
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 28, 2004

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on April 19, 2004, were as follows:

Class	Number of Shares
Common Stock, \$0.0001 per share par value	810,192,950

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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)

	March 28, 2004	September 28, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,946,518	\$ 2,045,094
Marketable securities	3,659,911	2,516,003
Accounts receivable, net	596,784	483,793
Inventories, net	97,041	110,351
Deferred tax assets	471,180	611,536
Other current assets	143,032	181,987
Total current assets	6,914,466	5,948,764
Marketable securities	1,039,435	810,654
Property, plant and equipment, net	549,923	622,265
Goodwill, net	355,622	346,464
Deferred tax assets	360,141	406,746
Other assets	429,907	687,543
Total assets	<u>\$9,649,494</u>	<u>\$ 8,822,436</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 213,098	\$ 195,065
Payroll and other benefits related liabilities	139,444	141,000
Unearned revenue	172,037	174,271
Dividends payable	80,890	—
Current portion of long-term debt	—	102,625
Other current liabilities	207,552	195,241
Total current liabilities	813,021	808,202
Unearned revenue	200,784	236,732
Long-term debt	—	123,302
Other liabilities	79,380	55,628
Total liabilities	1,093,185	1,223,864
Commitments and contingencies (Notes 2, 3 and 7)		
Stockholders' equity (Note 6):		
Preferred stock, \$0.0001 par value; issuable in series; 8,000 shares authorized; none outstanding at March 28, 2004 and September 28, 2003	—	—
Common stock, \$0.0001 par value; 3,000,000 shares authorized; 808,903 and 798,353 shares issued and outstanding at March 28, 2004 and September 28, 2003	82	81
Paid-in capital	6,557,273	6,324,971
Retained earnings	1,944,567	1,297,289
Accumulated other comprehensive income (loss)	54,387	(23,769)
Total stockholders' equity	8,556,309	7,598,572
Total liabilities and stockholders' equity	<u>\$9,649,494</u>	<u>\$ 8,822,436</u>

See Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated

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

	Three Months Ended		Six Months Ended	
	March 28, 2004	March 30, 2003*	March 28, 2004	March 30, 2003*
Revenues:				
Equipment and services	\$ 819,562	\$ 763,568	\$1,672,532	\$1,592,124
Licensing and royalty fees	396,086	253,561	749,690	493,267
	<u>1,215,648</u>	<u>1,017,129</u>	<u>2,422,222</u>	<u>2,085,391</u>
Operating expenses:				
Cost of equipment and services revenues	335,135	341,205	704,865	692,682
Research and development	169,023	131,801	318,961	244,280
Selling, general and administrative	138,205	121,323	260,281	238,345
Amortization of acquisition-related intangible assets	1,631	1,964	3,756	3,936
Other	(4,916)	—	(10,593)	—
Total operating expenses	<u>639,078</u>	<u>596,293</u>	<u>1,277,270</u>	<u>1,179,243</u>
Operating income	576,570	420,836	1,144,952	906,148
Interest expense	(580)	(383)	(904)	(1,731)
Investment income (expense), net (Note 4)	34,070	(18,447)	69,368	(77,984)
Income from continuing operations before income taxes	610,060	402,006	1,213,416	826,433
Income tax expense	(168,771)	(144,329)	(361,598)	(292,437)
Income from continuing operations	<u>441,289</u>	<u>257,677</u>	<u>851,818</u>	<u>533,996</u>
Discontinued operations (Note 9):				
Income (loss) from discontinued operations	54,103	(187,130)	(9,672)	(222,308)
Income tax (expense) benefit	(6,955)	32,469	(1,416)	32,662
Income (loss) from discontinued operations	<u>47,148</u>	<u>(154,661)</u>	<u>(11,088)</u>	<u>(189,646)</u>
Net income	<u>\$ 488,437</u>	<u>\$ 103,016</u>	<u>\$ 840,730</u>	<u>\$ 344,350</u>
Basic earnings per common share from continuing operations	\$ 0.55	\$ 0.33	\$ 1.06	\$ 0.68
Basic earnings (loss) per common share from discontinued operations	0.06	(0.20)	(0.01)	(0.24)
Basic earnings per common share	<u>\$ 0.61</u>	<u>\$ 0.13</u>	<u>\$ 1.05</u>	<u>\$ 0.44</u>
Diluted earnings per common share from continuing operations	\$ 0.53	\$ 0.32	\$ 1.02	\$ 0.65
Diluted earnings (loss) per common share from discontinued operations	0.05	(0.19)	(0.01)	(0.23)
Diluted earnings per common share	<u>\$ 0.58</u>	<u>\$ 0.13</u>	<u>\$ 1.01</u>	<u>\$ 0.42</u>
Shares used in per share calculations:				
Basic	806,283	789,026	803,324	786,153
Diluted	<u>835,751</u>	<u>818,088</u>	<u>831,391</u>	<u>816,916</u>
Dividends per share announced	<u>\$ 0.10</u>	<u>\$ 0.05</u>	<u>\$ 0.24</u>	<u>\$ 0.05</u>

See Notes to Condensed Consolidated Financial Statements.

*As adjusted(Note 9)

QUALCOMM Incorporated

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

	Six Months Ended	
	March 28, 2004	March 30, 2003*
Operating Activities:		
Income from continuing operations	\$ 851,818	\$ 533,996
Depreciation and amortization	80,158	68,624
Net realized gains on marketable securities and other investments	(15,569)	(11,268)
Other-than-temporary losses on marketable securities and other investments	1,520	90,550
Equity in losses of investees	36,969	65,246
Non-cash income tax expense	338,367	228,275
Other non-cash charges	5,123	7,572
Proceeds from trading securities	—	2,085
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(137,960)	(284)
Inventories, net	6,587	(59,559)
Other assets	39,529	(8,620)
Trade accounts payable	81,450	(16,500)
Payroll, benefits and other liabilities	(9,575)	19,794
Unearned revenue	(29,250)	16,326
Net cash provided by operating activities	<u>1,249,167</u>	<u>936,237</u>
Investing Activities:		
Capital expenditures	(117,561)	(113,376)
Purchases of available-for-sale securities	(3,524,866)	(1,448,922)
Proceeds from sale of available-for-sale securities	2,042,222	1,015,585
Purchases of held-to-maturity securities	—	(160,206)
Maturities of held-to-maturity securities	133,894	76,152
Issