735)	—	(170,081)	(147,166)
Other-than-temporary losses on other investments	(5,564)	(35,504)	(13,854)	(45,437)
Change in fair values of derivative investments	(27,009)	(32,839)	(55,556)	(181,235)
Minority interest in loss (income) of consolidated subsidiaries	15,041	(885)	34,405	(2,323)
Equity in losses of investees	(21,807)	(49,379)	(60,696)	(131,001)
	<u>\$ (184,123)</u>	<u>\$ (39,906)</u>	<u>\$ (171,098)</u>	<u>\$ (237,799)</u>

* As adjusted (Note 8)

QUALCOMM Incorporated
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Note 5 — Income Taxes

The Company currently estimates its annual effective income tax rate to be approximately 27% for fiscal 2002. This rate differs from the U.S. statutory rate primarily due to the partial reversal of the deferred tax valuation allowance that was previously charged to expense, the impact of nondeductible goodwill amortization, earnings and losses outside the United States and research and development credits. The prior fiscal year rate of negative 25% was the result of pre-tax losses for which it was more likely than not the Company would not receive a tax benefit and foreign expense. The expected annual effective tax rate on profits for fiscal 2002 cannot be meaningfully compared to the effective tax rate on losses for the prior fiscal year.

Note 6 — Segment Information

The Company is organized on the basis of products and services. During the first quarter of fiscal 2002, the Company formed two new operating segments, QUALCOMM Wireless & Internet and QUALCOMM Strategic Initiatives, as a result of changes in the Company's businesses and in managerial reporting. Three segments have been aggregated 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 and global positioning products;
- QUALCOMM Technology Licensing (QTL) — licenses third parties to design, manufacture, and sell products incorporating the Company's CDMA technology;
- QUALCOMM Wireless & Internet (QWI) — comprised of:
 - QUALCOMM Internet Services (QIS) — provides solutions for wireless service providers, handset manufacturers and wireless application developers as the industry moves toward wireless convergence through the Company's complete BREW solution, which includes a software development kit, an open application platform for wireless handsets, and a distribution, billing and payment system;
 - QUALCOMM Digital Media (QDM) — develops technologies to support the processing, transmission and management of content for a variety of media applications, including the delivery of digitized motion pictures (Digital Cinema) and highly secure, wireless products for the United States government; and
 - QUALCOMM Wireless Business Solutions (QWBS) — provides satellite and terrestrial-based two-way data messaging and position reporting services to transportation companies and private fleets.
- QUALCOMM Strategic Initiatives (QSI) — manages the Company's strategic investment activities. QSI makes strategic investments to promote the worldwide adoption of CDMA products and services for wireless voice and Internet data communications, including CDMA carriers and licensed device manufacturers and companies that support the design and introduction of new CDMA-based products or possess unique capabilities or technology. QSI also provides financing to CDMA carriers to facilitate the marketing and sale of CDMA equipment by licensed manufacturers.

The Wireless Systems division, which has contracts with Globalstar L.P. to design, develop and manufacture subscriber products and ground telecommunications equipment, is no longer included in a reportable segment, and the division's revenues and losses are presented with other products in reconciling items.

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(Unaudited)

The Company evaluates the performance of its segments based on earnings before income taxes and accounting changes (EBT), excluding certain impairment and other charges that are not allocated to the segments for management reporting purposes. EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Segment data includes intersegment revenues.

Segment results presented for the fiscal 2001 period have been restated to conform to the current year segment presentation. The table below presents revenues and EBT for reported segments (in thousands):

	QCT	QTL	QWI	QSI	Reconciling Items	Total
For the three months ended:						
June 30, 2002						
Revenues	\$ 404,253	\$198,853	\$109,581	\$ 49,456	\$ 8,774	\$ 770,917
EBT	117,524	174,450	(3,074)	(285,454)	(57,590)	(54,144)
July 1, 2001						
Revenues	\$ 333,115	\$180,129	\$103,742	\$ —	\$ 39,612	\$ 656,598
EBT	70,582	152,890	5,101	(185,812)	(52,027)	(9,266)
For the nine months ended:						
June 30, 2002						
Revenues	\$1,107,212	\$603,611	\$329,140	\$ 92,262	\$ 33,449	\$2,165,674
EBT	282,189	534,673	(8,271)	(409,241)	(167,302)	232,048
July 1, 2001						
Revenues	\$1,027,806	\$592,599	\$313,826	\$ —	\$ 94,724	\$2,028,955
EBT	239,628	533,692	29,081	(989,681)	(299,793)	(487,073)

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

	Three Months Ended		Nine Months Ended	
	June 30, 2002	July 1, 2001	June 30, 2002	July 1, 2001
Revenues				
Elimination of intersegment revenue	\$(19,727)	\$(13,157)	\$ (57,727)	\$ (46,343)
Other products	28,501	52,769	91,176	141,067
Reconciling items	<u>\$ 8,774</u>	<u>\$ 39,612</u>	<u>\$ 33,449</u>	<u>\$ 94,724</u>
Earnings before income taxes				
Unallocated corporate expenses	\$(80,265)	\$(66,896)	\$(226,880)	\$(280,826)
Unallocated investment income, net	25,111	24,773	72,333	112,736
Unallocated interest expense	(56)	152	(214)	(9,478)
EBT from other products	1,059	(14,817)	(5,285)	(125,369)
Intracompany (profit) loss	(3,439)	4,761	(7,256)	3,144
Reconciling items	<u>\$(57,590)</u>	<u>\$(52,027)</u>	<u>\$(167,302)</u>	<u>\$(299,793)</u>

Unallocated corporate expenses included \$65 million and \$192 million for amortization of goodwill and other acquisition-related intangible assets during the three months and nine months ended June 30, 2002, respectively. Unallocated corporate expenses during the three months and nine months ended July 1, 2001 included \$63 million and \$188 million for the amortization of goodwill and other acquisition-related intangible assets, respectively. Unallocated corporate expenses during the nine months ended July 1, 2001 also included

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\$67 million in losses related to the Globalstar business and \$69 million in charges related to an arbitration decision against the Company.

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

	QCT	QTL	QWI	QSI
For the three months ended:				
June 30, 2002				
Revenues from external customers	\$ 403,672	\$182,029	\$107,259	\$49,456
Intersegment revenues	581	16,824	2,322	—
July 1, 2001				
Revenues from external customers	\$ 333,048	\$167,482	\$103,299	\$ —
Intersegment revenues	67	12,647	443	—
For the nine months ended:				
June 30, 2002				
Revenues from external customers	\$1,103,844	\$556,954	\$321,438	\$92,262
Intersegment revenues	3,368	46,657	7,702	—
July 1, 2001				
Revenues from external customers	\$1,023,831	\$550,842	\$313,215	\$ —
Intersegment revenues	3,975	41,757	611	—

Segment assets are comprised of accounts receivable, finance receivables and inventory for QCT, QTL and QWI. The QSI segment assets include marketable securities, accounts receivable, finance receivables, notes receivable, other investments and all assets of Wireless Knowledge and Vesper Holding (Note 8). Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of cash, cash equivalents, marketable debt securities, property plant and equipment, and goodwill. Segment assets were as follows (in thousands):

	June 30, 2002	September 30, 2001
QCT	\$ 238,343	\$ 296,638
QTL	206,711	180,276
QWI	112,486	109,443
QSI	1,912,879	1,294,278
Reconciling items	3,821,796	3,789,098
Total consolidated	\$6,292,215	\$5,669,733

The QSI segment assets increased during the nine months ended June 30, 2002 primarily as a result of the acquisition of Vesper Holding (Note 8).

Note 7 — Commitments and Contingencies

Litigation

Schwartz, et al v. QUALCOMM: On December 14, 2000, 77 former QUALCOMM employees filed a lawsuit against the Company in the District Court for Boulder County, Colorado, alleging claims for intentional misrepresentation, nondisclosure and concealment, violation of C.R.S. Section 8-2-104 (obtaining workers by misrepresentation), breach of contract, breach of the implied covenant of good faith and fair dealing, promissory estoppels, negligent misrepresentation, unjust enrichment, violation of California Labor Code Section 970, violation of California Civil Code Sections 1709-1710, rescission, violation of California

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Business & Professions Code Section 17200 and violation of California Civil Code Section 1575. Since then, 10 other individuals have joined the suit as plaintiffs. On November 29, 2001, the Court granted the Company's motion to dismiss 17 of the plaintiffs from the lawsuit. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the action.

GTE Wireless Incorporated (GTE) v. QUALCOMM: On June 29, 1999, GTE filed an action in the United States District Court for the Eastern District of Virginia asserting that wireless telephones sold by the Company infringe a single patent allegedly owned by GTE. On September 15, 1999, the Court granted the Company's motion to transfer the action to the United States District Court for the Southern District of California. On February 14, 2002, the District Court granted QUALCOMM's motion for summary judgment that QUALCOMM's products did not infringe GTE's asserted patent and denied GTE's motion seeking summary judgment on infringement. QUALCOMM's counterclaims that the patent is invalid or unenforceable remain pending in the District Court and have been stayed while the ruling granting QUALCOMM's motion and denying GTE's motion is on appeal. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the action is without merit and will vigorously defend the action.

Durante, et al v. QUALCOMM: On February 2, 2000, three former QUALCOMM employees filed a putative class action against the Company, ostensibly on behalf of themselves and those former employees of the Company whose employment was terminated in April 1999. Virtually all of the purported class of plaintiffs received severance packages at the time of the termination of their employment, in exchange for a release of claims, other than federal age discrimination claims, against the Company. The complaint was filed in California Superior Court in and for the County of Los Angeles and purports to state ten causes of action including breach of contract, age discrimination, violation of Labor Code Section 200, violation of Labor Code Section 970, unfair business practices, intentional infliction of emotional distress, unjust enrichment, breach of the covenant of good faith and fair dealing, declaratory relief and undue influence. The complaint seeks an order accelerating all unvested stock options for the members of the class. On June 27, 2000, the case was ordered transferred from Los Angeles County Superior Court to San Diego County Superior Court. On July 3, 2000, the Company removed the case to the United States District Court for the Southern District of California, and discovery has commenced. On May 29, 2001, the Court dismissed all plaintiffs' claims except for claims arising under the federal Age Discrimination in Employment Act. On July 16, 2001, the Court granted conditional class certification on the remaining claims, to be revisited by the Court at the end of the discovery period. Although there can be no assurance that an unfavorable outcome of the dispute would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the action.

Zoltar Satellite Alarm Systems, Inc. v. QUALCOMM and SnapTrack: On March 30, 2001, Zoltar Satellite Alarm Systems, Inc. filed suit against QUALCOMM and SnapTrack, a QUALCOMM wholly-owned subsidiary, alleging infringement of three patents. On August 27, 2001, Zoltar filed an amended complaint adding Sprint Corp. as a named defendant and narrowing certain infringement claims against QUALCOMM and SnapTrack. Since then, Zoltar has dismissed Sprint Corp. as a defendant. QUALCOMM and SnapTrack have filed responsive pleadings and discovery has commenced. Trial has been set for February 11, 2003. Although there can be no assurance that an unfavorable outcome of this dispute would not have a material adverse effect on QUALCOMM's operating results, liquidity or financial position, QUALCOMM believes the claims are without merit and will vigorously defend the action.

The Company has been named, along with many other manufacturers of wireless handsets, wireless carriers and industry-related organizations, as a defendant in a purported class action lawsuit (In re Wireless Telephone Frequency Emissions Products Liability Litigation, United States District Court for the District of

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Maryland), and in several individually filed actions, seeking personal injury, economic and/or punitive damages arising out of 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. Although there can be no assurance that an unfavorable outcome of these and other disputes would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the actions.

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.

Debt Commitments

The Company consolidates all assets and liabilities of Vesper Holding (Note 8), including bank loans and capital lease commitments. The balances of these loans and commitments at June 30, 2002 were \$80 million and \$45 million, respectively. The bank loans, which are denominated in Brazilian real, bear interest at the Certificate of Deposit Inter Bank (CDI) rate (the LIBOR rate equivalent in Brazil) plus 1.5% (approximately 18% at June 30, 2002). The lease commitments are subject to interest rates ranging from 11.25% to 14.5%. The aggregate amounts of maturities and minimum lease payments on this debt in each of the next five years from fiscal 2002 through 2006 are \$5 million, \$15 million, \$12 million, \$33 million and \$60 million, respectively. These debt commitments are collateralized by certain assets of Vesper Holding. The current and long-term portions of these debt commitments are included in other current liabilities and other liabilities, respectively.

Operating Leases

The Company leases certain of its facilities and equipment under noncancelable operating leases, with terms ranging from two to ten years and with provisions for cost-of-living increases. Future minimum lease payments in each of the next five years from fiscal 2002 through 2006 are \$16 million, \$39 million, \$28 million, \$16 million and \$11 million, respectively, and \$26 million thereafter.

Pegaso Telecomunicaciones, S.A. de C.V.

The Company has a bridge loan facility with Pegaso Comunicaciones y Sistemas S.A. de C.V., a wholly owned subsidiary of Pegaso Telecomunicaciones, S.A. de C.V., a CDMA wireless operating company in Mexico (collectively referred to as Pegaso). The facility was payable in full on October 31, 2001, is in default and is subject to a forbearance agreement. At June 30, 2002, \$413 million was outstanding under the bridge loan facility, net of deferred interest and unearned fees. The Company stopped recognizing interest on the bridge loan facility effective at the beginning of the fourth fiscal quarter of 2001.

The Company also provided equipment and related financing to Pegaso. At June 30, 2002, \$318 million of this financing was outstanding under the equipment loan facility, net of deferred interest and unearned fees, including \$54 million of such financing acquired from Ericsson during the third quarter of fiscal 2002. This financing is currently in default and subject to a forbearance agreement. Pegaso stopped making interest payments on loans outstanding under the equipment loan facility. The Company stopped recognizing interest on these loans effective at the beginning of the fourth fiscal quarter of 2001.

As a result of a series of agreements signed on January 16, 2002 by and among Pegaso's owners and lenders, including QUALCOMM, the Company agreed to provide \$65 million of interim financing to Pegaso, including \$5 million in capitalized fees. At June 30, 2002, all \$65 million of this interim financing was outstanding. A Pegaso shareholder purchased a \$25 million participation from the Company in this financing.

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In April 2002, Telefonica Moviles agreed to acquire a 65% controlling interest in Pegaso. The closing of this transaction is dependent on the satisfaction of certain requirements. Regulatory approvals for the sale transaction to Telefonica Moviles have been obtained from COFECO (the Comisión Federal de Competencia of Mexico) with respect to antitrust matters and from CNIE (the Comisión Nacional de Inversiones Extranjeras of Mexico) with regard to foreign ownership matters. Proceedings before COFETEL (the Comisión Federal de Telecomunicaciones of Mexico) and SCT (the Secretaría de Comunicaciones y Transportes of Mexico), the Mexican telecommunications authorities, are still pending. In connection with this acquisition agreement, the interim financing agreement was amended and restated to provide for additional interim financing of up to \$140 million to Pegaso on substantially similar terms as the \$65 million of initial interim financing. A Pegaso shareholder has committed to purchase a participation of up to \$35 million of the first \$100 million of this additional interim financing. At June 30, 2002, \$24 million of this additional interim financing was outstanding, of which \$9 million was purchased as a participation by the Pegaso shareholder.

The \$65 million initial interim financing must be repaid in full on the earlier of (i) the date that is 30 days after the Telefonica Moviles acquisition of 65% of Pegaso closes or (ii) the date that agreement is terminated. Interest is payable at 12% unless these interim loans are paid in full within 30 days of the closing date, in which case no interest will be payable. The Company has not recognized interest income on this interim financing.

Loans under the \$140 million additional interim financing must be repaid in full on the earlier of (i) the date that is 30 days after the Telefonica Moviles acquisition of 65% of Pegaso closes or (ii) the date that agreement is terminated. The first \$100 million of additional interim loans bears interest at LIBOR, and the remaining \$40 million bears interest at LIBOR plus 1%, in each case if the additional interim financing is repaid in full within 30 days of the closing date; otherwise, these amounts will bear interest at 12% and 20% respectively. The Company has not recognized interest income on this additional interim financing.

If and when the Telefonica Moviles acquisition of 65% of Pegaso closes, the Company expects to receive approximately \$430 million to \$445 million in satisfaction of the bridge loan facility within 60 days of the close. The Company would be required to use approximately \$140 million of these proceeds to purchase outstanding vendor debt owed by Pegaso to other lenders. The remaining vendor debt due to the Company, including the equipment loan and related financing, will be payable through 2008 and will bear interest at LIBOR plus 1% for two years, LIBOR plus 3% for the next two years and LIBOR plus 6% thereafter.

The Company's aggregate commitment to provide additional long-term financing to Pegaso under its arrangements with Ericsson (Note 2) remains unchanged at \$105 million, subject to Pegaso or a new buyer meeting certain conditions. The Company had \$5 million in other financing commitments to Pegaso as of June 30, 2002.

Leap Wireless International Inc.

The Company has a commitment to provide \$125 million of cash loans under a senior secured credit facility with Leap Wireless to facilitate Leap Wireless' purchase of licenses in the FCC's Auction No. 35. At QUALCOMM's option, and subject to FCC consent, QUALCOMM may transfer all or a portion of any remaining amounts of its Auction Discount Voucher (ADV) in satisfaction of a like dollar amount of such commitment, with a cash commitment equal to any difference between \$125 million and the actual amount of the ADV transferred to Leap Wireless. The credit facility may be used by Leap Wireless solely to pay for PCS spectrum licenses acquired in the FCC's Auction No. 35. Auction No. 35 was completed in January 2001. In Auction No. 35, each of the spectrum licenses as to which Leap Wireless was the highest bidder were licenses the FCC reclaimed from NextWave Telecom, Inc. (NextWave), a company currently in a Chapter 11 reorganization proceeding. The validity of the FCC's reclamation and reacquisition of these licenses in Auction

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No. 35 is currently subject to litigation between NextWave and the federal government. NextWave has prevailed on certain of its claims in the United States Court of Appeals for the District of Columbia Circuit. In response to a petition by the FCC, the U.S. Supreme Court has agreed to review the case on October 8, 2002. The grant to Leap Wireless of these Auction 35 wireless licenses has been substantially delayed and has been brought into question by the NextWave litigation. As a result, it is unclear when or if Leap Wireless will be able to use the senior credit facility. Under the terms of the credit facility, the Company is committed to fund up to \$125 million until the earlier of settlement of the FCC's Auction No. 35 of PCS spectrum or Leap Wireless' withdrawal from Auction No. 35. The facility is repayable in a lump sum payment, including principal and interest accrued through October 2002, no later than March 9, 2006. After October 2002, interest is payable semi-annually. The facility bears interest at LIBOR plus 7.5%. At June 30, 2002, no cash had been advanced to Leap Wireless.

Other

In addition to the financing commitments to Pegaso, Leap Wireless and Ericsson (Note 2), the Company had \$3 million of letters of credit and \$13 million of other financial commitments outstanding as of June 30, 2002, none of which were collateralized.

Note 8 — Acquisitions

Vesper Holding, Ltd.

In fiscal 1999, the Company acquired an approximate 16% ownership interest in Vesper Sao Paulo S.A. and Vesper S.A. (the Vesper Operating Companies). The Vesper Operating Companies were formed by a consortium of investors to provide wireless and wireline telephone services in the northern region of Brazil and in the state of Sao Paulo. In addition, the Company extended long-term financing to the Vesper Operating Companies related to the Company's financing arrangement with Ericsson (Note 2). On November 13, 2001, QUALCOMM consummated a series of transactions as part of an overall financial restructuring (the Restructuring) of the Vesper Operating Companies.

Pursuant to the Restructuring, the Company and VeloCom (Note 3) committed to invest \$266 million and \$80 million, respectively, in a newly formed holding company called Vesper Holding. Vesper Holding acquired certain liabilities of the Vesper Operating Companies from their vendors for \$135 million and the issuance of warrants to purchase an approximate 7% interest in Vesper Holding, and the vendors released in full any claims that they might have against the Company, VeloCom, the Vesper Operating Companies and other related parties arising from or related to the acquired liabilities. In a series of related transactions, Vesper Holding agreed to contribute the acquired liabilities to the Vesper Operating Companies in exchange for equity securities and to cancel the contributed liabilities. At June 30, 2002, the Company directly owned 72% of the issued and outstanding equity of Vesper Holding, and the Company indirectly owned an additional 11.9% of Vesper Holding through its ownership interest in VeloCom, totaling an 83.9% direct and indirect interest.

The preliminary allocation of the purchase price, based on the estimated fair values of acquired assets and liabilities assumed, reflects \$313 million for property, plant and equipment, \$39 million for licenses, and \$31 million for other intangible assets. The Company is in the process of finalizing the purchase price allocation and has recorded \$5 million in net adjustments reducing property, plant and equipment since the acquisition. The Company does not anticipate any additional material adjustments to the allocation. Property, plant and equipment are depreciated over useful lives ranging from 2 to 18 years. Licenses and other intangible assets are amortized over their useful lives of 18 years and 3 to 18 years, respectively.

When the Company obtained its controlling interest in Vesper Holding, Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," required that the

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Company adjust its prior period results to account for its original 16% ownership interest in the Vesper Operating Companies, predecessors to Vesper Holding, using the equity method of accounting. As a result, the Company recorded \$40 million and \$106 million of equity in losses of investees for the three months and nine months ended July 1, 2001, respectively, and a \$59 million reduction in finance receivables and retained earnings at September 30, 2001. The Company had previously recorded \$107 million in asset impairment charges and other-than-temporary losses on other investments during the third quarter of fiscal 2001. Because those charges exceeded the losses recorded as a result of using the equity method, the net loss for the three months and nine months ended July 1, 2001 decreased by \$67 million and \$1 million, respectively.

Due to the Company's practice of consolidating foreign subsidiaries one month in arrears, the consolidated financial statements for the three months and nine months ended June 30, 2002 included the \$35 million and \$88 million losses, net of minority interest, respectively, of Vesper Holding from March 1, 2002 through May 31, 2002 and November 13, 2001 to May 31, 2002, respectively. The consolidated financial statements for the three and nine months ended June 30, 2002 also included \$7 million and \$23 million of equity losses, respectively, related to Vesper Holding (pre-acquisition) and VeloCom. Pro forma operating results for the Company, assuming the acquisition of Vesper Holding had been made at the beginning of the periods presented are as follows (in thousands, except per share data) (unaudited):

	Three Months Ended	Nine Months Ended	
	July 1, 2001	June 30, 2002	July 1, 2001
Revenues	\$ 687,128	\$2,185,512	\$2,123,905
Net (loss) income	\$ (239,220)	\$ 145,464	\$ (761,908)
Basic (loss) earnings per common share	\$ (0.32)	\$ 0.19	\$ (1.01)
Diluted (loss) earnings per common share	\$ (0.32)	\$ 0.18	\$ (1.01)

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

Corporacion Nacional de Radiodeterminacion, S.A. de C.V.

During May 2002, the Company acquired the equity interests of certain minority shareholders in its consolidated subsidiary, Corporacion Nacional de Radiodeterminacion, S.A. de C.V. (CNR), the exclusive distributor of the Company's OmniTRACS product in Mexico, for \$24 million. The acquisition increased the Company's equity ownership in CNR to approximately 97%. The Company used the purchase method to account for this acquisition. The preliminary allocation of purchase price, based on the estimated fair values of acquired assets and liabilities assumed, reflects acquired goodwill and intangible assets of \$3 million and \$9 million, respectively. The Company is in the process of finalizing the purchase price allocation and does not anticipate material adjustments to the preliminary allocation. In accordance with FAS 142, amounts allocated to goodwill are not amortized. Amounts allocated to intangible assets are being amortized over their expected useful lives.

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

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 30, 2001 contained in our 2001 Annual Report on Form 10-K.

Except for the historical information contained herein, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled Risk Factors and elsewhere in this Quarterly Report. Our consolidated financial data includes SnapTrack, Inc. (SnapTrack), Vesper Holding Ltd. (Vesper Holding) and other consolidated subsidiaries.

Overview

We design, manufacture and market digital wireless telecommunications products and services based on our CDMA and other technologies. We license and receive royalty payments on our CDMA technology from domestic and international wireless telecommunications equipment suppliers.

We are a leading developer and supplier of CDMA-based integrated circuits and system software for wireless voice and data communications and global positioning system products. We offer complete system solutions including software and integrated circuits for wireless handsets and infrastructure equipment. This complete system solution approach provides customers with advanced wireless technology, enhanced component integration and interoperability, and reduced time to market. We provide integrated circuits and system software to many of the world's leading wireless handset and infrastructure manufacturers.

We provide satellite and terrestrial-based two-way data messaging and position reporting services for transportation companies and private fleets. We design, manufacture and distribute products and provide services for our OmniTRACS and TruckMAIL (satellite-based mobile communications systems), OmniExpress (terrestrial CDMA-based system) and LINQ (terrestrial GSM-based system) throughout parts of the world. Transportation companies and private fleets use our products to communicate with drivers, monitor vehicle location, provide automated driver logs and fuel tax reporting and provide customer service. We also integrate the mobile data with operations software, such as dispatch, payroll and accounting, so end-users can manage their information and operations.

We provide solutions for wireless service providers, handset manufacturers and wireless application developers as the industry moves toward wireless convergence through the Company's complete BREW (Binary Runtime Environment for Wireless) solution, which includes a software development kit, an open application platform for wireless handsets, and a distribution, billing and payment system. Our BREW platform is a thin application execution environment that provides an open, standard platform for wireless devices. The BREW platform leverages the capabilities available in our integrated circuits, system software and Wireless Internet Launchpad software, enabling development of feature-rich applications and content while reducing memory overhead and maximizing system performance. BREW is air-interface independent and can also be ported to devices that support other wireless technologies such as GSM/GPRS. In November 2001, KTFreeTel, a leading CDMA carrier in Korea, began commercial service based on BREW. The carrier currently is selling 16 different BREW-enabled handsets in Korea. KTFreeTel's wireless data service, which includes BREW, runs on a CDMA2000 1X high-speed data network and is available to end users on color display handsets. Verizon Wireless launched service based on BREW in the San Diego market with two BREW-enabled handsets in March 2002 and launched service nationwide in the United States in June 2002. Also, Japan's KDDI began shipping BREW-based handsets in March. In May 2002, we signed a contract with ALLTEL for BREW-based service. ALLTEL indicated it intends to launch commercial service before the end of 2002. In January 2002, we announced a multi-year licensing agreement with Nextel for our Qchat voice over Internet protocols push-to-talk technology for 3G networks.

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We make strategic investments to promote the worldwide adoption of CDMA products and services for wireless voice and Internet data communications. Our strategy is to invest in CDMA carriers, 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. We also provide financing to CDMA carriers to facilitate the marketing and sale of CDMA equipment by licensed manufacturers. We have provided equipment financing to Ericsson on a shared basis with respect to their sale of CDMA infrastructure in Brazil, Mexico and elsewhere. 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. To the extent such investments become liquid and meet strategic objectives, we attempt to make regular periodic sales that are recognized in net investment income. In some cases, we consolidate or record our equity in the start-up losses of companies in which we make strategic investments. The consolidation of these losses can adversely affect our financial results until we exit from or reduce our exposure to the investments.

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, adequacy of allowances for doubtful accounts, valuation of intangible assets and investments, income taxes, and litigation. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. We believe that the following significant accounting policies and assumptions may involve a higher degree of judgment and complexity than others.

Revenue Recognition

We derive revenue principally from royalties, from sales of integrated circuit products, from services and related hardware sales, from software development and related services, and from license fees for intellectual property. The timing of revenue recognition and the amount of revenue actually recognized in each case depends upon a variety of factors, including the specific terms of each arrangement and the nature of our deliverables and obligations. Determination of the appropriate method of revenue recognition involves judgments and estimates that we believe are reasonable, but it is possible that actual results may differ from our estimates.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements" which we adopted in the fourth quarter of fiscal 2001 and applied retroactively to the first quarter of fiscal 2001. We recognized \$16 million and \$21 million during the third quarter of fiscal 2002 and 2001, respectively, and \$51 million and \$70 million during the first nine months of fiscal 2002 and 2001, respectively, in net income before income taxes and accounting changes related to revenue and expense that was recognized in prior years. We continue to monitor developments in Emerging Issues Task Force discussions of Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" and Issue 02-G, "Recognition of Revenue from Licensing Arrangements on Intellectual Property," to determine what, if any, impact a final consensus may have on our revenue recognition policy.

Our intellectual property licensees typically pay a non-refundable up-front license fee and on-going royalties on their sales of products incorporating our intellectual property. Prior to the adoption of SAB 101, we generally recorded revenue from intellectual property up-front license fees on the effective date of the applicable license agreement. As a result of the adoption of SAB 101, we generally recognize up-front license fees over the estimated period of future benefit to the licensee, typically five to seven years.

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We generally recognize royalty revenue as earned when reasonable estimates of such amounts can be made. Certain royalty revenues are accrued based on estimates prior to the reporting of such revenues by our licensees. Estimates of royalty revenues are based on analyses of historical royalty data by licensee, the relationship between the timing of our sales of integrated circuits to our licensees and our licensees' sales of CDMA phones and infrastructure equipment, average sales price forecasts, and current market and economic trends. When our licensees report royalties for which we accrued revenues based on estimates, we adjust revenues for the period in which the reports are received.

We generally record revenue from hardware product sales at the time of shipment, or when title and risk of loss passes to the customer, if later. As a result of the adoption of SAB 101, we recognize revenue and expense from certain OmniTRACS and similar hardware product sales ratably over the shorter of the estimated life of the hardware product or the expected service period, which is typically five years, as the messaging service is considered integral to the functionality of the hardware. Messaging revenue is recorded as earned.

Revenue from providing services is recorded when earned. Revenue from long-term contracts is generally recognized using the percentage-of-completion method, based on costs incurred compared with total estimated costs. The percentage-of-completion method relies on estimates of total expected contract revenue and costs. Revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged or credited to income in the period in which the facts that give rise to the revision become known. If actual contract costs are greater than expected, reduction of contract profit would be required. Billings on uncompleted contracts in excess of incurred cost and accrued profits are classified as unearned revenue. Estimated contract losses are recognized when determined. If substantive uncertainty related to customer acceptance exists or the contract's duration is relatively short, we use the completed-contract method.

We recognize software license fees when all of the following criteria are met: the written agreement is executed; the software is delivered; the license fee is fixed and determinable; collectibility of the license fee is probable; and vendor-specific objective evidence exists to allocate the total license fee to elements of multiple-element arrangements, including post-contract customer support. When contracts contain multiple elements wherein vendor-specific objective evidence exists for all undelivered elements, we recognize revenue for the delivered elements and defer revenue for the undelivered elements until the remaining obligations have been satisfied. If vendor-specific objective evidence does not exist for all undelivered elements, revenue for the delivered and undelivered elements is deferred until remaining obligations have been satisfied, or if the undelivered element is post-contract customer support, revenue is recognized ratably over the support period. Significant judgments and estimates are made in connection with the recognition of software license revenue, including assessments of collectibility and the fair values of deliverable elements. The amount or timing of our software license revenue may differ as a result of changes in these judgments or estimates.

Adequacy of Allowances for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers and entities we have financed to make required payments. We evaluate the adequacy of allowances for doubtful accounts based on analyses of historical bad debts, customer concentrations, customer credit-worthiness, past transaction history with the customer, current economic trends and changes in customer payment terms. If we determine that collection of a fee is not reasonably assured, we defer revenue recognition until collection becomes reasonably assured, which is generally upon receipt of cash. If the financial condition of our customers and entities we have financed were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required.

Valuation of Intangible Assets and Investments

Our business acquisitions typically result in goodwill and other intangible assets, which affect the amount of future period amortization expense and possible impairment expense that we will incur. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our

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consolidated financial statements. We assess potential impairments to intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our acquired businesses, market conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations.

We hold minority strategic investments in publicly-traded companies whose share prices may be highly volatile and in private companies whose values are difficult to determine. We record impairment charges when we believe an investment has experienced a decline that is other than temporary. The determination that a decline is other than temporary is subjective and influenced by many factors. Future adverse changes in market conditions or poor operating results of investees could result in losses or an inability to recover the carrying value of the investments, thereby possibly requiring impairment charges in the future. We use the equity method of accounting for certain strategic investments. We rely on unaudited information provided by the investees to record our equity in the investees operating results during the investees' interim periods. Future adjustments to previously reported results of these investees could adversely impact our results of operations.

Income Taxes

Since we believe it is more likely than not that deductions from future employee stock option exercises will exceed future taxable income, we provide a valuation allowance on substantially all of our net deferred tax assets. We consider estimated future taxable income and on-going tax planning strategies in assessing the need for the valuation allowance.

We record an income tax provision or benefit based on the expected annual effective income tax rate. Significant management judgment is required in determining our provision for income taxes. We estimate annual taxable income, including future deductions from stock option exercises and the amount of R&D tax credits that will be available to us. Future deductions from stock option exercises are affected by stock price volatility. We also consider our ability to reinvest undistributed earnings for non-United States subsidiaries indefinitely in operations outside the United States. Should our actual taxable income, R&D tax credits or deductions from stock option exercises differ from our estimates or should we have to repatriate foreign earnings, we would have to adjust the income tax provision in the period in which the facts that give rise to the revision become known. Our tax provision could also be adversely affected by tax decisions contrary to our treatment of items on our tax return.

Litigation

We are currently involved in certain legal proceedings. We estimate the range of liability related to pending litigation where the amount and range of loss can be estimated. Where there is a range of loss, we record the minimum estimated liability related to those claims. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of the potential liability could materially impact our results of operations.

Strategic Investments and Financing

Leap Wireless International Inc.

In February 2000, we purchased 308,000 units of Leap Wireless International Inc.'s (Leap Wireless) senior discount notes with detachable warrants for \$150 million. The notes mature in April 2010 and bear interest at 14.5% payable beginning in 2005. In addition, we hold 489,000 shares of Leap Wireless' stock at June 30, 2002. During the third quarter of fiscal 2002, we determined that declines in the market values of our investments in Leap Wireless were other than temporary. As a result, we recorded \$150 million and \$17 million in other-than-temporary losses on marketable securities for the notes and stock, respectively, during the third quarter of fiscal 2002. We also recorded \$56 million in losses related to changes in the fair

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values of Leap Wireless derivative investments for the first nine months of fiscal 2002. The remaining recorded values of Leap Wireless investments totaled \$17 million at June 30, 2002, including \$3 million in derivative instruments. Under the terms of our senior secured credit facility with Leap Wireless, we are committed to fund up to \$125 million in connection with Leap Wireless' bid for PCS spectrum licenses in the FCC's Auction No. 35. See "Notes to Condensed Consolidated Financial Statements, Note 7 — Commitments and Contingencies."

VeloCom, Inc.

On November 29, 2001, we forgave \$119 million under our debt facility with VeloCom, Inc. (VeloCom), an investor in Vesper Holding. We also converted our remaining \$56 million convertible promissory note into equity securities of VeloCom (the VeloCom exchange) in conjunction with our acquisition of Vesper Holding. The VeloCom exchange increased our equity interest in VeloCom to 49.9%. We use the equity method to account for our investment in VeloCom.

Vesper Holding, Ltd.

In fiscal 1999, we acquired an approximate 16% ownership interest in Vesper Sao Paulo S.A. and Vesper S.A. (the Vesper Operating Companies). The Vesper Operating Companies were formed by a consortium of investors to provide wireless and wireline telephone services in the northern region of Brazil and in the state of Sao Paulo. In addition, we extended long-term financing to the Vesper Operating Companies related to our financing arrangement with Ericsson. On November 13, 2001, we consummated a series of transactions as part of an overall financial restructuring (the Restructuring) of the Vesper Operating Companies.

Pursuant to the Restructuring, we committed to invest \$266 million, and VeloCom committed to invest \$80 million, in a newly formed holding company called Vesper Holding. Vesper Holding acquired certain liabilities of the Vesper Operating Companies from their vendors for \$135 million and the issuance of warrants to purchase an approximate 7% interest in Vesper Holding, and the vendors released in full any claims that they might have against us, VeloCom, the Vesper Operating Companies and other related parties arising from or related to the acquired liabilities. In a series of related transactions, Vesper Holding agreed to contribute the acquired liabilities to the Vesper Operating Companies in exchange for equity securities and to cancel the contributed liabilities. At June 30, 2002, we directly owned 72% of the issued and outstanding equity of Vesper Holding, and we indirectly owned an additional 11.9% of Vesper Holding through our ownership interest in VeloCom, totaling an 83.9% direct and indirect interest.

The preliminary allocation of the purchase price, based on the estimated fair values of acquired assets and liabilities assumed, reflects \$313 million for property, plant and equipment, \$39 million for licenses, and \$31 million for other intangible assets. We are in the process of finalizing the purchase price allocation and recorded \$5 million in net adjustments reducing property, plant and equipment since the acquisition. We do not anticipate any additional material adjustments to the allocation. Property, plant and equipment are depreciated over useful lives ranging from 2 to 18 years. Licenses and other intangible assets are amortized over their useful lives of 18 years and 3 to 18 years, respectively.

When we obtained the controlling interest in Vesper Holding, Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," required that we adjust our prior period results to account for our original 16% ownership interest in the Vesper Operating Companies, predecessors to Vesper Holding, using the equity method of accounting. As a result, the Company recorded \$40 million and \$106 million of equity in losses of investees for the three months and nine months ended July 1, 2001, respectively, and a \$59 million reduction in finance receivables and retained earnings at September 30, 2001. We previously recorded \$107 million in asset impairment charges and other than temporary losses on other investments during the third quarter of fiscal 2001. As a result of the prior period adjustments, net income for the three months and nine months ended July 1, 2001 decreased by \$67 million and \$1 million, respectively.

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The Vesper Operating Companies expect to incur increasing operating losses and negative cash flows from operations through calendar 2003 as they expand operations and enter new markets, even if and after they achieve positive cash flows from operations in the initial operating markets.

Pegaso Telecomunicaciones, S.A. de C.V.

We have a bridge loan facility with Pegaso Comunicaciones y Sistemas S.A. de C.V., a wholly owned subsidiary of Pegaso Telecomunicaciones, S.A. de C.V., a CDMA wireless operating company in Mexico (collectively referred to as Pegaso). The facility was payable in full on October 31, 2001, is in default and is subject to a forbearance agreement. At June 30, 2002, \$413 million was outstanding under the bridge loan facility, net of deferred interest and unearned fees. We stopped recognizing interest on the bridge loan facility effective at the beginning of the fourth fiscal quarter of 2001.

We also have provided equipment and related financing to Pegaso. At June 30, 2002, \$318 million of this financing was outstanding under the equipment loan facility, net of deferred interest and unearned fees, including \$54 million of such financing acquired from Ericsson during the third quarter of fiscal 2002. This financing is currently in default and subject to a forbearance agreement. Pegaso stopped making interest payments on loans outstanding under the equipment loan facility. We stopped recognizing interest on these loans effective at the beginning of the fourth fiscal quarter of 2001.

As a result of a series of agreements signed on January 16, 2002 by and among Pegaso's owners and lenders, including us, we agreed to provide \$65 million of interim financing to Pegaso, including \$5 million in capitalized fees. At June 30, 2002, all \$65 million of this interim financing was outstanding. A Pegaso shareholder purchased a \$25 million participation from us in this financing.

In April 2002, Telefonica Moviles agreed to acquire a 65% controlling interest in Pegaso. The closing of this transaction is dependent on the satisfaction of certain requirements. Regulatory approvals for the sale transaction to Telefonica Moviles have been obtained from COFECO (the Comisión Federal de Competencia of Mexico) with respect to antitrust matters and from CNIE (the Comisión Nacional de Inversiones Extranjeras of Mexico) with regard to foreign ownership matters. Proceedings before COFETEL (the Comisión Federal de Telecomunicaciones of Mexico) and SCT (the Secretaría de Comunicaciones y Transportes of Mexico), the Mexican telecommunications authorities, are still pending. In connection with this acquisition agreement, the interim financing agreement was amended and restated to provide for additional interim financing of up to \$140 million to Pegaso on substantially similar terms as the \$65 million of initial interim financing. A Pegaso shareholder has committed to purchase a participation of up to \$35 million of the first \$100 million of this additional interim financing. At June 30, 2002, \$24 million of this additional interim financing was outstanding, of which \$9 million was purchased as a participation by the Pegaso shareholder.

The \$65 million initial interim financing must be repaid in full on the earlier of (i) the date that is 30 days after the Telefonica Moviles acquisition of 65% of Pegaso closes or (ii) the date that agreement is terminated. Interest is payable at 12% unless these interim loans are paid in full within 30 days of the closing date, in which case no interest will be payable. We have not recognized interest income on this interim financing.

Loans under the \$140 million additional interim financing must be repaid in full on the earlier of (i) the date that is 30 days after the Telefonica Moviles acquisition of 65% of Pegaso closes or (ii) the date that agreement is terminated. The first \$100 million of additional interim loans bears interest at LIBOR, and the remaining \$40 million bears interest at LIBOR plus 1%, in each case if the additional interim financing is repaid in full within 30 days of the closing date; otherwise, these amounts will bear interest at 12% and 20% respectively. We have not recognized interest income on this additional interim financing.

If and when the Telefonica Moviles acquisition of 65% of Pegaso closes, we expect to receive approximately \$430 million to \$445 million in satisfaction of the bridge loan facility within 60 days of the close. We would be required to use approximately \$140 million of these proceeds to purchase outstanding vendor debt owed by Pegaso to other lenders. The remaining vendor debt due to us, including the equipment

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loan and related financing, will be payable through 2008 and will bear interest at LIBOR plus 1% for two years, LIBOR plus 3% for the next two years and LIBOR plus 6% thereafter.

Our aggregate commitment to provide additional long-term financing to Pegaso under its arrangements with Ericsson remains unchanged at \$105 million, subject to Pegaso or a new buyer meeting certain conditions. We had \$5 million in other financing commitments to Pegaso as of June 30, 2002.

Pegaso is at an early stage of development and, if it remains independent, may not be able to compete successfully. Competitors in Mexico have greater financial resources and more established operations than Pegaso. As is normal for early stage wireless operators, Pegaso is experiencing significant losses and negative cash flows from operations. Based on current information and available evidence, we believe that the sale transaction to Telefonica Moviles will likely be consummated and that, as a result, we will ultimately be able to collect all recorded amounts. The ability of Pegaso's owners and lenders to complete the sale transaction is uncertain. Failure to complete the sale transaction could have a material adverse effect on our operating results and financial condition.

Third Quarter of Fiscal 2002 Compared to Third Quarter of Fiscal 2001

Total revenues for the third quarter of fiscal 2002 were \$771 million, compared to \$657 million for the third quarter of fiscal 2001. Total revenues for the third quarter of fiscal 2002 included \$49 million related to the consolidation of Vesper Holding effective in November 2001 and \$3 million related to the Globalstar business. Total revenues for the third quarter of fiscal 2001 included \$24 million related to Globalstar. Starting in fiscal 2001, we stopped recognizing revenue related to Globalstar until cash payment is received. Excluding Vesper Holding and Globalstar, total revenues increased by \$86 million, primarily due to an increase in revenues from sales of integrated circuits, an increase in revenues from royalties in the QTL segment and software development revenues related to the Qchat licensing agreement.

Cost of revenues for the third quarter of fiscal 2002 was \$288 million, compared to \$236 million for the third quarter of fiscal 2001. Cost of revenues for the third quarter of fiscal 2002 included \$51 million related to the consolidation of Vesper Holding and \$2 million related to our continuing obligation to Globalstar. Cost of revenue for the third quarter of fiscal 2001 included \$20 million related to Globalstar. Excluding Vesper Holding and Globalstar, cost of revenues as a percentage of revenues was 33% for the third quarter of fiscal 2002, compared to 34% for the third quarter of fiscal 2001. The margin improvement in the third quarter of fiscal 2002 is primarily due to the change in product mix toward the higher end devices utilizing our 3G CDMA2000 1X integrated circuits products and the increase in revenues from royalties in the QTL segment. Cost of revenues as a percentage of revenues may fluctuate in future quarters depending on the mix of products sold and services provided, royalties and license fees earned, competitive pricing, new product introduction costs and other factors.

For the third quarter of fiscal 2002, research and development expenses were \$118 million or 15% of revenues, compared to \$107 million or 16% of revenues for the third quarter of fiscal 2001. The dollar increase in research and development expenses was primarily due to increased integrated circuit product initiatives to support high-speed wireless Internet access and multimode, multi-band, multi-network products including cdmaOne, CDMA2000 1X/1xEV-DO, GSM/ GPRS, WCDMA and position location technologies and an increase in QWBS research and development initiatives.

For the third quarter of fiscal 2002, selling, general and administrative expenses were \$152 million or 20% of revenues, compared to \$104 million or 16% of revenues for the third quarter of fiscal 2001. Selling, general and administrative expenses for the third quarter of fiscal 2002 included \$43 million related to the consolidation of Vesper Holding. Excluding Vesper Holding, selling, general, and administrative expenses of \$110 million comprised 15% of revenues. The dollar increase was primarily due to expenses related to the BREW Developers' Conference and international business development, partially offset by a reduction in bad debt expense.

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Amortization of goodwill and other acquisition-related intangible assets were \$65 million for the third quarter of fiscal 2002, compared to \$65 million in the third quarter of fiscal 2001. Amortization charges are primarily related to the acquisition of SnapTrack in March 2000.

For the third quarter of fiscal 2002, there were no asset impairment and related charges compared to \$1 million of credits in the third quarter of fiscal 2001. Asset impairment related credits during the third quarter of fiscal 2001 were comprised primarily of adjustments to certain reserves related to the Globalstar business.

For the third quarter of fiscal 2002, other operating expenses were \$9 million, compared to \$6 million of credits in the third quarter of fiscal 2001. Other operating expenses during the third quarter of fiscal 2002 resulted from the write down of a note receivable from a development stage CDMA carrier. Other operating credits during the third quarter of fiscal 2001 were related to a clarification of a prior arbitration decision made against us.

Interest expense was \$9 million for the third quarter of fiscal 2002, primarily related to the \$125 million long-term debt of Vesper Holding included in other current and noncurrent liabilities.

Net investment expense was \$184 million for the third quarter of fiscal 2002 compared to \$40 million for the third quarter of fiscal 2001. The change was primarily comprised as follows (in millions):

	Three Months Ended		
	June 30, 2002	July 1, 2001	Change
Interest income:			
Corporate	\$ 28	\$ 25	\$ 3
QSI	3	41	(38)
Net realized gains (losses) on investments:			
Corporate	1	1	—
QSI	(9)	12	(21)
Other-than-temporary losses on marketable securities	(168)	—	(168)
Other-than-temporary losses on other investments	(6)	(36)	30
Change in fair values of derivative instruments	(27)	(33)	6
Minority interest in loss (income) of consolidated subsidiaries	15	(1)	16
Equity in losses of investees	(21)	(49)	28
	<u>\$ (184)</u>	<u>\$ (40)</u>	<u>\$(144)</u>

The increase in interest income on corporate cash and marketable securities was a result of higher average cash and marketable securities balances. The decline in QSI interest income was a result of the cessation of interest income recognition on Pegaso debt facilities starting in the fourth fiscal quarter of fiscal 2001 and on Leap Wireless bonds starting in the third quarter of fiscal 2002. The other-than-temporary losses on marketable securities during the third quarter of fiscal 2002 related to our investments in Leap Wireless. The change in fair values of derivative instruments primarily results from movements in the price of Leap Wireless stock, which affects the fair value of our warrants to acquire Leap Wireless stock. Equity in losses of investees decreased as a result of the consolidation of Vesper Holding effective November 13, 2001, as these losses are now included in operations.

Income tax benefit was \$40 million for the third quarter of fiscal 2002 compared to income tax expense of \$184 million for the third quarter of fiscal 2001. The annual effective tax rate is estimated to be 27% for fiscal 2002, compared to the negative 3% annual effective tax rate estimated during the third quarter of fiscal 2001. Income tax benefit was recorded in the third quarter of 2002 to reduce the tax provision for losses in the third quarter and to reflect the change in the estimated year-end rate from 36% to 27%. The current estimated tax rate is lower than the tax rate estimated in the second quarter primarily because of a reduction in estimated year-end losses of foreign subsidiaries for which it is more likely than not we will receive no benefit and an

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increase in the partial reversal of the deferred tax valuation allowance that was previously charged to expense. Income tax expense of \$184 million was recorded in the third quarter of 2001 as a result of a change in the expected annual effective tax rate to negative 3% from 45% estimated in the second quarter of fiscal 2001.

First Nine Months of Fiscal 2002 Compared to First Nine Months of Fiscal 2001

Total revenues for the first nine months of fiscal 2002 were \$2,166 million, compared to \$2,029 million for the first nine months of fiscal 2001. Total revenues for the first nine months of fiscal 2002 included \$91 million related to the consolidation of Vesper Holding effective in November 2001 and \$8 million related to the Globalstar business. Total revenues for the first nine months of fiscal 2001 included \$50 million related to Globalstar. Excluding Vesper Holding and Globalstar, total revenues increased by \$88 million. Revenues increased primarily due to the change in product mix toward the higher end devices utilizing our 3G CDMA2000 1X integrated circuits products, software development revenues related to the Qchat licensing agreement and an increase in revenues from royalties in the QTL segment. We shipped approximately 45 million MSM integrated circuits, consistent with the 45 million shipped in the first nine months of fiscal 2001. Revenues from royalties paid by third parties were \$517 million in the first nine months of fiscal 2002, compared to \$503 million in the first nine months of fiscal 2001. Revenues from Samsung Electronics Company (Samsung), Kyocera Wireless Corp. and LG Electronics, Inc., customers of both QCT and QTL, comprised an aggregate of 16%, 14% and 11% of total consolidated revenues, respectively, in the first nine months of fiscal 2002.

Cost of revenues for the first nine months of fiscal 2002 was \$825 million, compared to \$794 million for the first nine months of fiscal 2001. Cost of revenues for the first nine months of fiscal 2002 included \$133 million related to the consolidation of Vesper Holding and \$8 million related to our on-going obligation to Globalstar. Cost of revenues for the first nine months of fiscal 2001 included \$116 million related to Globalstar. Excluding Vesper Holding and Globalstar, cost of revenues as a percentage of revenues was 33% for the first nine months of fiscal 2002 compared to 34% for the first nine months of fiscal 2001. The margin improvement in the first nine months of fiscal 2002 is primarily due to the change in product mix toward the higher end device utilizing our CDMA2000 1X integrated circuits products. Cost of revenues as a percentage of revenues may fluctuate in future quarters depending on the mix of products sold and services provided, royalties and license fees earned, competitive pricing, new product introduction costs and other factors.

For the first nine months of fiscal 2002, research and development expenses were \$342 million or 16% of revenues, compared to \$300 million or 15% of revenues for the first nine months of fiscal 2001. The dollar and percentage increases in research and development expenses were primarily due to increased integrated circuit product initiatives to support high-speed wireless Internet access and multimode, multi-band, multi-network products including cdmaOne, CDMA2000 1X/1xEV-DO, GSM/GPRS, WCDMA and position location technologies and an increase in QWBS research and development initiatives, partially offset by a reduction of support efforts related to the Globalstar business.

For the first nine months of fiscal 2002, selling, general and administrative expenses were \$377 million or 17% of revenues, compared to \$271 million or 13% of revenues for the first nine months of fiscal 2001. Selling, general and administrative expenses for the first nine months of fiscal 2002 included \$69 million related to the consolidation of Vesper Holding. Excluding Vesper Holding, selling, general and administrative expenses comprised 15% of revenues. The dollar increase was primarily due to increased headcount for our support and marketing efforts related to the BREW application development platform and increases in marketing expenses related to the expansion of our integrated circuit customer base, partially offset by a reduction in bad debt expense.

Amortization of goodwill and other acquisition-related intangible assets was \$192 million for the first nine months of fiscal 2002, compared to \$191 million in the first nine months of fiscal 2001. Amortization charges are primarily related to the acquisition of SnapTrack in March 2000.

For the first nine months of fiscal 2002, there were no asset impairment and related charges compared to \$472 million of such charges in the first nine months of fiscal 2001. Asset impairment and related charges

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during the first nine months of fiscal 2001 were comprised primarily of charges resulting from management's determination that certain assets related to the Globalstar business were impaired.

For the first nine months of fiscal 2002, other operating expenses were \$9 million compared to \$63 million in the first nine months of fiscal 2001. Other operating expenses during the first nine months of fiscal 2002 resulted from the write down of note receivable from a development stage CDMA carrier. Other operating expense in the first nine months of fiscal 2001 was related to an arbitration decision made against us.

Interest expense was \$17 million for the first nine months of fiscal 2002, compared to \$10 million for the first nine months fiscal 2001. Interest expense for the first nine months of fiscal 2002 was primarily related to the \$125 million long-term debt of Vesper Holding included in other current and non-current liabilities. Interest expense for the first nine months of fiscal 2001 was primarily related to interest charges resulting from the arbitration decision made against us.

Net investment expense was \$171 million for the first nine months of fiscal 2002 compared to \$238 million for the first nine months of fiscal 2001. The change was primarily comprised as follows (in millions):

	Nine Months Ended		
	June 30, 2002	July 1, 2001	Change
Interest income:			
Corporate	\$ 75	\$ 108	\$ (33)
QSI	21	97	(76)
Net realized gains (losses) on investments:			
Corporate	3	11	(8)
QSI	(4)	53	(57)
Other-than-temporary losses on marketable securities	(170)	(147)	(23)
Other-than-temporary losses on other investments	(14)	(46)	32
Change in fair values of derivative investments	(56)	(181)	125
Minority interest in loss (income) of consolidated subsidiaries	34	(2)	36
Equity in losses of investees	(60)	(131)	71
	<u>\$ (171)</u>	<u>\$ (238)</u>	<u>\$ 67</u>

The decline in interest income on corporate cash and marketable securities was a result of lower interest rates. The decline in QSI interest income was a result of the cessation of interest income recognition on Pegaso debt facilities starting in the fourth fiscal quarter of fiscal 2001 and on Leap Wireless bonds starting in the third quarter of fiscal 2002. The other-than-temporary losses on marketable securities during the first nine months of fiscal 2002 primarily related to our investments in Leap Wireless. The change in fair values of derivative instruments primarily results from movements in the price of Leap Wireless stock, which affects the fair values of our warrants to acquire Leap Wireless stock. Equity in losses of investees decreased as a result of the consolidation of Vesper Holding effective November 13, 2001, as these losses are now included in operations.

For the first nine months of fiscal 2002, there were no other non-operating charges compared to \$176 million of such charges in the first nine months of fiscal 2001. Other non-operating charges in the first nine months of fiscal 2001 were primarily comprised of a \$120 million write-down of the note receivable from VeloCom and a \$57 million write-down of the recorded values of a note receivable from Globalstar and warrants to acquire partnership interests in Globalstar to their estimated fair values.

Income tax expense was \$63 million for the first nine months of fiscal 2002, compared to a benefit of \$2 million for the first nine months of fiscal 2001. The annual effective tax rate is estimated to be 27% for fiscal 2002, compared to the negative 3% annual effective tax rate estimated during the third quarter of fiscal 2001. The estimated annual effective tax rate for fiscal 2002 is lower than the statutory rate due to the reduction of

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deferred tax assets and the related valuation allowance that was previously charged to tax expense, partially offset by foreign losses for which we are not recording a tax benefit. The actual effective tax rate for fiscal 2001 was negative 25%. The fiscal 2001 effective tax rate was the result of pre-tax losses for which no tax benefit was recorded and foreign tax expense. The expected annual effective tax rate on profits for fiscal 2002 cannot be meaningfully compared to the effective tax rate on losses for the prior fiscal year.

We recorded an \$18 million loss, net of taxes, in fiscal 2001 as the net cumulative effect of changes in accounting principle at September 30, 2000. The cumulative effect of the adoption of SAB 101 was a \$147 million loss, net of taxes, offset by a \$129 million gain, net of taxes, resulting from the cumulative effect of the adoption of FAS 133. The gain resulting from the adoption of FAS 133 related primarily to the unrealized gain on a warrant to purchase 4,500,000 shares of Leap Wireless common stock issued to us in connection with our spin-off of Leap Wireless in September 1998.

Our Segment Results for the Third Quarter of Fiscal 2002 Compared to Third Quarter of Fiscal 2001

The following should be read in conjunction with the third quarter financial results of fiscal 2002 for each reporting segment. See “Notes to Condensed Consolidated Financial Statements — Note 6 — Segment Information.”

QUALCOMM CDMA Technologies Segment (QCT)

QCT segment revenues for the third quarter of fiscal 2002 were \$404 million compared to \$333 million for the third quarter of fiscal 2001. Earnings before taxes for the third quarter of fiscal 2002 were \$118 million compared to \$71 million for the third quarter of fiscal 2001. Revenues and earnings before taxes increased primarily due to an increase in unit shipments of MSM integrated circuits and the effect of the change in product mix toward the higher end devices utilizing our 3G CDMA2000 1X products. Approximately 16 million MSM integrated circuits were shipped during the third quarter of fiscal 2002, compared to 14 million for the third quarter of fiscal 2001. Research and development and selling and marketing expenses were higher for the third quarter of fiscal 2002 as compared to the year ago period primarily associated with new integrated circuit product and technology initiatives to support high-speed wireless Internet access and multi-band, multi-mode, multi-network, products including cdmaOne, CDMA2000 1X/1xEV-DO, GSM/ GPRS, WCDMA and position location technologies. QCT inventories increased by 26% during the third quarter of fiscal 2002 primarily as a result of anticipated future demand for 1X products.

QUALCOMM Technology Licensing Segment (QTL)

QTL segment revenues for the third quarter of fiscal 2002 were \$199 million compared to \$180 million for the third quarter of fiscal 2001. Revenues from royalties paid by third party licensees were \$168 million in the third quarter of fiscal 2002, compared to \$154 million in the third quarter of fiscal 2001. Revenues from license fees were \$14 million in third quarter of fiscal 2002, compared to \$13 million in the third quarter of fiscal 2001. Earnings before taxes for the third quarter of fiscal 2002 were \$174 million compared to \$153 million for the third quarter of fiscal 2001. The increase in revenues and earnings before taxes was primarily due to an increase in sales of CDMA products by licensees resulting from higher demand for CDMA products across all major regions of CDMA deployment, with the exception of Latin America which has been impacted by the economic downturn in that market. During the first nine months of fiscal 2002, revenue from royalties paid by third party licensees was \$517 million, compared to \$503 million during the first nine months of fiscal 2001. During the three months and nine months ended June 30, 2002, we recognized \$2 million and \$4 million, respectively, in revenue related to equity received as consideration for license fees.

QUALCOMM Wireless & Internet Segment (QWI)

QWI segment revenues for the third quarter of fiscal 2002 were \$110 million compared to \$104 million for the third quarter of fiscal 2001. Losses before taxes for the third quarter of fiscal 2002 were \$3 million compared to earnings before taxes of \$5 million for the third quarter of fiscal 2001. Revenues increased primarily due to an increase in software development and services revenues related to our BREW products and

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Qchat licensing agreement. Earnings before taxes decreased primarily due to our development, support and marketing efforts related to the BREW application development platform and an increase in QUALCOMM Wireless Business Solutions research and development expenditures. We shipped approximately 12,000 OmniTRACS and other related communications systems during the third quarter of fiscal 2002, compared to approximately 11,000 in the third quarter of fiscal 2001.

QUALCOMM Strategic Initiatives (QSI)

QSI segment revenues for the third quarter of fiscal 2002 were \$49 million, primarily related to the consolidation of Vesper Holding. QSI segment losses before taxes for the third quarter of fiscal 2002 were \$285 million compared to \$186 million for the third quarter of fiscal 2001. The increase in losses was primarily due to \$194 million in charges related to Leap Wireless investments, including \$167 million in other-than-temporary losses on Leap Wireless marketable securities and \$27 million in losses related to changes in the fair values of Leap Wireless warrants. During the third quarter of fiscal 2002, QSI recorded a \$35 million loss, net of minority interest, due to the consolidation of Vesper Holding and \$7 million of equity losses in VeloCom, as compared with \$40 million of equity losses for the Vesper Operating Companies in the third quarter of fiscal 2001. In addition, QSI realized a \$38 million decrease in interest income and \$9 million in realized losses on marketable securities, as compared to \$12 million in realized gains in the third quarter of fiscal 2001, the effect of which was partially offset by a \$30 million decrease in other-than-temporary losses on other investments. During the third quarter of fiscal 2001, we recorded a \$120 million charge to write down a note receivable from VeloCom to its fair value.

Liquidity and Capital Resources

Cash and cash equivalents and marketable securities were \$2,825 million at June 30, 2002, an increase of \$245 million from September 30, 2001. The increase during the first nine months of fiscal 2002 was primarily the result of \$519 million in cash provided by operating activities, \$103 million in net proceeds from the issuance of common stock under our stock option and employee stock purchase plans and \$10 million in proceeds received from Vesper Holding's minority interest shareholders, partially offset by \$290 million in cash used for other investments and acquisitions and \$108 million in capital expenditures. We expect Vesper Holding to require approximately \$25 to \$35 million in cash funding through the end of fiscal 2002.

Accounts receivable increased by 8% during the third quarter of fiscal 2002. The increase in accounts receivable was primarily due to higher revenues and the timing of cash receipts for royalty receivables, partially offset by a net increase in Vesper Holding receivables. Excluding Vesper Holding receivables days sales were 66 days at June 30, 2002 compared to 61 days at March 31, 2002. The change in days sales is consistent with the increase in revenue and the resultant increase in accounts receivable balances.

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 investments in other companies and other assets to support the growth of our business, financing for customers of CDMA infrastructure products in accordance with the agreement with Ericsson, financing under agreements with CDMA telecommunications carriers, and other commitments. We intend to continue our strategic investment activities to promote the worldwide adoption of CDMA products and the growth of CDMA-based wireless data and wireless Internet products and solutions. 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 for cash arise, we may raise additional funds from a combination of sources including potential debt and equity issuance.

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At June 30, 2002, our outstanding commitments included (in millions):

Long-term financing under Ericsson arrangement (excluding Pegaso)	\$368
Senior credit facility with Leap Wireless	125
Pegaso:	
Commitment to acquire long-term financing to be provided by Ericsson	105
Additional interim funding	89
Other	5
Equity investments:	
Inquam	49
Other	32
Other debt commitments	13
	—
Total debt and equity commitments	786
Long-term purchase commitments	72
Operating leases	136
Other	3
	—
Total	\$997

Information regarding our long-term purchase commitments is provided in the Consolidated Financial Statements for the fiscal year ended September 30, 2001. See “Notes to Consolidated Financial Statements, Note 11 — Commitments and Contingencies”. Information regarding our operating leases at June 30, 2002 is provided in the Notes to the Condensed Consolidated Financial Statements. See “Notes to Condensed Consolidated Financial Statements, Note 7 — Commitments and Contingencies.”

Commitments to extend long-term financing to certain CDMA customers of Ericsson totaled approximately \$473 million. The commitment to fund \$346 million of this amount expires on November 6, 2003. The funding of the remaining \$127 million, if it occurs, is not subject to a fixed expiration date. The financing commitments are subject to the CDMA customers meeting conditions prescribed in the financing arrangements and, in certain cases, to Ericsson also financing a portion of such sales and services. Such financing is generally collateralized by the related equipment. Commitments represent the maximum amounts to be financed under these arrangements; actual financing may be in lesser amounts.

In December 2001, we agreed to invest up to \$200 million in exchange for up to 4% of the common shares of Reliance Infocomm Limited (RIL), formerly Reliance Communications Limited, a wireless carrier in India. RIL intends to construct and operate a CDMA commercial network deploying CDMA2000 1X technology to provide basic telephone services, Wireless Local Loop (WLL) with limited mobility and national long distance services in India. At June 30, 2002, because certain conditions precedent under the agreement had not been satisfied, our obligation to make this investment had become non-binding. However, we retain the option to purchase the shares contingent upon RIL’s completion of certain performance milestones. Funding would occur through September 2003 if we complete the investment. At June 30, 2002, we had not purchased any shares related to this agreement.

Information regarding our other financial commitments at June 30, 2002 is provided in the Notes to the Condensed Consolidated Financial Statements. See “Notes to Condensed Consolidated Financial Statements, Note 3 — Investments in Other Entities, Note 7 — Commitments and Contingencies and Note 8 — Acquisitions.”

Future Accounting Requirements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (FAS 141), “Business Combinations,” and No. 142 (FAS 142), “Goodwill and Other Intangible Assets.” FAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, “Business Combinations.” The provisions of FAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial

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recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. FAS 141 also requires that, upon adoption of FAS 142, we reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. FAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of FAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangibles assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

FAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step (Step 1) is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete the first step. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of fiscal 2003. Any impairment loss resulting from the transitional impairment tests would be reflected as the cumulative effect of a change in accounting principle in the first quarter 2003.

We will adopt the provisions of FAS 142 in our first quarter of fiscal 2003. We have determined our reporting units and the amounts of goodwill, intangible assets, other assets and liabilities allocable to those reporting units and expect to complete Step 1 in the first quarter of fiscal 2003. During the third quarter of fiscal 2002, we performed a preliminary Step 1 analysis. We will finalize our Step 1 analysis as of the date of adoption. Based on our preliminary Step 1 analysis, we do not expect the adoption of FAS 142 to have a material impact on our financial position. We will no longer record goodwill amortization starting in fiscal 2003. We recorded \$62 million and \$184 million in goodwill amortization expense during the three months and nine months ended June 30, 2002, respectively.

In August 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 replaces FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The FASB issued FAS 144 to establish a single accounting model, based on the framework established in FAS 121, as FAS 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB 30, "Reporting The Results of Operations — Reporting The Effects of Disposal of a Segment of a Business, and Extraordinary Unusual and Infrequently Occurring Events and Transactions." FAS 144 also resolves significant implementation issues related to FAS 121. Companies are required to adopt FAS 144 for fiscal years beginning after December 15, 2001, but early adoption is permitted. We will adopt FAS 144 as of the beginning of fiscal 2003. We do not expect the adoption of FAS 144 to have a material impact on our operating results and financial position.

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 30, 2001, including our financial statements and the related notes.

Risks Related to Our Businesses

Global economic weakness that impacts the wireless communications industry could negatively affect our revenues and operating results.

Recent global economic weakness has had wide-ranging effects on markets that we serve, particularly wireless communications equipment manufacturers and network operators. This downturn has had a negative effect on our revenues from royalties, license fees and integrated circuit products. We cannot predict whether a recovery in the near term, if it occurs, will benefit us, and 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.

If CDMA technology is not widely deployed, or if delays occur in the adoption of 3G CDMA standards, our revenues may not grow as anticipated or our stock price could fall.

We focus our business primarily on developing, patenting and commercializing CDMA technology for wireless telecommunications applications. Other digital wireless communications technologies, particularly GSM technology, have been more widely adopted than CDMA technology. 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, or if wireless communications service providers do not deploy networks that utilize CDMA technology, our business and financial results could suffer.

To increase our revenues and market share in future periods, we are dependent upon the adoption and commercial deployment of 3G wireless communications equipment, products and services based on our CDMA technology. Industry and government participants of the International Telecommunications Union and regional standards development organizations are currently considering a variety of standards that may be utilized in 3G wireless networks. We continue to advocate the selection of 3G standards based on CDMA technology. We cannot assure you that any of the standards development organizations will select the standards that we are advocating. If they select other standards, our business may suffer, and even if our standards are selected, we cannot assure you that they will achieve commercial acceptance in a timely manner, or at all. Our 1xEV-DO was approved by the International Telecommunications Union for inclusion in the CDMA2000 mode of the 3G standard. Commercial deployment of CDMA2000 1X began in October 2000 in South Korea. In addition, commercial deployment of CDMA2000 1X by Leap Wireless began in December 2001 in the cities of Phoenix and Denver, representing the first commercial deployment of 3G technology in North America. Also, nationwide commercial deployment of CDMA2000 1X by KDDI Corporation (KDDI) began in Japan in April 2002. WCDMA, a technology designed as an alternative to CDMA2000, is currently in the standardization process and has been adopted by several European, Japanese and United States carriers. We expect that, although limited systems have been placed in service, widespread and standardized WCDMA networks will not begin operation until 2003 or later, given that the WCDMA standard and interoperability testing is not yet complete. Many GSM operators are expected to deploy GPRS, a packet data technology, as a 2.5G bridge technology while waiting for 3G WCDMA to become available. GPRS is the only widely anticipated packet data technology that is not CDMA-based. We believe that our CDMA patent portfolio is

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applicable to all CDMA systems that may serve as the basis for such standards. However, we cannot assure you that the wireless communications industry will adopt 3G standards based on CDMA technology, or that our CDMA patents will be determined to be applicable to any proposed 3G standards. If we are unable to successfully, widely and timely deploy CDMA2000 as the preferred 3G technology, our business and financial results could suffer.

Because we have made significant investments in and loans to CDMA carriers, our financial condition may be harmed if those CDMA carriers are not successful.

We provide significant financing to CDMA carriers to promote the worldwide adoption of CDMA products and services. Many domestic and international CDMA carriers to whom we have provided financing have limited operating histories, are faced with significant capital requirements, are highly leveraged or have limited financial resources. Certain carriers to whom we have provided financing have defaulted on their obligations to us, and it is possible that others will default on their obligations to us in the future. Any such defaults could have a material adverse effect on our financial condition and operating results. Due to currency fluctuations and international risks, foreign borrowers may become unable to pay their debts to us from revenues generated by their projects that are denominated in local currencies. Further, we may not be permitted to retain a security interest in any spectrum licenses held by foreign carriers that we finance. These spectrum licenses initially may constitute the primary asset of the carriers. The amount of financing that we currently are providing and that we expect to provide in the future is substantial. See “Notes to Condensed Consolidated Financial Statements, Note 3 — Investments in Other Entities.”

In November 2001, we acquired Vesper Holding, a CDMA carrier in Brazil. See “Notes to Condensed Consolidated Financial Statements, Note 8 — Acquisitions.” We expect Vesper Holding to incur increasing operating losses and negative cash flows from operations as it expands operations and enters new markets, even if and after it achieves positive cash flows from operations in initial operating markets. We may incur significant losses in the future related to our ownership of Vesper Holding, and we cannot assure you that Vesper Holding will ever operate profitably. Additional risks and uncertainties specific to Vesper Holding include risks associated with:

- the upgrade of the existing network to CDMA2000 1X and 1xEV-DO, including risks related to the operations of new systems and technologies, substantial required expenditures and potential unanticipated costs, the adequacy of suppliers and consumer acceptance of the products and services to be offered;
- the ability to establish a significant market presence in new geographic and service markets;
- the ability to compete with more well-established competitors in Brazil that may offer less expensive products and services, desirable or innovative products or have extensive resources or better financing;
- the ability to generate timely and accurate financial and management data;
- the availability and cost of capital; and
- the ability to develop future business opportunities critical to the realization of growth potential.

We derive a significant portion of our revenue from a limited number of customers and licensees. The loss of any one of our major customers or licensees could reduce our revenues and harm our ability to achieve or sustain acceptable levels of operating results.

During the first nine months of fiscal 2002, our three largest customers accounted for 41% of consolidated revenues, as compared to 37% in fiscal 2001. The loss of any one of our QCT segment’s significant 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 could harm our ability to achieve or sustain acceptable levels of profitability. 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

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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 these customers;
- the financial and operational success of these customers; and
- the success of these customers' products that incorporate our products.

Our QTL segment derives royalty revenues from shipments by our 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 and introduce high volume products that achieve and sustain market acceptance. 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 wireless communications devices utilizing our CDMA technology could have a material adverse effect on our business.

We derive a significant portion of our revenues from sales outside the United States, and numerous factors related to international business activities subject us to risks that could reduce the demand for our licensees' products or our products, negatively affecting our operating results.

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 will 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, then we may not be able to maintain an acceptable rate of growth in our business.

Consolidated revenues from international customers as a percentage of total revenues were 69% in the first nine months of fiscal 2002, 65% in fiscal year 2001, 47% in fiscal year 2000 and 38% in fiscal year 1999. In many international markets, barriers to entry are created by long-standing relationships between our potential customers and their local 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:

- unexpected changes in legal or regulatory requirements;
- difficulty in protecting our intellectual property rights in a particular foreign jurisdiction;
- our inability to successfully enter a significant foreign market, such as China or India;
- 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;
- nationalization, expropriation and limitations on repatriation of cash;
- social, economic and political instability;
- natural disasters, acts of terrorism and war;

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- taxation; and
- changes in United States laws and policies affecting trade, foreign investment and loans.

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. During the first nine months of fiscal 2002, 37% and 18% of our revenue was from customers and licensees based in South Korea and Japan, respectively, as compared to 35% and 22% during fiscal 2001, respectively. A significant downturn in the economies of Asian countries where many of our customers and licensees are located, particularly the economies of South Korea and Japan, would materially harm our business. In November 2001, we acquired Vesper Holding, a CDMA carrier in Brazil. A significant downturn in the economy of Brazil could materially harm our business and limit our strategic alternatives related to this investment. We also are subject to risks in certain markets in which our customers and licensees grant subsidies on handsets to their subscribers. For example, in the past the South Korean government limited the ability of telecommunications carriers to provide subsidies on handsets to their subscribers, and this, in turn, reduced our revenues from those sources. Further limitations on the ability of handset manufacturers to sell their products in South Korea, Japan or in other countries may have additional negative impacts on our revenues.

Foreign currency fluctuations could negatively affect future product sales or royalty revenue and harm our ability to collect receivables.

We are exposed to risk from fluctuations in foreign currencies that could impact our operating results, liquidity and financial condition. As a global concern, we face exposure to adverse movements in foreign currency exchange rates:

- Financial instruments held by our consolidated subsidiaries and other companies in which we invest 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 emerging market currencies may increase as we expand into those markets.
- 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. Our trade receivables are generally United States dollar denominated. Accordingly, any significant change 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 collect receivables.
- Foreign CDMA carriers to whom we have provided financing may be unable to pay their debts to us from revenues generated by their projects that are denominated in local currencies.
- Average selling prices for our customers' products may be denominated in local currencies, and declines in local currency values may adversely affect future royalty revenue.

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

From time to time, we consider strategic transactions and alternatives with the goal of maximizing stockholder value. In the past we have acquired businesses, entered into joint ventures and made strategic investments in early stage companies and venture funds or incubators to support the adoption of CDMA and use of the wireless Internet. In November 2001, we acquired Vesper Holding, a CDMA carrier in Brazil. 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 will continue to evaluate potential strategic transactions and alternatives 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 investments. Although our goal is to maximize stockholder value, such transactions

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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 start-up losses and may pose significant integration challenges and/or management and business disruptions, any of which could harm our operating results and business prospects.

The fair values of our strategic investments are subject to substantial quarterly and annual fluctuations and to market downturns. Downward fluctuations and market trends could adversely affect our operating results.

We maintain strategic holdings of various issuers and types. These securities include available-for-sale equity securities and derivative instruments that are recorded on the balance sheet at fair value. We strategically invest in companies in the high-technology industry and typically do not attempt to reduce or eliminate our market exposure. Available-for-sale equity securities are recorded at fair value under FAS 115, and derivative instruments recorded at fair value under FAS 133 subject us to equity price risk. The fair market values of these securities and derivative instruments are subject to significant price volatility and, in general, suffered significant decreases in market value during fiscal 2001 and the first nine months of 2002. In addition, the realizable value of these securities and derivative instruments is subject to market and other conditions. Our investments in specific companies and industry segments may vary over time, and changes in concentrations may affect price volatility. We also invest in privately-held companies, including early stage companies, venture funds or incubators. These investments are recorded at cost, but the recorded values may become impaired due to changes in the companies' condition or prospects. Our strategic investments are inherently risky as the market for the technologies or products the investees have under development may never materialize. As a result, we could lose all or a portion of our investments in these companies, which could negatively affect our financial position and operating results. See "Notes to Condensed Consolidated Financial Statements, Note 3 — Investments in Other Entities" and "Item 3. Quantitative and Qualitative Disclosure About Market Risk."

We depend upon a limited number of third-party manufacturers to produce and test our products. Any disruptions in the operations of, or the loss of, any of these third parties could harm our ability to meet our delivery obligations to our customers and increase our cost of sales.

QUALCOMM CDMA Technologies Segment (QCT)

We subcontract all of our manufacturing and assembly, and most of the testing, of our integrated circuits. We depend upon a limited number of third parties to perform these functions, some of which are only available from single sources with which we do not have long-term contracts. IBM, Motorola, Taiwan Semiconductor Manufacturing Co. and Texas Instruments are the primary manufacturers of our family of integrated circuits. Our reliance on a sole-source vendor primarily occurs during the start-up phase of a new product. Once a new product reaches a significant volume level, we then establish alternative suppliers for technologies that we consider critical. Our reliance on sole or limited-source vendors involves risks. These risks include possible shortages of capacity, product performance shortfalls, and reduced controls over delivery schedules, manufacturing capability, quality assurance, quantity and costs. We have no firm long-term commitments from our manufacturers to supply products to us for any specific period, or in any specific quantity, except as may be provided in a particular purchase order. As a result, these manufacturers may allocate, and in the past have allocated, capacity to the production of other products while reducing deliveries to us on short notice.

Our operations also may be harmed by lengthy or recurring disruptions at any of the facilities of our manufacturers. These disruptions may include labor strikes, work stoppages, terrorism, war, 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. The loss of a significant third-party manufacturer or the inability of a third-party manufacturer to meet performance and quality specifications or delivery schedules could harm our ability to meet our delivery obligations to our customers.

In addition, one or more of our manufacturers may obtain licenses from us to manufacture CDMA integrated circuits that compete with our products. In this event, the manufacturer could elect to allocate

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scarce components and manufacturing capacity to their own products and reduce deliveries to us. In the event of a loss of, or a decision to change, a key third-party manufacturer, qualifying a new manufacturer and commencing volume production or testing could involve delay and expense, resulting in lost revenues, reduced operating margins and possible loss of customers.

QUALCOMM Wireless & Internet Segment (QWI)

Several of the critical products and services used in our existing and proposed products are currently available only from third-party single or limited sources. These include items such as electronic and radio frequency components, and other sophisticated parts and subassemblies which are used in the OmniTRACS, TruckMAIL, OmniExpress, LINQ and OmniOne products. These third parties include companies such as M/ A Com, Rakon, Mini Circuits, Cambridge, Andrews, ADI, Deutsch, PCI, Key Tronic, Seavey, Symbol, Talon, Thomson Airpax and Eagle Picher. Our reliance and the reliance of our licensees on sole or limited source vendors involve risks. These risks include possible shortages of certain key components, product performance shortfalls, and reduced control over delivery schedules, manufacturing capability, quality and costs. In the event of a long-term supply interruption, alternate sources could be developed in a majority of the cases. The inability to obtain adequate quantities of significant compliant materials on a timely basis could have a material adverse effect on our business, operating results, liquidity and financial position.

A reduction or interruption in component supply or a significant increase in component prices could have a material adverse effect on our business or profitability.

Our ability to meet customer demands depends, in part, on our ability to obtain timely and adequate delivery of parts and components from our suppliers and internal manufacturing capacity. We have experienced component shortages in the past, including components for our integrated circuit products, that have adversely affected our operations. Although we work closely with our suppliers to avoid these types of shortages, we may continue to encounter these problems in the future. A reduction or interruption in component supply or a significant increase in the price of one or more components could have a material adverse effect on our business.

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

Our software and integrated circuit products are inherently complex and may contain defects and errors that are detected only when the products are in use. Further, because our products perform critical functions in our customers' products and 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 our customers' or licensees' demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain acceptable levels of profitability. We and our customers or licensees also may experience component or software failures or defects which 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.

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, 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 or cancel or reduce orders without incurring significant penalties and generally are not subject to minimum purchase requirements.

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Our future operating results will be affected by many factors, including the following:

- the rate of CDMA technology deployment;
- delays in the adoption of 3G CDMA standards;
- changes in the growth rate of the wireless communications industry;
- consolidation in the wireless communications industry;
- strategic transactions, such as acquisitions, divestitures and investments, including investments in new ventures and CDMA carriers;
- the collectibility of our trade and finance receivables;
- changes in the fair values of our strategic equity and derivative investments;
- our ability to realize the fair values of our investments in thinly-traded public and private markets;
- the success of our strategic investments;
- the performance of our Vesper Holding subsidiary;
- our ability to retain existing or secure anticipated customers, licensees or orders, both domestically and internationally;
- the availability and cost of products and services from our third-party suppliers;
- our ability to develop, introduce and market new technology, products and services on a timely basis;
- foreign currency fluctuations, inflation and deflation;
- decreases in average selling prices for our products and our customers' products that use our technology;
- decreases in demand for our products and our customers' products that use our technology;
- intellectual property disputes and litigation;
- government regulations;
- product defects;
- changes in accounting standards or practices;
- changes to existing rules or practice regarding stock option accounting and taxation;
- management of inventory in response to shifts in market demand;
- energy blackouts and system failures;
- changes in the mix of technology and products developed, licensed, produced and sold; and
- seasonal customer demand.

The foregoing factors are difficult to forecast and these, as well as other factors, could harm our quarterly or annual operating results. If our operating results fail to meet the expectations of investment analysts or investors in any period, the market price of our common stock may decline.

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Our industry is subject to intense competition that could result in 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 intense competition will continue. Competition in the telecommunications market is based on varying combinations including:

- comprehensiveness of product and technology solutions;
- manufacturing capability;
- scalability and the ability of the system solution to meet customers' immediate and future network requirements;
- product performance and quality;
- design and engineering capabilities;
- compliance with industry standards;
- time to market;
- system cost; and
- customer support.

This competition has resulted and is expected to continue to result in declining average royalties for our licensed intellectual property and reduced average selling prices for our products and those of our customers and licensees. 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.

Our competitors include companies that promote non-CDMA technologies and companies that design competing CDMA integrated circuits, such as Nokia, Motorola, Philips, Ericsson, Texas Instruments, Intel, LSI Logic, Nortel, Samsung, Matsushita and Siemens, all of whom are our licensees with the exception of Intel. With respect to our OmniTRACS, TruckMAIL, OmniExpress, LINQ and OmniOne products and services, our existing competitors are aggressively pricing their products and services and could continue to do so in the future. In addition, these competitors are offering new value-added products and services similar in many cases to those we have developed or are developing. Emergence of new competitors, particularly those offering low cost terrestrial-based products and current as well as future satellite-based systems, may impact margins and intensify competition in new markets.

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

- existing royalty-free cross-licenses to competing and emerging technologies;
- longer operating histories and presence in key markets;
- greater name recognition;
- access to larger customer bases; and
- greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we have.

As a result of these factors, these 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 wireless communications technology. These competitors also 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 customers' decisions to purchase products or license technology from us. Accordingly,

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new competitors or alliances among competitors could emerge and rapidly acquire significant market share to our detriment.

Our stock price is volatile.

The stock market in general, and the stock prices of technology-based companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of any specific public companies. 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 cellular, PCS and Wireless Local Loop service providers and the timing of the roll-out of those systems;
- receipt of substantial orders 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;
- new commercial products;
- changes in recommendations of securities analysts;
- government regulations, including stock option accounting and tax regulations;
- acts of terrorism and war;
- proprietary rights or product or patent litigation;
- 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 significant 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.

Our industry is subject to rapid technological change that we must keep pace with to successfully compete.

New technological innovations generally require a substantial investment before they are commercially viable. We may make substantial, non-recoverable investments in new technologies that do not result in meaningful revenues.

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; and
- evolving methods of building and operating telecommunications systems.

We are currently making significant investments in developing and introducing new products, such as:

- Integrated circuit products to support high-speed wireless Internet access and multimode, multi-band, multi-network products including cdmaOne, CDMA2000 1X/1xEV-DO, GSM/ GPRS, WCDMA and position location technologies; and

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- Binary Runtime Environment for Wireless (BREW), a thin applications execution platform that provides applications developers with an open standard platform for wireless devices on which to develop their products.

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 varying 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, our competitive position could be damaged.

Consolidations in the wireless communications industry could adversely affect our business.

The wireless communications industry has experienced consolidation of participants, and this trend may continue. If wireless carriers consolidate with companies that utilize technologies that compete with CDMA, then CDMA may lose market share unless the surviving entity continues to deploy CDMA. This consolidation could also result in delays in purchasing decisions by the merged companies, negatively affecting our revenues and operating results.

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. 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 as United States laws.

The vast majority of our patents and patent applications relate to our CDMA digital wireless communications technology and much of the remainder of our patents and patent applications relate to our gpsOne, BREW, OmniTRACS, Digital Cinema, Globalstar and Eudora 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 protect 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 third parties that we infringe their intellectual property or that patents on which we rely are invalid could adversely affect our business.

From time to time, companies may assert patent, copyright and other intellectual proprietary rights to our technologies or technologies used in our industry. These claims may 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 products incorporating our technology were found to infringe on protected technology, we could be required to redesign or license such technology and/or pay damages or other compensation to the infringed party. If we were unable to license protected technology 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 products incorporating our technology 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, result in costly litigation, divert the efforts of our technical

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and management personnel or cause product shipment delays, any of which could have a material adverse effect upon our operating results. In any potential dispute involving our patents or other intellectual property, our licensees could also become the targets of litigation. This could trigger obligations on us that could result in substantial expenses. In addition to the time and expense required for us to comply with our obligations to our licensees, 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 third parties have claimed to own patents essential to various proposed 3G CDMA standards. If we 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 products and technologies and our profitability.

Third parties also may commence actions seeking to establish the invalidity of our patents. In the event that a third-party challenges a patent, a court may invalidate the patent or determine that the patent is not enforceable, which would 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 our technology and our licensees may be prevented from manufacturing and selling the products that incorporate such technology without obtaining a license to use a third-party's technology. Even if a third-party challenge is not successful, it could be expensive and time consuming, divert management attention from our business and harm our reputation.

The high amount of capital required to obtain radio frequencies licenses 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 CDMA technology. In order to provide wireless communications services, carriers 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. Typically, governments sell these licenses at auctions. Over the last several years, the amount paid for these licenses has increased significantly, particularly for frequencies used in connection with 3G technology. In addition, litigation and disputes involving companies bidding to acquire spectrum has delayed the expansion of wireless networks in the United States, and it is possible that this delay could continue for a significant amount of time. The significant cost of licenses and delays associated with disputes over license auctions may slow the growth of the industry if service providers are unable to obtain or service the additional capital necessary to implement infrastructure to support 3G technology. Our growth could be adversely affected if this occurs.

Our business and operating results may be harmed by inflation and deflation.

Inflation has had and may continue to have adverse effects on the economies and securities markets of certain countries and could have adverse effects on our customers, licensees and the projects of CDMA carriers in those countries, including their ability to obtain financing and repay debts. Brazil and Mexico, for example, have periodically experienced relatively high rates of inflation and currency devaluation. Significant inflation or deflation could have a material adverse effect on our business, operating results, liquidity and financial position.

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 entails the risk of product liability. Although we believe our product liability insurance will be adequate to protect against product liability claims, we cannot assure you that we will be able to continue to maintain such insurance at a reasonable cost or in sufficient amounts to protect us against losses due to product liability. 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

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

Our business depends on the availability of satellite and other networks for our OmniTRACS, TruckMAIL, OmniExpress, LINQ and OmniOne systems and other communications products.

Our OmniTRACS and TruckMAIL systems currently operate in the United States market on leased Ku-band satellite transponders. Our data satellite transponder and position reporting satellite transponder lease runs through October 2006. Based on system capacity analysis, we believe that the United States OmniTRACS and TruckMAIL operations will not require additional transponder capacity through 2003. We believe that in the event additional transponder capacity would be required in fiscal 2003 or in future years, additional capacity will be available on acceptable terms. However, we cannot assure you that we will be able to acquire additional transponder capacity on acceptable terms in a timely manner. A failure to maintain adequate satellite capacity would harm our business, operating results, liquidity and financial position.

Our OmniExpress, LINQ and OmniOne systems are terrestrial-based products and thus rely on various wireless terrestrial communications networks operated by third parties. We believe these terrestrial networks will be available for our products; however, we cannot assure you that these networks will continue to be available to us or that they will perform adequately for our needs. 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 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, natural disasters, terrorism, war, and telecommunication failures. Any system failure, accident or security breach that causes interruptions in our 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 domestic OmniTRACS, TruckMAIL, OmniExpress, LINQ and OmniOne operations are formatted and processed at the Network Management Center in San Diego, California, which we operate, with a fully redundant backup Network Management Center located in Las Vegas, Nevada. Our Network Management Center operations are subject to system failures, which could interrupt the services and have a material 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 that could have a material adverse effect on our results of operations.

We may need additional capital in the future, and such additional financing may not be available.

The design, development and commercialization of digital wireless communications technology and products are highly capital intensive. For example, we must have the ability to fund significant capital for our internal research and development efforts. In addition, terrestrial and satellite wireless system carriers increasingly have required long-term financing or equity. In particular, we have substantial debt and equity funding commitments to various CDMA carriers and strategic investees. In order to meet our financing needs, we may be required to raise additional funds from a combination of sources including potential debt or equity issuances. We cannot assure you that additional financing will be available on reasonable terms or at all.

Government regulation may adversely affect our business.

Our products and those of our customers and licensees are subject to various Federal Communications Commission regulations in the United States and other international regulations. These regulations require

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that these products meet certain radio frequency emission standards, not cause unallowable interference to other services, and in some cases accept interference from other services. We are also subject to government regulations and requirements of local standards bodies outside the United States, where we are less prominent than local competitors and have less opportunity to participate in the establishment of regulatory and standards policies. We are also subject to state and federal health, safety and environmental regulations, as well as regulations related to the handling of and access to classified information. 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 of our technology by a standards body, could have a material adverse effect on our business, operating results, liquidity and financial position.

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

Media reports and various class action lawsuits have suggested that radio frequency emissions from wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Concerns over radio frequency emissions may have the effect of discouraging the use of wireless handsets, 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 handsets. 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. There also are some safety risks associated with the use of wireless handsets while driving. Concerns over these safety risks and the effect of any legislation that may be adopted in response to these risks could reduce demand for our products and those of our licensees and customers in the United States as well as foreign countries.

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

Since 1996, our businesses have experienced periods of rapid growth that have placed, and are expected to continue to place, significant demands on our managerial, operational and financial resources. In order to manage this growth, we must continue to improve and expand 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.

We may not be able to attract and retain qualified personnel necessary for the design, development and commercialization of our products and technology.

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. Our key technical personnel represent a significant asset, as the source of our technological and product innovations upon which our revenues are highly dependent. The competition for these personnel is intense in the wireless communications industry.

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

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any of our 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.

Future changes in financial accounting standards may cause adverse unexpected revenue fluctuations and affect our reported results of operations.

A change in accounting policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. New pronouncements and varying interpretations of pronouncements have occurred with frequency 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.

Actual results may differ from estimates made in prior periods, causing adverse unexpected fluctuations affecting our reported financial results.

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. By their nature, estimates are subject to an inherent degree of uncertainty. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results that differ from our estimates could have a significant adverse effect on our operating results and financial position.

Our stockholder rights plan, certificate of incorporation and Delaware law could adversely affect the performance of our stock.

Our certificate of incorporation provides for cumulative voting in the election of directors. In addition, our certificate of incorporation provides for a classified board of directors and includes a provision that requires the approval of holders of at least 66 2/3% of our voting stock as a condition to a merger or certain other business transactions with, or proposed by, a holder of 15% or more of our voting stock. This approval is not required in cases where certain of our directors approve the transaction or where certain minimum price criteria and other procedural requirements are met. Our certificate of incorporation also requires the approval of holders of at least 66 2/3% of our voting stock to amend or change the provisions mentioned relating to the classified board, cumulative voting or the transaction approval. Under our bylaws, stockholders are not permitted to call special meetings of our stockholders. Finally, our certificate of incorporation provides that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting rather than by any consent in writing.

The classified board, transaction approval, special meeting and other charter provisions may discourage certain types of transactions involving an actual or potential change in our control. These provisions may also discourage certain types of transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices and may limit our stockholders' ability to approve transactions that they may deem to be in their best interests.

Further, we have distributed a dividend of one right for each outstanding share of our common stock pursuant to the terms of our preferred share purchase rights plan. These rights 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 and may have the effect of deterring hostile takeover attempts. In addition, our board of directors has the authority to fix the rights and preferences of and issue shares of preferred stock. This right may have the effect of delaying or preventing a change in our control without action by our stockholders.

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We are at risk of securities class action litigation that could result in substantial costs and divert management's attention and resources.

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 the volatility of our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2001 Annual Report on Form 10-K.

We have fixed income securities consisting of cash equivalents and investments in marketable debt securities. During the second quarter of fiscal 2002, we allocated \$300 million to institutional portfolio managers for investment in a diversified portfolio of non-investment grade securities, which are subject to a higher degree of default risk than our current fixed income portfolio, and at June 30, 2002, that amount was fully invested, primarily in corporate bonds with credit ratings of B/B2 and BB/Ba2. A portion of these bonds are designated as trading securities. The following table provides comparative information about our fixed income securities including principal cash flows, weighted average yield and contractual maturity dates:

	Interest Rate Sensitivity								
	Principal Amount by Expected Maturity								
	Average Interest Rate								
	2002	2003	2004	2005	2006	Thereafter	No Single Maturity	Total	Fair Value
	(Dollars in millions)								
June 30, 2002:									
Fixed income securities	\$164	\$267	\$370	\$103	\$ 34	\$ 283	\$ 174	\$1,395	\$ 1,401
Interest rate	4.6%	4.3%	4.3%	4.0%	6.9%	9.1%	3.8%		
September 30, 2001:									
Fixed income securities	\$281	\$379	\$220	\$ 15	\$ 19	\$ —	\$ 121	\$1,035	\$ 1,044
Interest rate	6.4%	4.6%	5.0%	5.0%	4.9%		4.4%		

We consolidate all assets and liabilities of the Vesper Operating Companies, including bank loans and capital lease commitments. Bank loans totaled \$80 million at June 30, 2002, of which \$20 million is payable in fiscal 2005 and \$60 million is payable in fiscal 2006. The bank loans bear interest at variable rates, based on the Certificate of Deposit Inter Bank (CDI) rate (the LIBOR rate equivalent in Brazil) plus 1.5%. Capital lease commitments totaled \$45 million at June 30, 2002. The aggregate maturities on the capital lease commitments over the next four years from fiscal 2002 through 2005 are \$5 million, \$15 million, \$12 million, and \$13 million, respectively. The capital lease commitments bear interest at fixed interest rates, ranging from 11.25% to 14.5%. The fair values of bank loans and capital lease commitments will change as interest rates change. Interest expense will be affected by changes in the CDI.

We are exposed to foreign exchange risk related to our consolidation of the Vesper Operating Companies. We report our financial statements in U.S. dollars. The Vesper Operating Companies account for the majority of their transactions in Brazilian real, and their results are translated into U.S. dollars during and at the end of the fiscal quarter. In addition, the Vesper Operating Companies capital lease commitments are denominated in U.S. dollars. As a result, a significant change in the value of the U.S. dollar against the Brazilian real could have a material effect on the Vesper Operating Companies and on us. A significant devaluation of the Brazilian real has occurred in the past and may occur again in the future.

We hold marketable securities and derivative instruments subject to equity price risk. The recorded values of marketable securities increased to \$1,189 million at June 30, 2002 from \$859 million at

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September 30, 2001. As of June 30, 2002, one equity position constituted approximately 12% of the fair value of the marketable securities portfolio. The recorded value of derivative instruments subject to FAS 133 at June 30, 2002 is \$4 million. We generally invest in companies in the high-technology industry, and typically do not attempt to reduce or eliminate our market exposure on these securities. The portfolio's concentrations in specific companies and industry segments may vary over time, and changes in concentrations may affect the portfolio's price volatility.

At June 30, 2002, there had been no other material changes to the market risks described at September 30, 2001. 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A review of the Company's current litigation is disclosed in the Notes to Condensed Consolidated Financial Statements. See "Notes to Condensed Consolidated Financial Statements — Note 7 — 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 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

- 2.1 Restructuring Agreement, dated as of November 9, 2001, by and among the Company, Vesper Sao Paulo S.A., Vesper S.A., Vesper Holding Sao Paulo S.A., Vesper Holding S.A., VeloCom Cayman Brasil Holdings, QUALCOMM do Brasil Ltda., Bell Canada International (Brazil Telecom I) Limited, Bell Canada International (Megatel) Limited, VeloCom Inc., Nortel Networks Limited, Lucent Technologies Inc., Telefonaktiebolaget LM Ericsson (Publ.), Harris Corporation, VeloCom do Brasil Ltda., Vesper Sao Paulo Cayman and Vesper Holding, Ltd.(1)
- 2.2 The Subscription and Shareholders Agreement, dated as of November 9, 2001, by and among the Company, VeloCom Inc., Bell Canada International (Brazil Telecom I) Limited, Bell Canada International (Megatel) Limited, Bell Canada International (Espelho Sul) Limited, Nortel Networks Limited, Lucent Technologies Inc., Telefonaktiebolaget LM Ericsson (Publ.), Harris Corporation and Vesper Holding, Ltd.(1)
- 3.1 Restated Certificate of Incorporation.(2)
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation.(3)(4)
- 3.3 Certificate of Designation of Preferences.(5)
- 3.4 Bylaws.(6)
- 3.5 Amendment of the Bylaws.(7)
- 10.50 Amended and Restated Interim Funding Agreement, dated as of April 26, 2002, by and among the Company, Pegaso Comunicaciones y Sistemas, S. A. de C. V. and the other members of the Borrower Group and consented and agreed to and acknowledged by Telefonaktiebolaget L.M. Ericsson (Publ), ABN Amro Bank N.V. and Alcatel.

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10.51 Amendment No. 5 to Amended and Restated Credit Agreement, dated as of April 26, 2002, by and among the Company, Pegaso Comunicaciones y Sistemas S.A. de C.V., the other members of the Borrower Group, Telefonaktiebolaget L.M. Ericsson (Publ) and ABN Amro Bank N.V.

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- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K on November 28, 2001.
 - (2) Filed as an exhibit to the Registrant's Registration Statement on Form S-3 (No. 33-62724).
 - (3) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 27, 1994, as amended.
 - (4) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 23, 1999.
 - (5) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 29, 1996.
 - (6) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (No. 33-42782).
 - (7) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 28, 1997.

Reports on Form 8-K

None

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
Senior Vice President and
Chief Financial Officer

Dated: July 25, 2002

AMENDED AND RESTATED INTERIM FUNDING AGREEMENT

by and among

PEGASO COMUNICACIONES Y SISTEMAS, S.A. DE C.V.,

THE OTHER MEMBERS OF THE BORROWER GROUP,

QUALCOMM INCORPORATED

and

ELECTRO BANQUE

and Consented and Agreed to and Acknowledged by

TELEFONAKTIEBOLAGET L.M. ERICSSON (PUBL),

ABN AMRO BANK N.V.,

ALCATEL

and

ELECTRO BANQUE,

as Facility 2 Administrative Agent

Dated as of April 26, 2002

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AMENDED AND RESTATED INTERIM FUNDING AGREEMENT

This AMENDED AND RESTATED INTERIM FUNDING AGREEMENT, dated as of April 26, 2002 (this "Agreement"), is entered into by and among PEGASO COMUNICACIONES Y SISTEMAS, S.A. DE C.V., a sociedad anonima de capital variable organized under the laws of Mexico ("Borrower"), the other members of the Borrower Group, QUALCOMM INCORPORATED, a corporation organized under the laws of the State of Delaware ("QUALCOMM"), and ELECTRO BANQUE, a financial institution organized under the laws of France, its capacity as a lender under the Electro Banque Facility 2 Credit Agreement (in such capacity, "Electro Banque"); and consented and agreed to and acknowledged, with respect to the provisions set forth in Section 4, by TELEFONAKTIEBOLAGET L.M. ERICSSON (PUBL), a limited liability company organized under the laws of Sweden ("Ericsson", together with QUALCOMM the "Lenders" under the Credit Agreement (as defined below)), ABN AMRO BANK N.V., as administrative agent for the Lenders (the "Administrative Agent"), ALCATEL, a corporation duly incorporated under the laws of France ("Alcatel"), and ELECTRO BANQUE, in its capacity as administrative agent for the lenders party to the Electro Banque Facility 2 Credit Agreement (in such capacity, the "Facility 2 Administrative Agent").

RECITALS

A. Borrower has entered into an Interim Funding Agreement, dated as of January 16, 2002, among Borrower, the other members of the Borrower Group,

QUALCOMM, Ericsson, the Administrative Agent and Alcatel, pursuant to which QUALCOMM has advanced Facility-2 Loans under the Credit Agreement (as defined below) to finance the payment of minimum working capital expenditures of Borrower in accordance with the Interim Business Plan (as defined below), which Interim Funding Agreement is amended and restated by this Agreement.

B. Borrower has entered into an Amended and Restated Credit Agreement, dated as of December 15, 1998, by and among Borrower, QUALCOMM, the Lenders and the Administrative Agent, as amended by Amendment No. 1 to Amended and Restated Credit Agreement, dated as of May 27, 1999, Amendment No. 2 to Amended and Restated Credit Agreement, dated as of November 28, 2000, Amendment No. 3 to Amended and Restated Credit Agreement, dated as of October 10, 2001, and Amendment No. 4 to Amended and Restated Credit Agreement, dated as of January 16, 2002 (as so amended and as otherwise amended, supplemented, modified or restated from time to time, the "Credit Agreement").

C. Borrower has requested QUALCOMM to amend the Credit Agreement in order to provide Additional Interim Loans (as defined below) under the Credit Agreement to finance the payment of working capital expenditures of Borrower in accordance with the Business Plan (as defined below) subject to the terms and conditions of the Credit Agreement and this Agreement, and QUALCOMM is willing to provide such Additional Interim Loans from its unused Facility-2 Commitment subject to the terms and conditions and in reliance on the representations and warranties set forth in this Agreement.

D. Borrower has entered into a Credit Agreement, dated as of October 10, 2001, by and among Borrower, the lenders party thereto and the Facility 2 Administrative Agent

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(as amended, supplemented, modified or restated from time to time, the "Electro Banque Facility 2 Credit Agreement").

E. Borrower has requested Electro Banque to amend the Electro Banque Facility 2 Credit Agreement in order to provide Additional Interim Loans under the Tranche B Term Facility (as defined below) to finance the payment of working capital expenditures of Borrower in accordance with the Business Plan subject to the terms and conditions of the Electro Banque Facility 2 Credit Agreement and this Agreement, and Electro Banque is willing to provide such Additional Interim Loans from its unused Tranche B Commitment (as defined below) subject to the terms and conditions and in reliance on the representations and warranties set forth in this Agreement.

F. QUALCOMM and Electro Banque have agreed to enter into a Participation Agreement, which will be acknowledged by Borrower, whereby QUALCOMM will purchase from Electro Banque, and Electro Banque will sell to QUALCOMM a participation in the Additional Interim Loans made by Electro Banque from its unused Tranche B Commitment pursuant to the Electro Banque Facility 2 Credit Agreement and this Agreement (as amended, supplemented, modified or restated from time to time, the "Participation Agreement").

G. Borrower has entered into a Common Agreement, dated as of December 15, 1998, as the same has been and hereinafter may be amended, supplemented, modified or restated from time to time, among Borrower, the other members of the Borrower Group, the Alcatel Administrative Agent, the QUALCOMM Administrative Agent, the Facility 2 Administrative Agent, the Intercreditor Agent and the Collateral Agent (as amended, supplemented, modified or restated from time to time, the "Common Agreement").

H. Holdings is entering into the Definitive Agreement (as defined below) among Holdings, Holdings' shareholders, TEM (as defined below), and certain other parties named therein, pursuant to which TEM has agreed to purchase the capital stock of certain of the shareholders of Holdings in accordance with the terms and conditions of the Definitive Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth below and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Section 1. Definitions and Rules of Interpretation.

(a) Definitions. Capitalized terms used and not otherwise defined in this Agreement shall have the meanings given to them in the Credit Agreement or, if not defined therein or herein, the Common Agreement. In addition, as used in this Agreement, the following terms shall have the following meanings:

"Additional Interim Loan Commitment" has the meaning set forth in Section 2.3(a).

"Additional Interim Loan Funding Closing Date" means the date that all the conditions precedent set forth in Section 3.2 are satisfied (or waived by

QUALCOMM in its sole discretion).

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"Additional Interim Loan Pagare" means the promissory note in the form of Exhibit A-3 to be delivered for each Borrowing of Additional Interim Loans.

"Additional Interim Loans" means the Special Loans made, or caused to be made, by QUALCOMM pursuant to Section 2.3.

"Additional Interim Loans Availability Schedule" means the monthly availability schedule of Additional Interim Loans as set forth in Schedule 4.

"Additional Interim Operating Plan" has the meaning assigned to such term in the Definitive Agreement.

"Additional Financing Facility Loans" has the meaning set forth in Section 2.1(b).

"Amended and Restated Shareholders' Agreement" means the Amended and Restated Shareholders' Agreement in the form of Exhibit I.

"Approved Sale Transaction" has the meaning assigned to such term in the Amended and Restated Shareholders' Agreement.

"Backstop Fee" has the meaning set forth in Section 5.1(d).

"Backstop Fee Loan" has the meaning set forth in Section 2.4.

"Backstop Fee Loan Pagare" means the promissory note in the form of Exhibit A-2 to be delivered for the Borrowing of the Backstop Fee Loan.

"Borrowing" means a borrowing or advance of credit pursuant to the terms and conditions of this Agreement.

"Business Plan" has the meaning assigned to such term in the Definitive Agreement.

"Buyer" has the meaning assigned to such term in the Sale Transaction Proceeds Allocation Agreement.

"Capital Expenditures" means, for any period, consistent with U.S. GAAP, expenditures (including amounts expended in connection with capitalization of leases) made by Borrower to acquire or construct and maintain or repair (to the extent that such maintenance or repair have been capitalized) fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs in the ordinary course) during such period.

"Closing" has the meaning assigned to such term in the Definitive Agreement.

"Closing Date" means the date that all the conditions precedent set forth in Section 3.1 are satisfied (or waived by QUALCOMM in its sole discretion).

"CNIE" means the Comision Nacional de Inversiones Extranjeras of Mexico.

"COFETEL" means the Comision Federal de Telecomunicaciones of Mexico.

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"Covered Bride Default" has the meaning assigned to such term in the Second QUALCOMM Forbearance Agreement.

"Covered Default" means a Covered Bridge Default or a Covered Vendor Facility Default.

"Covered Vendor Facility Default" has the meaning assigned to such term in the Second Vendor Parties Forbearance Agreement.

"Definitive Agreement" means the Stock Purchase Agreement to be entered into by and among TEM, the Borrower, the other members of the Borrower Group, Alejandro Burillo Azcarraga, Carmela Azcarraga Milmo, Scotiabank Inverlat, S.A., Institucion de Banca Multiple, Grupo Financiero Scotiabank Inverlat, as trustee of trust No. 101814, Leap PCS Mexico, Inc., Leap Wireless International, Inc., International Equity Investments, Inc., NI Media Equity, LLC, LAIF X SPRL, QUALCOMM, Sprint Mexico, Inc., Sprint Corporation, Alcatel and Ericsson, pursuant to which TEM shall purchase from certain of the shareholders of Holdings all the capital stock of Holdings owned by such shareholders in accordance with the terms and conditions thereof.

"Dollars" or "\$" shall mean the lawful currency of the United States.

"Drawdown Schedule" means the anticipated disbursement schedule of Interim Loans determined in accordance with the Interim Business Plan and set forth in Schedule 2.

"Financing Costs" means, for any period, consistent with U.S. GAAP, any interest or other financing costs (including, without limitation, the interest component of capitalized leases and the amortization of capitalized financing costs) paid in such period by Borrower other than to Alcatel, Ericsson and QUALCOMM or paid in such period by Borrower in the ordinary course of business relating to trade payables.

"Interim Business Plan" means the updated interim business plan dated as of December 21, 2001, in form and substance satisfactory to QUALCOMM, covering the Interim Business Plan Period and attached as Exhibit B to this Agreement.

"Interim Business Plan Period" shall mean the period from December 1, 2001 through March 31, 2002.

"Interim Loan" means the Special Loans made by QUALCOMM pursuant to Section 2.2.

"Interim Loan Commitment" has the meaning set forth in Section 2.2(a).

"Interim Loan Pagare" means the promissory note in the form of Exhibit A-1 to be delivered for each Borrowing of Interim Loans.

"Loan Request" means a request for loans by Borrower in the form of Exhibit G or Exhibit G-1, as appropriate, pursuant to Section 2.1(d).

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"Operating Costs" means, for any period, consistent with U.S. GAAP, (a) reasonable and necessary expenses of administering and operating the Business during such period, (b) insurance premium costs paid by any member of the Borrower Group during such period, (c) property taxes payable by any member of the Borrower Group during such period, (d) sales and excise taxes payable by any member of the Borrower Group during such period (other than taxes imposed on or measured by income or receipts), (e) costs and fees, including taxes and royalties, if any, of maintaining the Licenses payable during such period, (f) legal, accounting and other professional fees incurred during such period in connection with any of the foregoing items or relating to a Sale Transaction or this Agreement, (g) fees incurred during such period in connection with the establishment, maintenance or administration of any accounts approved by QUALCOMM, (h) repair and maintenance costs which are expensed (as opposed to capitalized) by any member of the Borrower Group during such period, (i) lease payments on non-capitalized leases paid by any member of the Borrower Group during such period, and (j) depreciation and amortization (excluding amortization of capitalized financing costs) payable during such period.

"Process Agent" has the meaning set forth in Section 9(j).

"Quarterly Date" means March 31, June 30, September 30 and December 31, as applicable.

"Sale Transaction" has the meaning assigned to that term in the Sale Transaction Proceeds Allocation Agreement.

"Sale Transaction Proceeds Allocation Agreement" means the Sale Transaction Proceeds Allocation Agreement in the form of Exhibit D.

"SCT" means the Secretaria de Comunicaciones y Transportes of Mexico.

"Second QUALCOMM Forbearance Agreement" means the Forbearance Agreement executed by QUALCOMM in the form of Exhibit C-3.

"Second Vendor Parties Forbearance Agreement" means the Forbearance Agreement executed by the Secured Parties in the form of Exhibit C-4.

"Signing Date" means January 16, 2002.

"Special Loan Commitments" means the Additional Interim Loan Commitment and the Interim Loan Commitment.

"Special Loan Scheduled Maturity Date" has the meaning set forth in Section 2.2(b).

"Special Loans" mean the Additional Interim Loans, the Backstop Fee Loan, the Interim Loans and the Additional Financing Facility Loans.

"Sprint Agreements" means (i) the Operator Agreement, (ii) the Technology and Know-how License Agreement, dated as of March 15, 2000, by and between Holdings and Sprint Spectrum LP ("Sprint") and (iii) the Trademark License Agreement, dated as of March 15,

2000, by and between Holdings and Sprint Communications Company L.P. each as assigned by Holdings to Borrower.

"Sprint Settlement Agreement" means the Termination, Settlement and Mutual Release Agreement, in form and substance satisfactory to QUALCOMM, by and among Borrower; the other members of the Borrower Group; Leap PCS Mexico, Inc.; Alejandro Burillo Azcarraga; Carmela Azcarraga Milmo; Scotiabank Inverlat, S.A., Institucion de Banca Multiple, Grupo Financiero Scotiabank Inverlat, formerly known as Banco Inverlat, S.A., Institucion de Banca Multiple, Grupo Financiero Inverlat, as trustee of trust No. 101814; International Equity Investments, Inc.; NI Media Equity, LLC; LAIF X SPRL; Sprint Spectrum L.P.; Sprint Communications Company L.P.; Sprint Mexico, Inc.; and Sprint Corporation.

"TEM" means Telefonica Moviles, S.A.

"Tranche B Commitment" has the meaning assigned to such term in the Electro Banque Facility 2 Credit Agreement.

"Tranche B Term Facility" has the meaning assigned to such term in the Electro Banque Facility 2 Credit Agreement.

"Tranche B Loans" has the meaning assigned to such term in the Electro Banque Facility 2 Credit Agreement.

"Transaction Documents" means this Agreement, the Sale Transaction Proceeds Allocation Agreement, the Amended and Restated Shareholders' Agreement, and the other documents contemplated to be delivered pursuant to or as a condition to this Agreement (other than the Definitive Agreement and the other documents required to implement the Sale Transaction).

"Working Capital" means, consistent with U.S. GAAP, current operating assets and current operating liabilities of the Borrower Group (taken as a whole without duplication), which shall include accounts receivable, taxes receivable, accounts payable, taxes payable, inventories and pre-paid advertising, but excluding cash and marketable securities.

(b) Rules of Interpretation. The rules of interpretation set forth in Section 1.02 of the Common Agreement shall be applicable to this Agreement, mutatis mutandis, as if set forth in this Agreement.

Section 2. The Credits and General Provisions Regarding the Special Loans.

2.1 Borrowings Under the Credit Agreement.

(a) Borrowings Under OUALCOMM's FACILITY-2 Commitments. Borrowings of Interim Loans and the Backstop Fee Loan (each as described below) made by Borrower shall be funded by Borrowings of Facility-2 Loans under QUALCOMM's unused Facility-2 Commitment existing under the Credit Agreement, and all Borrower's obligations with respect to the Interim Loans and Backstop Fee Loan shall be secured on a senior secured basis, pari passu with the existing Senior Indebtedness. The parties shall cooperate to obtain all necessary consents, waivers and approvals with respect to the Interim Loans and the Backstop Fee Loan as set forth in greater detail in Section 3.1.

(b) Additional Interim Loan Facility, Additional Interim Loans (as described below) shall be funded pursuant to (i) a new "Facility-3" to be established in connection with an amendment to the Credit Agreement, (ii) in the Facility 2 Administrative Agent's sole discretion, one or more amendments to the Electro Banque Facility 2 Credit Agreement, (iii) in QUALCOMM's sole discretion, one or more amendments to the Credit Agreement, or (iv) a new Financing Agreement contemplated to be executed to fund Additional Interim Loans and up to \$40,000,000.00 (the "Additional Financing Facility Loans") required to be provided by QUALCOMM under the Additional Financing Facility (as defined in the Definitive Agreement) with such terms and provisions as set forth in the Definitive Agreement, in each case, to be executed in connection with the other conditions precedent set forth in Section 3.2 and all Borrower's obligations with respect to the Additional Interim Loans shall be secured on a senior secured basis, pari passu with the existing Senior Indebtedness. The parties shall cooperate to obtain all necessary consents, waivers and approvals with respect to the Additional Interim Loans as set forth in greater detail in Section 3.2.

(c) Credit Agreement and Electro Banque Facility 2 Credit Agreement Terms Incorporated by Reference.

(i) All the terms and provisions with respect to Loans under the Credit Agreement shall apply to the Special Loans made under this Agreement as if set forth in this Agreement. Each Facility-2 Loan under the Credit Agreement

advanced as a Special Loan and all covenants applicable to Borrower with respect to such Special Loans shall be subject to all the terms and conditions of the Facility-2 Loans under the Credit Agreement except to the extent such terms and conditions are expressly modified by this Agreement.

(ii) All the terms and provisions with respect to Tranche B Loans under the Electro Banque Facility 2 Credit Agreement shall apply to the Additional Interim Loans made under this Agreement as if set forth in this Agreement. Each Tranche B Loan under the Electro Banque Facility 2 Credit Agreement advanced as an Additional Interim Loan and all covenants applicable to Borrower with respect to such Additional Interim Loans shall be subject to all the terms and conditions of the Tranche B Loans under the Electro Banque Facility 2 Credit Agreement except to the extent such terms and conditions are expressly modified by this Agreement.

(d) Request For Borrowings. To request a Special Loan, Borrower shall notify QUALCOMM of such request by telephone not later than 11:00 a.m., San Diego time, at least five (5) Business Days before the date of the proposed Borrowing which shall be consistent with the Drawdown Schedule or the Additional Interim Loans Availability Schedule, as applicable. Each telephonic loan request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile of a written, signed Loan Request to (i) QUALCOMM in the form of Exhibit G for Special Loans to be advanced from QUALCOMM's unused Facility-2 Commitment, or (ii) QUALCOMM and Electro Banque in the form of Exhibit G-1 for Additional Interim Loans to be advanced from Electro Banque's unused Tranche B Commitment.

(e) Availability. On the date specified for the Borrowing in the Loan Request, subject to the terms and conditions set forth in this Agreement, QUALCOMM shall make the amount of the Special Loan available to Borrower by depositing, or causing to be

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deposited, the same in immediately available funds in the account of Borrower set forth in the Loan Request. Borrowings of Interim Loans shall be permitted in accordance with the Drawdown Schedule. Borrowings of Additional Interim Loans in each monthly period shall be permitted up to the amounts set forth for such relevant monthly period in the Additional Interim Loans Availability Schedule. Additional Interim Loan amounts not funded in any monthly period shall be carried over to the subsequent monthly period for availability under such monthly period. QUALCOMM's obligation to make, or cause to be made, Special Loans available to Borrower shall automatically end on the first to occur of (i) the Closing under the Definitive Agreement, or (ii) prior to Closing under the Definitive Agreement, the date that the Definitive Agreement is revoked, rescinded or abandoned by any party thereto for any reason or terminated in accordance with the terms thereof.

2.2 The Interim Financing.

(a) Interim Loan Commitments. Subject to the terms and conditions set forth in this Agreement, QUALCOMM agrees to make Interim Loans to Borrower from time to time on or after the applicable conditions precedent in Section 3 have been satisfied (or waived by QUALCOMM) in an aggregate amount up to the lesser of (i) QUALCOMM's unused Facility-2 Commitment (which is \$96,000,000.00 as of the Signing Date) and (ii) \$60,000,000.00 (the "Interim Loan Commitment"). The Interim Loan Commitment is duplicative of, and not in addition to, the Facility-2 Commitment, and utilization or reduction of one shall automatically utilize or reduce the other. The repayment of Interim Loans shall not reinstate the Interim Loan Commitment. Without limiting the other provisions of the Credit Agreement applicable to QUALCOMM's Facility-2 Commitment, QUALCOMM's Facility-2 Commitment shall be automatically reinstated in accordance with its terms to the extent that the Interim Loans are repaid by Borrower on or before the Special Loan Scheduled Maturity Date; provided, however, that if the Interim Loans are not repaid by the Special Loan Scheduled Maturity Date, QUALCOMM's Facility-2 Commitment shall be reinstated upon the repayment in full of all amounts due in respect of the Interim Loans on or before the date that is thirty (30) days after the Special Loan Scheduled Maturity Date, provided that the liquidated damages amounts payable by Borrower under Section 2.05(a) of the Definitive Agreement are also paid in full when due.

(b) Repayment of Interim Loans. The Interim Loans, together with all accrued and unpaid interest thereon (subject to the provisions set forth in Section 2.2(c)), shall be due and payable on the first to occur of (i) the date that is thirty (30) days after the Closing under the Definitive Agreement, or (ii) prior to Closing under the Definitive Agreement, the date that the Definitive Agreement is revoked, rescinded or abandoned by any party thereto for any reason or terminated in accordance with the terms thereof (the "Special Loan Scheduled Maturity Date").

(c) Interest Rate Applicable to Interim Loans. Borrower shall pay interest on the unpaid principal amount of each Interim Loan from the date of the funding of such Interim Loan until such Interim Loan is paid at a fixed

rate equal to twelve percent (12%) per annum; provided, however, that if (i) the Closing under the Definitive Agreement occurs and (ii) the Interim Loans are timely repaid in accordance with Section 2.2(b), then the Interim Loans will be deemed not to bear interest. In the event that such Interim Loan is not timely repaid in accordance with Section 2.2(b), interest on such Interim Loan shall accrue at a rate per annum equal to the Eurodollar Rate plus ten percent (10%) and the per annum interest rate applicable to

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such Interim Loans shall increase by one percent (1%) each month until such Interim Loan and all accrued interest thereon has been paid in full; provided, however, that the interest rate on such Interim Loans shall in no event exceed twenty-two percent (22%) per annum. All interest under this Section 2.2(c) shall be computed on the basis of a year of 360 days and the actual number of days elapsed.

2.3 The Additional Interim Financing.

(a) Additional Interim Loan Commitment. Subject to the terms and conditions set forth in this Agreement, QUALCOMM agrees to make, or cause to be made, Additional Interim Loans to Borrower from time to time after the applicable conditions precedent in Section 3 have been satisfied (or waived by QUALCOMM in an aggregate amount up to \$100,000,000.00 (the "Additional Interim Loan Commitment"). The Additional Interim Loan Commitment is duplicative of, and not in addition to, each of the Facility-2 Commitment and the Tranche B Commitment and (i) utilization or reduction of the Additional Interim Loan Commitment shall automatically utilize or reduce the Facility-2 Commitment or the Tranche B Commitment, as applicable, and (ii) utilization or reduction of either of the Facility-2 Commitment or the Tranche B Commitment from the date of this Agreement shall automatically utilize or reduce the Additional Interim Loan Commitment. For borrowings of Additional Interim Loans, Borrower shall utilize, first, up to \$31,000,000.00 from QUALCOMM's unused Facility-2 Commitment, second, the unused Tranche B Commitment (which is \$61,915,173.00 as of the date of this Agreement) and, third, the other financing facilities contemplated to fund Additional Interim Loans referenced in Section 2.1(b). The repayment of Additional Interim Loans shall not reinstate the Additional Interim Loan Commitment.

Without limiting the other provisions of the Credit Agreement applicable to the Facility-2 Commitment, the Facility-2 Commitment shall be automatically reinstated in accordance with its terms to the extent that the Additional Interim Loans funded from QUALCOMM's Facility-2 Commitment are repaid by Borrower on or before the Special Loan Scheduled Maturity Date; provided, however, that if the Additional Interim Loans are not repaid by the Special Loan Scheduled Maturity Date, QUALCOMM's Facility-2 Commitment shall be reinstated upon the repayment in full of all amounts due in respect of the Additional Interim Loans on or before the date that is thirty (30) days after the Special Loan Scheduled Maturity Date, provided that the liquidated damages amounts payable by Borrower under Section 2.05(a) of the Definitive Agreement are also paid in full when due.

Without limiting the other provisions of the Electro Banque Facility 2 Credit Agreement applicable to the Tranche B Commitment not used to disburse Additional Interim Loans, the Tranche B Commitment shall be automatically reinstated in accordance with its terms to the extent that the Additional Interim Loans funded from the Tranche B Commitment are repaid by Borrower on or before the Special Loan Scheduled Maturity Date; provided, however, that if the Additional Interim Loans are not repaid by the Special Loan Scheduled Maturity Date, Tranche B Commitment shall be reinstated upon the repayment in full of all amounts due in respect of the Additional Interim Loans on or before the date that is thirty (30) days after the Special Loan Scheduled Maturity Date, provided that the liquidated damages amounts payable by Borrower under Section 2.05(a) of the Definitive Agreement are also paid in full when due.

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(b) Repayment of Additional Interim Loans. The Additional Interim Loans, together with all accrued and unpaid interest (subject to the provisions set forth in Section 2.3(c)), shall be due and payable on the Special Loan Scheduled Maturity Date. Any repayment of Additional Interim Loans shall be allocated, first, to payment in full of all Additional Interim Loans advanced from Electro Banque's Tranche B Commitment (including all accrued and unpaid interest thereon), second, to payment in full of all Additional Interim Loans advanced from QUALCOMM's Facility-2 Commitment (including all accrued and unpaid interest thereon) and, third, to payment in full of all Additional Interim Loans advanced from the other financing facilities contemplated to fund Additional Interim Loans referenced in Section 2.1(b).

(c) Interest Rate Applicable to Additional Interim Loans. Borrower shall pay interest on the unpaid principal amount of each Additional Interim Loan from the date of the funding of such Additional Interim Loan until such Additional Interim Loan is repaid at a fixed rate equal to twelve percent

(12%) per annum; provided, however, that if (i) the Closing under the Definitive Agreement occurs and (ii) the Additional Interim Loans are timely repaid in accordance with Section 2.3(b), then the Additional Interim Loans will have been deemed to bear interest at a rate applicable for a Eurodollar Rate with a three-month Interest Period, which Eurodollar Rate shall have been selected on the previous Quarterly Date, or if such Quarterly Date is not a Business Day, the immediately preceding Business Day. In the event that such Additional Interim Loan is not timely repaid in accordance with Section 2.3(b), interest on such Additional Interim Loan shall accrue at a rate per annum equal to the Eurodollar Rate plus ten percent (10%) and the per annum interest rate applicable to such Additional Interim Loans shall increase by one percent (1%) each month until such Additional Interim Loan and all accrued interest thereon has been paid in full; provided, however, that the interest rate on such Additional Interim Loans shall in no event exceed twenty-two percent (22%) per annum. All interest under this Section 2.3(c) shall be computed on the basis of a year of 360 days and the actual number of days elapsed.

2.4 Backstop Fee Financing.

(a) Backstop Fee Loan Commitment. Upon the satisfaction of the conditions precedent set forth in Sections 3.1 and 3.3, QUALCOMM shall have been deemed to have made a Facility-2 Loan under the Credit Agreement in the amount of \$5,000,000.00 (the "Backstop Fee Loan") pursuant to the terms and conditions of the Credit Agreement. Upon receipt of the duly executed Backstop Fee Loan Pagare from Borrower, if requested from Borrower, QUALCOMM shall deliver to Borrower a written acknowledgment that the Backstop Fee has been paid. QUALCOMM's commitment under this Section 2.4(a) to make the Backstop Fee Loan is duplicative of, and not in addition to, the Facility-2 Commitment, and utilization or reduction of one shall automatically utilize or reduce the other. The Facility-2 Commitments of QUALCOMM shall be automatically reinstated in accordance with their terms to the extent that such Backstop Fee Loan is repaid by Borrower on or before the Special Loan Scheduled Maturity Date; provided, however, that if the Backstop Fee Loans are not repaid by the Special Loan Scheduled Maturity Date, QUALCOMM's Facility-2 Commitment shall be reinstated upon the repayment in full of all amounts due in respect of the Additional Interim Loans on or before the date that is thirty (30) days after the Special Loan Scheduled Maturity Date, provided that the liquidated damages amounts payable by Borrower under Section 2.05(a) of the Definitive Agreement are also paid in full when due.

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(b) Repayment of Backstop Fee Loan. The Backstop Fee Loan, together with all accrued and unpaid interest (subject to the provisions set forth in Section 2.4(c)), shall be due and payable on the Special Loan Scheduled Maturity Date.

(c) Interest Rate Applicable to Backstop Fee Loan. Borrower shall pay interest on the unpaid principal amount of the Backstop Fee Loan from the date of the funding of the Backstop Fee Loan until such Backstop Fee Loan is repaid at a fixed rate equal to twelve percent (12%) per annum; provided, however, that if (i) the Closing under the Definitive Agreement occurs and (ii) the Backstop Fee Loan is timely repaid in accordance with Section 2.4(b), then the Backstop Fee Loan will be deemed not to bear interest. In the event that such Backstop Fee Loan is not timely repaid in accordance with Section 2.4(b), interest on such Backstop Fee Loan shall accrue at a rate per annum equal to the Eurodollar Rate plus ten percent (10%) and the per annum interest rate applicable to such Backstop Fee Loans shall increase by one percent (1%) each month until such Backstop Fee Loan and all accrued interest thereon has been paid in full; provided, however, that the interest rate on such Backstop Fee Loans shall in no event exceed twenty-two percent (22%) per annum. All interest under this Section 2.4(c) shall be computed on the basis of a year of 360 days and the actual number of days elapsed.

2.5 Participations. QUALCOMM may, without the consent of Borrower, sell participations to one or more shareholders (or their affiliates) of Holdings (each, a "Participant") in all or a portion of QUALCOMM's rights and obligations under this Agreement and the Pagares (including all or a portion of its Interim Loan Commitment and its Additional Interim Loan Commitment and the Special Loans owing to it); provided that (a) each such Participant shall participate in the Interim Loans (and the Interim Loan Commitment) and the Additional Interim Loans (and the Additional Interim Loan Commitment) in a minimum percentage amount equal to its percentage ownership interest in Holdings and (b) QUALCOMM shall enter into a participation agreement with each Participant. The participation agreement shall provide that QUALCOMM shall retain the sole right to enforce this Agreement and the Credit Agreement and to approve any amendment, modification or waiver of any provision of this Agreement and the Credit Agreement except as expressly set forth in the participation agreement; provided that such agreement or instrument may provide that QUALCOMM will not, without the consent of the Participant, agree to a reduction of the principal of or interest rate applicable to Special Loans in which such Participant has an interest or the extension of the Special Loan Scheduled Maturity Date of any Special Loans in which such Participant has an interest.

2.6 Termination of the Special Loan Commitments. The Special Loan Commitments and QUALCOMM's obligations to make, or cause to be made, Special Loans thereunder shall terminate upon the occurrence of any of the following:

(a) Event of Default. An Event of Default (other than a Covered Vendor Facility Default) shall occur under the Financing Agreements or the Security Documents or a Bridge Event of Default (other than a Covered Bridge Default) shall occur under the Bridge Financing Agreements or the Bridge Security Documents.

(b) Material Adverse Effect. An event or condition shall occur on or after the Signing Date that has or could reasonably be expected to result in a Material Adverse Effect and QUALCOMM has provided notice to Borrower that a Material Adverse Effect exists.

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(c) Failure to Achieve Conditions Precedent by a Date Certain. The Interim Loan Commitment shall terminate without any further action on the part of QUALCOMM if the Closing Date has not occurred on or before January 31, 2002. The Additional Interim Loan Commitment shall terminate if (i) without any further action on the part of QUALCOMM, the Additional Interim Loan Funding Closing Date has not occurred on or before May 31, 2002 unless otherwise waived in writing by QUALCOMM in its sole discretion, or (ii) the Definitive Agreement is, prior to Closing thereunder, revoked, rescinded or abandoned by any party thereto for any reason or terminated in accordance with the terms thereof and QUALCOMM gives notice to that effect to Borrower.

(d) Termination of Facility-2 Commitment and Tranche B Commitment. A termination of the Special Loan Commitments pursuant to Sections 2.6(a), (b) or (c), of this Agreement shall not constitute an automatic termination of the Facility-2 Commitment or the Tranche B Commitment.

2.7 Liquidated Damages. If Closing under the Definitive Agreement occurs and the Special Loans are not repaid in full on or before the Special Loan Scheduled Maturity Date, the liquidated damages provision with respect to such late payment set forth in Section 2.05(a) of the Definitive Agreement shall supersede Sections 2.2(c), 2.3(c) and 2.4(c) of this Agreement and shall apply to the unpaid Special Loans. Section 2.05(a) of the Definitive Agreement is hereby incorporated by reference as if fully set forth in this Agreement and the defined terms used in Section 2.05(a) of the Definitive Agreement shall have the meanings ascribed to such terms in the Definitive Agreement.

Section 3. Conditions Precedent.

3.1 Conditions Precedent to the Interim Loans. The obligation of QUALCOMM to make the initial Interim Loan is subject to the satisfaction (or waiver by QUALCOMM in its sole discretion) of the following conditions precedent:

(a) Sprint Settlement Agreement. Delivery to QUALCOMM of a fully executed Sprint Settlement Agreement.

(b) Amended and Restated Shareholders' Agreement and Amendment to the Bylaws of each member of the Borrower Group. Delivery to QUALCOMM of the fully executed Amended and Restated Shareholders' Agreement in the form of Exhibit I and an amendment in form and substance reasonably satisfactory to QUALCOMM, to the bylaws of each member of the Borrower Group.

(c) Interim Business Plan. Delivery to QUALCOMM of the Interim Business Plan.

(d) Amendment to Collateral Agency Agreement. Delivery to QUALCOMM of the fully executed Amendment No. 2 to the Collateral Agency Agreement substantially in the form of Exhibit J.

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(e) Amendment to the Intercreditor Agreement. Delivery to QUALCOMM of the fully executed Amendment No. 2 to the Intercreditor Agreement substantially in the form of Exhibit K.

(f) Stock Option Agreement. Delivery to QUALCOMM by Holdings of the fully executed stock option agreement in the form of Exhibit F-1 and a fully executed Spanish translation of the stock option agreement in the form of Exhibit F-2.

(g) Waivers and Acknowledgment Letter. Delivery to QUALCOMM of the fully executed Notice and Request for Amendments and Waivers Letter in the form of Exhibit L.

(h) Sale Transaction Proceeds Allocation Agreement. Delivery to QUALCOMM of the fully executed Sale Transaction Proceeds Allocation Agreement

in the form of Exhibit D.

(i) Interim Loan Pagare. Delivery to QUALCOMM of the fully executed Interim Loan Pagare in the form of Exhibit A-1 evidencing the Interim Loans funded on such date.

(j) Funding of Backstop Fee Loan. Delivery to QUALCOMM of the executed Backstop Fee Loan Pagare in the form of Exhibit A-2 evidencing the Backstop Fee Loan.

(k) Opinions of Counsel. Delivery to QUALCOMM of opinions, each dated the date that all the conditions precedent in this Section 3.1 have been satisfied and addressed to QUALCOMM and its agents, of:

- (i) Fried Frank Harris Shriver & Jacobson, special New York counsel to Borrower, in substantially the form of Exhibit M-1; and
- (ii) Mijares, Angoitia, Cortes y Fuentes, S.C., Mexico counsel to Borrower, in substantially the form of Exhibit M-2.

(l) Reaffirmation of all Guarantees and Counter-Guarantees. Delivery to QUALCOMM of fully executed reaffirmations of the guarantees set forth on Schedule 1.

(m) Resolutions. On or before the Closing Date, all corporate, partnership and other proceedings taken by each member of the Borrower Group or to be taken in connection with the transactions contemplated by this Agreement, and all documents incidental to such transactions, shall be reasonably satisfactory in form and substance to QUALCOMM and its counsel, and QUALCOMM and such counsel shall have received all such counterpart originals or certified copies of such documents, opinions, certificates, and evidence as they may reasonably request.

(n) Alcatel Lender Consents. Delivery to QUALCOMM of fully executed consents, acknowledgements and agreements to the Transaction Documents by the Alcatel

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Administrative Agent, the Intercreditor Agent and the Collateral Agent, in form and substance satisfactory to QUALCOMM.

(o) Appointment of Process Agent. Evidence reasonably satisfactory to QUALCOMM that (i) each member of the Borrower Group has irrevocably appointed as its agent for service of process the Process Agent, and (ii) the Process Agent has accepted the appointment and has agreed to forward forthwith to each member of the Borrower Group all notices and legal process addressed to such member of the Borrower Group upon receipt by such Process Agent.

(p) Appointment of Process Agent under the Sale Transaction Proceeds Allocation Agreement. Evidence reasonably satisfactory to QUALCOMM that (i) each Appointing Shareholder (as defined in the Sale Transaction Proceeds Allocation Agreement) has irrevocably appointed as its agent for service of process the Person or Persons so specified in Section 10 of the Sale Transaction Proceeds Allocation Agreement for purposes of both the Sale Transaction Proceeds Allocation Agreement and any participation agreement under which such Appointing Shareholder is a Participant, and (ii) each such agent has accepted the appointment and has agreed to forward forthwith to each Appointing Shareholder all notices and legal process addressed to such Appointing Shareholder upon receipt by such agent.

(q) Amendment No. 4 to QUALCOMM Credit Agreement. Delivery to QUALCOMM of the fully executed Amendment No. 4 to QUALCOMM Credit Agreement in the form of Exhibit N.

3.2 Conditions Precedent to the Additional Interim Loans. The obligation of QUALCOMM to make, or cause to be made, the initial Additional Interim Loans is subject to the satisfaction (or waiver by QUALCOMM in its sole discretion) of the following conditions precedent and upon request from Borrower the Administrative Agent shall provide confirmation that all conditions precedent have been satisfied or otherwise waived by QUALCOMM:

(a) Stock Option Agreement. Delivery to QUALCOMM by Holdings of the fully executed stock option agreement in the form of Exhibit F-3 and a fully executed Spanish translation of the stock option agreement in the form of Exhibit F-4.

(b) Business Plan. Delivery of the Business Plan in form and substance reasonably satisfactory to QUALCOMM.

(c) Additional Interim Loan Pagare. Delivery of the initial Additional Interim Loan Pagare in the form of Exhibit A-3.

(d) Interim Loans. The Interim Loan Commitments shall have been fully utilized.

(e) Reaffirmation of all Guarantees and Counter-Guarantees. Solely with respect to the initial Additional Interim Loan, delivery to QUALCOMM of fully executed reaffirmations of the guarantees set forth on Schedule 1.

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(f) Resolutions. On or before the Additional Interim Loan Funding Closing Date, all notarized corporate, partnership and other proceedings taken by each member of the Borrower Group or to be taken in connection with the transactions contemplated by this Agreement, and all documents incidental to such transactions, shall be reasonably satisfactory in form and substance to QUALCOMM and its counsel, and QUALCOMM and such counsel shall have received all such counterpart originals or certified copies of such documents, opinions, certificates, and evidence as they may reasonably request.

(g) Amendment No. 5 to QUALCOMM Credit Agreement. Delivery to QUALCOMM of the fully executed Amendment No. 5 to QUALCOMM Credit Agreement in the form of Exhibit O.

(h) Amendment No. 1 to Electro Banque Facility 2 Credit Agreement. Delivery to QUALCOMM of the fully executed Amendment No. 1 to Electro Banque Facility 2 Credit Agreement in the form of Exhibit P.

(i) Participation Agreement. On or before the Additional Interim Loan Funding Closing Date, the Participation Agreement shall be fully executed in form and substance satisfactory to QUALCOMM.

(j) Opinions of Counsel. Solely with respect to the initial Additional Interim Loan, delivery to QUALCOMM of opinions, each dated the date that all the conditions precedent in this Section 3.2 have been satisfied and addressed to QUALCOMM and its agents, of:

- (i) Fried Frank Harris Shriver & Jacobson, special New York counsel to Borrower, in substantially the form of Exhibit M-3; and
- (ii) Mijares, Angoitia, Cortes y Fuentes, S.C., Mexico counsel to Borrower, in substantially the form of Exhibit M-4.

3.3 Conditions Precedent to the Backstop Fee Loan. The obligation of QUALCOMM to make the Backstop Fee Loan is subject to Borrower's delivery of the duly executed Backstop Fee Loan Pagare in the form of Exhibit A-2 in the amount of \$5,000,000.00 evidencing the Backstop Fee Loan.

3.4 Conditions Precedent to all Special Loans. The obligation of QUALCOMM to make any Special Loan is subject to the satisfaction (or waiver by QUALCOMM in its sole discretion) of the following conditions:

(a) Representations and Warranties. At the time of the Borrowing of each Special Loan and also after giving effect thereto, all representations and warranties made in Section 6 of this Agreement, Section 5 of the Credit Agreement and Article VII of the Electro Banque Facility 2 Credit Agreement (unless expressly waived pursuant to this Agreement) shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of such Borrowing, except to the extent that such representations and warranties (i) expressly relate to an earlier date or (ii) fail to be true and correct solely as a result of a Covered Default.

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(b) Loan Request. QUALCOMM shall have received a Loan Request meeting the requirements of Section 2.1(d).

(c) No Default. Immediately before and after giving effect to the disbursement of such Special Loan, no Default or Event of Default (other than a Covered Default) shall have occurred and be continuing.

(d) Material Adverse Effect. Since the delivery of the last (i) Interim Business Plan approved by QUALCOMM or (ii) Business Plan approved by QUALCOMM, no event, circumstance or condition shall have occurred that constitutes a Material Adverse Effect and QUALCOMM has provided notice to Borrower that a Material Adverse Effect exists.

(e) Acknowledgment of Indebtedness. Delivery of an acknowledgment of indebtedness instrument evidencing the Special Loan funded by QUALCOMM on terms satisfactory to QUALCOMM notarized by a notary public acceptable to QUALCOMM.

(f) Regulatory Approvals. Delivery of documentation reasonably satisfactory to QUALCOMM evidencing the satisfaction of, and compliance with, the regulatory milestone on or before the date set forth for such milestone as set forth in Schedule 3, unless such documentation has previously been delivered to QUALCOMM in connection with a prior Loan Request.

(g) Other Documents. QUALCOMM shall have received such other statements, certificates, agreements, opinions, information, documents and evidence with respect to matters relating to or affecting the Special Loans as QUALCOMM may reasonably request.

(h) Purchase of Participation. Solely with respect to Additional Interim Loans advanced from the Tranche B Commitment pursuant to this Agreement, QUALCOMM shall have purchased from Electro Banque a participation under the Participation Agreement in the amount to be advanced.

(i) Additional Interim Loan Pagare. Solely with respect to Additional Interim Loans (other than the initial Additional Interim Loan), delivery of the appropriate Additional Interim Loan Pagare.

Section 4. Conditional Waivers. QUALCOMM, Ericsson and the Administrative Agent (a) waive the conditions precedent in Section 4.2 of the Credit Agreement with respect to the satisfaction of the conditions precedent set forth in Section 3.02(b) of the Common Agreement regarding the non-existence of an Event of Default solely with respect to Covered Vendor Parties Defaults and solely to permit funding of the Special Loans under this Agreement and consent to the funding of such Special Loans by QUALCOMM, and (b) solely to the extent necessary to permit funding of Special Loans pursuant to this Agreement, waive the conditions precedent under Section 3.2 of Amendment No. 3 to Amended and Restated Credit Agreement, dated as of October 10, 2001 ("Amendment No. 3") including the condition that requires the Ericsson Additional Commitment (as defined in Amendment No. 3) to have been fully utilized by Borrower prior to the making of loans by QUALCOMM under the QUALCOMM Additional Commitment (as defined in Amendment No. 3).

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Electro Banque and the Facility 2 Administrative Agent (a) waive the condition precedent in Section 6.02(b) of the Electro Banque Facility 2 Credit Agreement with respect to the satisfaction of the conditions precedent set forth in Section 3.02(b) of the Common Agreement regarding the non-existence of an Event of Default solely with respect to Covered Vendor Facility Defaults (and not for any other purpose), (b) solely to the extent necessary to permit funding of Additional Interim Loans from the Tranche B Term Facility pursuant to this Agreement (and not for any other purpose) and subject to clause (a) of this paragraph, waive the conditions precedent in Sections 6.01 and 6.02 of the Electro Banque Facility 2 Credit Agreement, and (c) consent to the funding of such Additional Interim Loans by Electro Banque (at the request of Borrower and approved by QUALCOMM).

QUALCOMM, Alcatel, Ericsson, the Administrative Agent, Electro Banque and the Facility 2 Administrative Agent (a) acknowledge and consent to (i) the use of proceeds of the Special Loans to be made under this Agreement, the Credit Agreement and the Electro Banque Facility 2 Credit Agreement and (ii) the terms and conditions of the Special Loans to be made by QUALCOMM pursuant to this Agreement or by Electro Banque (at the request of Borrower and approved by QUALCOMM) pursuant to the Electro Banque Facility 2 Credit Agreement, including the interest rate and the maturity of such Special Loans (other than Additional Financing Facility Loans), and (b) confirm and acknowledge that the Special Loans constitute Senior Indebtedness, notwithstanding any provision of the Common Agreement to the contrary.

Borrower and the other members of the Borrower Group acknowledge that Electro Banque has no obligation to advance Additional Interim Loans from the Tranche B Commitment unless and until QUALCOMM purchases from Electro Banque, pursuant to the Participation Agreement, a participation in the amount to be advanced.

Section 5. Covenants of Borrower.

5.1 Statements and Use of Proceeds.

(a) Operating Statements. Borrower shall furnish to QUALCOMM no later than each Monday at 11:00 a.m., San Diego time, commencing with the first Monday after the funding of the initial Interim Loan, an operating statement for the Business for the week ending the prior Friday, in form and substance satisfactory to QUALCOMM. Such operating statement shall set forth for each such period (a) all expenditures (actual and accrued detailed separately) for Operating Costs, Working Capital, Financing Costs and Capital Expenditures, (b) all cash received (from accounts receivables and sales) from the Business for the prior week, (c) operating information, including without limitation, Subscribers and other performance statistics, and (d) a status report of all accounts payable and receivables outstanding at the end of such period.

(b) Other Financial Statements and Reports. Borrower shall furnish to QUALCOMM on the respective due dates set forth in the Definitive Agreement, the consolidated balance sheets or equivalent statements of financial position, the management reports and all similar documents of the Borrower Group required to be provided to the Transition Committee (as defined in the Definitive Agreement) pursuant to the Definitive Agreement.

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(c) Backstop Fee Loan Proceeds. Borrower shall use the proceeds of the Backstop Fee Loan to pay the backstop commitment fee due and payable to QUALCOMM (the "Backstop Fee") in connection with a financial accommodation previously provided by QUALCOMM to Borrower.

(d) Additional Interim Loans Proceeds. Borrower shall use the proceeds of the Additional Interim Loans to operate in accordance with the Business Plan.

(e) Accelerated Disbursement of Additional Interim Loans. Notwithstanding anything to the contrary in this Agreement, Borrower may accelerate the funding of Additional Interim Loans (if a change in market conditions so requires in order to achieve the commercial objectives of the Business Plan), subject to the prior written consent of QUALCOMM (which consent shall not be unreasonably withheld).

(f) Appointment of Process Agent. Prior to May 31, 2002 (i) each member of the Borrower Group shall have irrevocably appointed as its agent for service of process the Process Agent, and (ii) the Process Agent shall have accepted such appointment and agreed to forward forthwith to each member of the Borrower Group all notices and legal process addressed to such member of the Borrower Group upon receipt by such Process Agent.

(g) Corporate Actions. Each member of the Borrower Group shall take, prior to the Additional Interim Loan Funding Closing Date, all corporate actions necessary to authorize the execution, delivery and performance by it of each Transaction Document to which it is a party.

5.2 Regulatory Approvals. Borrower shall use its best efforts to satisfy the milestones for obtaining governmental approvals on or before the dates set forth for such milestones as set forth in Schedule 3.

5.3 Borrower Group Release. Each member of the Borrower Group agrees on the date the Special Loans are repaid in full, to execute and deliver a letter of release substantially in the form attached to this Agreement as Exhibit E.

Section 6. Representations and Warranties. Each member of the Borrower Group, jointly and severally, makes the representations and warranties contained in this Section 7 for the benefit of the QUALCOMM Lenders and the QUALCOMM Administrative Agent.

(a) All the regulatory approvals required for the execution, delivery and performance of each Transaction Document, and for the Borrowing and payment of Special Loans by the Borrower, have been obtained and are in full force and effect.

(b) The representations and warranties of each member of the Borrower Group contained in the Credit Agreement are (before and after giving effect to this Agreement) true and correct as if made as of the date of this Agreement except to the extent that such representations and warranties (i) expressly relate to a different date or (ii) fail to be true and correct solely as a result of a Covered Default.

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(c) This Agreement and each other Transaction Document, when executed and delivered by the members of the Borrower Group on or before the date this representation is made or deemed made, constitutes the legal, valid and binding obligation of such member enforceable in accordance with its terms, except as the enforceability thereof may be limited by (i) applicable bankruptcy, insolvency and other similar laws affecting creditors' generally and (ii) general equitable principles regardless of whether the issue of enforceability is considered in a proceeding in equity or at law.

(d) All authorizations, consents and permits necessary under Applicable Law in connection with the due execution and delivery of, and performance by each member of the Borrower Group of its obligations under, each Transaction Document to which it is a party have been duly obtained.

(c) No member of the Borrower Group is in default with respect to any order of any court, arbitrator, administrative agency or other Governmental Authority, other than any order that is the subject of a Good Faith

Contest or other order the default under which, or the non-compliance with which, would not reasonably be expected to result in a Material Adverse Effect. There is no injunction, writ, or preliminary restraining order of any nature issued by an arbitrator, court or other Governmental Authority directing that any of the transactions provided for in this Agreement or any other Transaction Document not be consummated as herein or therein provided.

(f) No Event of Default or Bridge Event of Default has occurred and is occurring other than Covered Defaults.

(g) All events or conditions occurring prior to the Signing Date that could reasonably be expected to have a Material Adverse Effect have been previously disclosed by Borrower in writing to QUALCOMM. Since the Signing Date, no event has occurred that could reasonably be expected to have a Material Adverse Effect.

(h) The Business Plan has been prepared by Borrower and the other members of the Borrower Group in good faith on the basis of assumptions that were reasonable at the time the Business Plan was prepared (or updated as required under this Agreement) and that are consistent with the terms of all contracts, agreements and instruments (other than contracts, agreements and instruments expressly stated in the Business Plan to be modified or terminated, if any) to which any member of the Borrower Group is a party or by which its properties are bound.

Section 7. Events of Default. A breach of any of the covenants set forth in Section 5 of this Agreement, the failure by Borrower to perform any of its material obligations under this Agreement or the failure of any of Borrower's representations to be true and correct at any time shall constitute an Event of Default under the Credit Agreement, the Electro Banque Facility 2 Credit Agreement and the Common Agreement and QUALCOMM shall be entitled to exercise the remedies set forth in the Common Agreement, the Security Documents or the Financing Agreements or as otherwise available at law or in equity.

Section 8. Miscellaneous.

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(a) Reference to and Effect on the Credit Agreement and the other Financing Agreements. The execution, delivery and performance of this Agreement shall not, except as expressly provided in this Agreement, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Lenders, the Administrative Agent, Electro Banque and the Facility 2 Administrative Agent under, the Credit Agreement or the Electro Banque Facility 2 Credit Agreement, as applicable, or any of the other Financing Agreements.

(b) Fees and Expenses. Borrower acknowledges that all reasonable costs, fees and expenses incurred by QUALCOMM and its counsel with respect to this Agreement, the extension of credit under this Agreement, the making or collection of the Special Loans, and the documents and transactions contemplated in this Agreement shall be for the account of Borrower and shall be payable by Borrower on demand.

(c) Execution in Counterparts: Effectiveness. This Agreement may be executed in any number of counterparts, and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

(d) Headings. Section and subsection headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

(e) Severability. If any provision contained in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(f) Governing Law; Jurisdiction. THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH PARTY TO THIS AGREEMENT IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY SUCH COURT, FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, AND EACH OF THE PARTIES TO THIS AGREEMENT IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR, TO

THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY

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CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH OF THE PARTIES AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS (INCLUDING MEXICO) BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT QUALCOMM, THE ADMINISTRATIVE AGENT OR ANY PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AGAINST BORROWER OR THE BORROWER GROUP OR THEIR RESPECTIVE PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(g) Waiver of Jury Trial. EACH PARTY TO THIS AGREEMENT HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THAT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE CREDIT AGREEMENT, THE PAGARES OR THE TRANSACTIONS CONTEMPLATED IN THIS AGREEMENT (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY TO THIS AGREEMENT (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

(h) Currency of Payment. The obligation of Borrower and the other members of the Borrower Group to pay in Dollars those amounts of the sums specified to be due in Dollars, under this Agreement, the Credit Agreement, the Pagare or the applicable documents executed in connection with this Agreement (the "Loan Document Currency") shall not be deemed to have been novated, discharged or satisfied by any tender of (or recovery under judgment expressed in) any currency other than the Loan Document Currency, except to the extent to which such tender (or recovery) shall result in the effective payment of such aggregate amount in the applicable Loan Document Currency at the place where such payment is due and, accordingly, the amount (if any) by which any such tender (or recovery) shall fall short of such amount shall be and remain due to QUALCOMM, as the case may be, as a separate Obligation, unaffected by judgment having been obtained (if such is the case) for any other amounts due in respect of this Agreement, the Credit Agreement, the Pagare or the applicable documents executed in connection with this Agreement.

(i) English Language. This Agreement is made in the English language. One Spanish language translation of this Agreement prepared (if requested by QUALCOMM) at Borrower's expense by an official public interpreter and approved by Mexican counsel to Borrower and Mexican counsel to Lenders under this Agreement shall be the agreed Spanish language translation of this Agreement for all purposes. Such translation and no other may be filed in one or more public registries in Mexico or used in any proceeding in Mexico. For all purposes, the English language version of this Agreement shall be the original instrument and in

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all cases of conflict between the English and the Spanish versions, the English version shall control.

(j) Appointment of Process Agent. Each member of the Borrower Group hereby agrees that service of all writs, process and summonses in any suit, action or proceeding brought in the State of New York relating to this Agreement or any of the other Transaction Documents may be made upon CT Corporation System, presently located at 111 Eighth Avenue, 13th Floor, New York, New York 10011, U.S.A. (the "Process Agent"), and each member of the Borrower Group hereby confirms and agrees that the Process Agent has been duly and irrevocably appointed as its agent and true and lawful attorney-in-fact in its name, place and stead to receive and forward such service of any and all such writs, process and summonses for a period ending no earlier than December 31, 2003 and, thereafter, for subsequent one-year periods, so long as this Agreement is in full force and effect, until the obligations of each member of the Borrower Group under this Agreement have been fulfilled, the Special Loans have been paid in full and the Special Loan Commitments have been irrevocably terminated. Each member of the Borrower Group agrees that the failure of the Process Agent to give any notice of any such service of process to such member of the Borrower Group shall not impair or affect the validity of such service or of any judgment based thereon. Each member of the Borrower Group hereby further irrevocably consents to the service of process in any suit, action or proceeding in said courts by the mailing thereof by any party hereto by registered or certified mail, postage prepaid, at Paseo de los Tamarindos 400-A, Piso 24, Bosques de las Lomas, Mexico, D.F. 05120, Mexico, Attention: Director General.

[SIGNATURES TO FOLLOW]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

PEGASO COMUNICACIONES Y SISTEMAS, S.A. DE C.V.

By: /s/

Name:
Title:

PEGASO TELECOMUNICACIONES, S.A. DE C.V.

By: /s/

Name:
Title:

PEGASO PCS, S.A. DE C.V.

By: /s/

Name:
Title:

PEGASO FINANZAS, S.A. DE C.V.

By: /s/

Name:
Title:

PEGASO RECURSOS HUMANOS, S.A. DE C.V.

By: /s/

Name:
Title:

PEGASO FINCO I, S.A DE C.V.

By: /s/

Name:
Title:

QUALCOMM INCORPORATED
as a Lender

By: /s/

Name:
Title: President

ELECTRO BANQUE

as a lender under the Electro Banque Facility 2 Credit Agreement

By: /s/

Name:
Title: Director

By: /s/

Name:
Title: Deputy Head of Banking Dept.

Consented and agreed to and acknowledged,
with respect to the provisions set forth in Section 4
as of the date first written above, by:

TELEFONAKTIEBOLAGET L.M. ERICSSON (PUBL)
as a Lender

By: /s/

Name:
Title:

By: /s/

Name:
Title:

ABN AMRO BANK N.V.
as Administrative Agent

By: /s/

Name:
Title: Group Vice President

By: /s/

Name:
Title: AVP

ALCATEL

By: /s/

Name:
Title: Alcatel Director, Deputy CFO

ELECTRO BANQUE
as Facility 2 Administrative Agent

By: /s/

Name:
Title: Director

By: /s/

Name:
Title: Deputy Head of Banking Dept.

AMENDMENT NO. 5 TO AMENDED
AND RESTATED CREDIT AGREEMENT

This AMENDMENT No. 5 To AMENDED AND RESTATED CREDIT AGREEMENT, dated as of April 26, 2002 (this "AMENDMENT"), is entered into by and among PEGASO COMUNICACIONES Y SISTEMAS, S.A. DE C.V., a corporation organized under the laws of Mexico ("Borrower"), the other members of the BORROWER GROUP, QUALCOMM INCORPORATED, a corporation organized under the laws of Delaware ("QUALCOMM"), TELEFONAKTIEBOLAGET L.M. ERICSSON (PUBL), a limited liability company organized under the laws of Sweden ("Ericsson"), the lenders from time to time party to the Credit Agreement (as defined below) (together with QUALCOMM and Ericsson, each a "Lender", and, collectively, the "Lenders"), and ABN AMRO BANK N.V. as administrative agent for the Lenders ("Administrative Agent").

RECITALS

WHEREAS, Borrower has entered into the Amended and Restated Credit Agreement, dated as of December 15, 1998 (as amended, modified, supplemented or restated, the "Credit Agreement"), by and among Borrower, QUALCOMM, Ericsson and the Administrative Agent, as amended by Amendment No. 1 to Amended and Restated Credit Agreement, dated as of May 27, 1999, Amendment No. 2 to Amended and Restated Credit Agreement, dated as of November 28, 2000, Amendment No. 3 to Amended and Restated Credit Agreement, dated as of October 10, 2001 ("Amendment No. 3"), and Amendment No. 4 to Amended and Restated Credit Agreement, dated as of January 16, 2002.

WHEREAS, Pegaso Telecomunicaciones S.A. de C.V., a corporation organized under the laws of Mexico ("Holdings"), has entered into the Stock Purchase Agreement, dated as of the date hereof (as amended, modified, supplemented or restated from time to time, the "Stock Purchase Agreement"), by and among Holdings, its shareholders (the "Shareholders"), Telefonica Moviles, S.A., a corporation organized under the laws of the Kingdom of Spain ("TEM"), and the other parties named therein, pursuant to which TEM shall purchase from certain of the Shareholders all the capital stock of Holdings owned by such Shareholders in accordance with the terms and conditions of the Stock Purchase Agreement.

WHEREAS, the Borrower has entered into the Amended and Restated Interim Funding Agreement, dated as of the date hereof (as amended, modified, supplemented or restated from time to time, the "Interim Funding Agreement"), by and among the Borrower, the other members of the Borrower Group, QUALCOMM and Electro Banque, and consented and agreed to and acknowledged by Ericsson, the Administrative Agent, the Facility 2 Administrative Agent and Alcatel, a corporation organized under the laws of France ("Alcatel"), pursuant to which QUALCOMM and Electro Banque will make Special Loans (as defined in the Interim Funding Agreement) to Borrower from QUALCOMM's unused Facility-2 Commitment under the Credit Agreement and from the Facility 2 Credit Agreement, respectively, for the purpose, among other things, of financing the payment of operating expenditures of Borrower in accordance with the Business Plans described in the Stock Purchase Agreement.

WHEREAS, QUALCOMM, Alcatel and Ericsson have entered into the Second Vendor Parties Forbearance Agreement, acknowledged, accepted and agreed to by each member of the Borrower Group and the other parties named therein, dated as of April 26, 2002 (as amended, modified, supplemented or restated from time to time, the "Second Vendor Forbearance Agreement"), pursuant to which all Covered Vendor Facility Defaults (as defined in the Second Vendor Forbearance Agreement) are forborne until the occurrence of a Forbearance Termination Event (as defined in the Second Vendor Forbearance Agreement).

WHEREAS, the members of the Borrower Group have requested to amend certain terms and provisions of the Credit Agreement as set forth in this Amendment and the Lenders and the Administrative Agent have agreed to amend the Credit Agreement in accordance with the terms, subject to the conditions, and in reliance upon the representations and warranties set forth below.

NOW, THEREFORE, in consideration of the foregoing recitals and the following mutual covenants and promises, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound, the parties agree as follows:

SECTION 1. DEFINITIONS. All capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Credit Agreement or, if not defined therein, in the Common Agreement and the Interim Funding Agreement.

SECTION 2. AMENDMENTS TO CREDIT AGREEMENT.

2.1 SECTION 9 (DEFINITIONS). Section 9 of the Credit Agreement is hereby amended as follows:

(a) DEFINITION OF "ADDITIONAL INTERIM LOANS". A new definition

of "Additional Interim Loans" is added in appropriate alphabetical order to read as follows:

"Additional Interim Loans" shall have the meaning given to that term in the Interim Funding Agreement.

(b) DEFINITION OF "INTERIM FUNDING AGREEMENT". A new definition of "Interim Funding Agreement" is added in the appropriate alphabetical order to read as follows:

"Interim Funding Agreement" shall mean the Amended and Restated Interim Funding Agreement dated as of April 26, 2002, as amended, modified, supplemented or restated from time to time, by and among the Borrower, the other members of the Borrower Group, QUALCOMM and Electro Banque, and consented and agreed to and acknowledged by Ericsson, the Administrative Agent, the Facility 2 Administrative Agent and Alcatel.

(c) DEFINITION OF "SPECIAL LOAN SCHEDULED MATURITY DATE". A new definition of "Special Loan Scheduled Maturity Date" is added in the appropriate alphabetical order to read as follows:

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"Special Loan Scheduled Maturity Date" has the meaning assigned to such term in the Interim Funding Agreement.

2.2 QUALCOMM ADDITIONAL COMMITMENT. Section 3.2 of Amendment No. 3 is hereby deleted and replaced in its entirety with the following:

"3.2 QUALCOMM ADDITIONAL COMMITMENT. The QUALCOMM Additional Commitment shall be available (a) for purposes of making Interim Loans, the Backstop Fee Loan and up to \$31,000,000 for Additional Interim Loans pursuant to the Interim Funding Agreement, upon satisfaction of the conditions precedent to funding under the Interim Funding Agreement and (b) for the purposes of making Facility-2 Loans under the QUALCOMM Additional Commitment for the uses specified in Section 3.4 of Amendment No. 3, upon the satisfaction of the following conditions precedent: (1) execution and delivery of a Definitive Agreement, (2) consummation of a Sale Transaction in accordance with the terms and conditions set forth in the Definitive Agreement, (3) payment in full of all Borrower's obligations in respect of Interim Loans, the Backstop Fee Loan and the Additional Interim Loans, (4) the irrevocable termination of the Special Loan Commitments under the Interim Funding Agreement, (5) the utilization by Borrower of the full Ericsson Additional Commitment, and (6) the satisfaction (or waiver by QUALCOMM in its sole discretion) of the other conditions precedent to the making of Facility-2 Loans under the Credit Agreement. QUALCOMM shall provide loans to Borrower under the QUALCOMM Additional Commitment only upon (x) with respect to Interim Loans, the Backstop Fee Loan and the Additional Interim Loans, the receipt of a Loan Request in accordance Section 2.1(d) of the Interim Funding Agreement and (y) with respect to any other loans permitted under the Credit Agreement, including without limitation, loans made under the QUALCOMM Additional Commitment for the purposes set forth in Section 3.4 of Amendment No. 3, the receipt of a Loan Request and the supporting invoices in the manner and in accordance with the terms and conditions set forth in Section 1.5(b)(i) of the Credit Agreement. Without limiting the other provisions of the Credit Agreement applicable to QUALCOMM's Facility-2 Commitment with respect to the QUALCOMM Additional Commitment, QUALCOMM's Facility-2 Commitment with respect to the QUALCOMM Additional Commitment shall be automatically reinstated in accordance with its terms to the extent that the Interim Loans, the Additional Interim Loans and the Backstop Fee Loan are repaid by Borrower pursuant to Section 2.2(b), Section 2.3(b) and Section 2.4(b) of the Interim Funding Agreement, respectively, on or before the Special Loan Scheduled Maturity Date."

2.3 PARTIAL INCORPORATION OF INTERIM FUNDING AGREEMENT. The Credit Agreement, solely relating to the Special Loans funded from the QUALCOMM Additional Commitment, is hereby modified by the Interim Funding Agreement, and to the extent that the Interim Funding Agreement relates to the subject matter of the Credit Agreement, the Interim Funding Agreement is hereby incorporated by reference as if set out in full in this Amendment (including, without limitation, any modification relating to Additional Interim Loans with respect to interest rate, maturity and use of proceeds).

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SECTION 3. REFERENCE TO AND EFFECT ON CREDIT AGREEMENT AND OTHER FINANCING AGREEMENTS.

(a) On the Effective Date, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Credit Agreement as amended by this

Amendment and each reference in the Financing Agreements to the Credit Agreement shall also mean and be a reference to the Credit Agreement as amended by this Amendment.

(b) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders under the Credit Agreement or any of the Financing Agreements, nor constitute a waiver of any provision of the Credit Agreement or any of the Financing Agreements.

SECTION 4. REAFFIRMATION OF TERMS. This Amendment shall be construed in connection with and as part of the Financing Agreements and all terms, conditions, representations, warranties, covenants and agreements set forth in the Financing Agreements, except as herein waived or amended, are hereby ratified and confirmed and shall remain in full force and effect.

SECTION 5. ACKNOWLEDGMENTS AND WAIVERS. Each member of the Borrower Group hereby ratifies and reaffirms the validity and enforceability of all of the Liens and security interests heretofore granted pursuant to the Common Agreement and the Security Documents referred to therein, for the benefit of the Lenders, as collateral security for the Senior Indebtedness, and acknowledges that all of such Liens and security interests, and all collateral pledged as security for the Senior Indebtedness, continue to be and remain collateral for the Senior Indebtedness from and after the Effective Date, respectively.

SECTION 6. RELEASE AND WAIVER.

(a) Each member of the Borrower Group hereby acknowledges and agrees that: (i) it has no claim or cause of action against any Lender or the Administrative Agent, or any of their officers, directors, employees, attorneys or other representatives or agents under the Financing Agreements with respect to any condition, act, omission, event, contract, liability, obligation, indebtedness, claim, cause of action, defense, circumstance or matter of any kind whatsoever which existed, arose or occurred at any time prior to the execution and delivery of this Amendment or which could arise concurrently with the effectiveness of this Amendment ("Claims"); (ii) it has no offset or defense against any of its respective obligations, indebtedness or contracts in favor of any Lender or the Administrative Agent on account of any Claims; and (iii) it recognizes that each Lender and the Administrative Agent has heretofore properly performed and satisfied in a timely manner all of its obligations to and contracts with each member of the Borrower Group relating to the Financing Agreements.

(b) Although the Administrative Agent and Lenders regard their conduct as proper and do not believe any member of the Borrower Group to have any claim, cause of action, offset or defense against any Lender or the Administrative Agent in connection with the

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Financing Agreements, Lenders and the Administrative Agent wish, and each member of the Borrower Group agrees, to eliminate any possibility that any past conditions, acts, omissions, events, circumstances or matters could impair or otherwise affect any rights, interests, contracts or remedies of any Lender or the Administrative Agent. Therefore, each member of the Borrower Group unconditionally releases and waives as to all Lenders and the Administrative Agent (1) any and all liabilities, indebtedness and obligations, whether known or unknown, of any kind of any Lender or the Administrative Agent to any member of the Borrower Group arising under the Financing Agreements and which exist on the date hereof, except the obligations remaining to be performed by the Lenders as expressly stated in the Financing Agreements; (2) any legal, equitable or other obligations or duties, whether known or unknown, of the Lenders or of the Administrative Agent to any member of the Borrower Group (and any rights of any member of the Borrower Group against any Lender or the Administrative Agent) arising under the Financing Agreements and which exist on the date hereof besides those expressly stated in the Financing Agreements; (3) any and all claims under any oral or implied agreement, obligation or understanding with any Lender or the Administrative Agent, whether known or unknown, arising under the Financing Agreements and which exist on the date hereof; and (4) all other claims, causes of action or defenses of any kind whatsoever (if any), whether known or unknown, which any member of the Borrower Group might otherwise have against any Lender or the Administrative Agent on account of any Claims.

(c) EACH MEMBER OF THE BORROWER GROUP AGREES TO ASSUME THE RISK OF ANY AND ALL UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS WHICH ARE RELEASED BY THIS AMENDMENT IN FAVOR OF ANY LENDER OR THE ADMINISTRATIVE AGENT, AND EACH MEMBER OF THE BORROWER GROUP HEREBY WAIVES AND RELEASES ALL RIGHTS AND BENEFITS WHICH IT MIGHT OTHERWISE HAVE UNDER THE LAW OF THE STATE OF NEW YORK AND THE LAW OF THE FEDERAL DISTRICT OF MEXICO WITH REGARD TO THE RELEASE OF SUCH UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS. TO THE EXTENT (IF ANY) WHICH ANY SUCH LAWS MAY BE APPLICABLE, EACH MEMBER OF THE BORROWER GROUP WAIVES AND RELEASES (TO THE MAXIMUM EXTENT PERMITTED BY LAW) ANY RIGHT OR DEFENSE WHICH

IT MIGHT OTHERWISE HAVE UNDER ANY OTHER LAW OF ANY APPLICABLE JURISDICTION WHICH MIGHT LIMIT OR RESTRICT THE EFFECTIVENESS OR SCOPE OF ANY OF ITS WAIVERS OR RELEASES UNDER THIS AMENDMENT.

SECTION 7. REPRESENTATIONS AND WARRANTIES. In order to induce the Lenders and the Administrative Agent to enter into this Amendment, each member of the Borrower Group hereby represents, warrants and covenants to the Lenders and the Administrative Agent as follows:

7.1 Immediately after giving effect to this Amendment (i) the representations and warranties contained in the Financing Agreements (other than those which expressly relate to a different date) are true, accurate and complete in all material respects as if made as of the Effective Date, except to the extent that such representations and warranties fail to be true, accurate and complete solely as a result of a Covered Vendor Facility Default (as defined in the

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Second Vendor Forbearance Agreement), (ii) other than to the extent expressly acknowledged in writing by the Lenders in the Second Vendor Forbearance Agreement, no Default or Event of Default has occurred and is continuing and (iii) all references to the Credit Agreement in the Financing Agreements shall be deemed to be references to the Credit Agreement as amended by this Amendment.

7.2 The Charter Documents of (i) Borrower delivered to the Administrative Agent remain true, accurate and complete and have not been amended, supplemented or restated subsequent to January 2002 and continue to be in full force and effect, and (ii) each other member of the Borrower Group delivered to the Administrative Agent on the Closing Date remain true, accurate and complete and have not been amended, supplemented or restated subsequent to such date and continue to be in full force and effect.

7.3 The execution, delivery and the performance of obligations of this Amendment by each member of the Borrower Group has been duly authorized by all requisite corporate action. This Amendment, as of the Effective Date, constitutes the valid and binding obligations of each member of the Borrower Group, enforceable in accordance with the terms herein.

7.4 The execution, delivery and performance of this Amendment does not and will not (i) violate or conflict with the Charter Documents of any member of the Borrower Group, (ii) conflict with or violate any Applicable Law, or (iii) result in any breach of, or constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to any Person any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Lien on any of the material assets or properties of any member of the Borrower Group pursuant to, any contract or other instrument relating to such assets or properties to which a member of the Borrower Group is a party or by which any of such assets or properties is bound or affected, except as would not, individually or in the aggregate, materially impair the ability of the member Borrower to consummate the transactions contemplated by this Amendment.

SECTION 8. COUNTERPARTS. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 9. EFFECTIVENESS. The amendments set forth in this Amendment shall be deemed effective upon the satisfaction, or waiver by QUALCOMM in its sole discretion, of all of the conditions precedent (the "Effective Date") set forth below. Upon request from the Company, the Administrative Agent shall provide confirmation to the Company that such conditions precedent have been satisfied or waived by the Administrative Agent.

9.1 AMENDMENT. Each member of the Borrower Group and each Lender shall have duly executed and delivered this Amendment to the Administrative Agent, and if so requested in writing by any Lender or the Administrative Agent, the notarization of this

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Amendment and its immediately subsequent registration at the Public Registry of Commerce of the Federal District of Mexico.

9.2 ACKNOWLEDGMENT OF AMENDMENT AND REAFFIRMATION OF GUARANTY. The Administrative Agent shall have received (i) the Acknowledgment of Amendment and Reaffirmation of Guaranty (in English and Spanish), duly executed and delivered by each Guarantor, and (ii) a notarized acknowledgment of indebtedness (reconocimiento de adeudo) in form and substance satisfactory to each Lender and the Administrative Agent, which shall evidence and describe, among others, the amount due to the Lenders under the Credit Agreement as of the Effective Date.

9.3 CERTIFIED RESOLUTIONS. The Administrative Agent shall have received for each member of the Borrower Group a certificate of the appropriate officers of such member of the Borrower Group dated as of the date hereof and as of the Effective Date certifying (i) the names and true signatures of the incumbent officers of such member of the Borrower Group authorized to sign this Amendment, (ii) the notarized resolutions of such member's Board of Directors or shareholders, as the Administrative Agent in its sole discretion may request, approving and authorizing the execution, delivery and performance of this Amendment, and (iii) that there have been no changes in the Charter Documents of (A) Borrower since January 2002, and (B) each other member of the Borrower Group since the date of certification thereof to the Administrative Agent in connection with the closing of the Financing Agreements.

9.4 PAYMENT OF REIMBURSEMENT AND INDEMNIFICATION OBLIGATIONS. Each member of the Borrower Group shall have paid to the Lenders and the Administrative Agent all of its reimbursement and indemnification obligations owing under Section 11.1 of the Credit Agreement, including its obligation to pay all attorneys' fees and costs and other disbursements incurred by the Lenders or the Administrative Agent in connection with the negotiation, implementation, execution and enforcement of this Amendment and any acts contemplated thereby.

9.5 PAGARE. Borrower and each other member of the Borrower Group shall have duly executed and delivered to each Lender one or more consolidated Pagares, as the Lenders in their sole discretion may request, that evidences all outstanding Obligations owed by Borrower to such Lender as of the date hereof under the Credit Agreement.

9.6 OTHER DOCUMENTS AND ACTIONS. Borrower shall have duly executed and delivered to the Administrative Agent any other documents (including opinions and certificates) or taken any other actions as may be reasonably requested by the Lenders or the Administrative Agent for purposes related to this Amendment.

SECTION 10. GOVERNING LAW. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York, United States, without reference to principles of conflicts of law (other than Section 5-1401 of the General Obligations Laws of the State of New York); provided, however, that in connection with any legal action or proceeding (other than an action to enforce a judgment obtained in another jurisdiction) brought in respect to this Amendment in the courts of Mexico or any political subdivision thereof, this Amendment

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shall be deemed to be an instrument made under the laws of Mexico and for such purposes shall be governed by, and construed in accordance with, the laws of the Federal District of Mexico.

[SIGNATURES TO FOLLOW]

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IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

PEGASO COMUNICACIONES Y SISTEMAS, S.A. DE C.V.

By: /s/

Printed Name:
Title:

PEGASO TELECOMUNICACIONES, S.A. DE C.V.

By: /s/

Printed Name:
Title:

PEGASO PCS, S.A. DE C.V.

By: /s/

Printed Name:
Title:

PEGASO RECURSOS HUMANOS, S.A. DE C.V.

By: /s/

Printed Name:
Title:

PEGASO FINANZAS, S.A. DE C.V.

By: /s/

Printed Name:
Title:

PEGASO FINCO I, S.A. DE C.V.

By: /s/

Printed Name:
Title:

ABN AMRO BANK N.V.
as Administrative Agent

By: /s/

Printed Name:
Title:

By: /s/

Printed Name:
Title:

QUALCOMM INCORPORATED
as a Lender

By:

Printed Name:
Title:

ABN AMRO BANK N.V.
as Administrative Agent

By:

Printed Name:
Title:

By:

Printed Name:
Title:

QUALCOMM INCORPORATED
as a Lender

By: /s/

Printed Name:
Title: President

TELEFONAKTIEBOLAGET L.M. ERICSSON (PUBL)
as a Lender

By: /s/

Printed Name: -----
Title: -----

By: /s/

Printed Name: -----
Title: -----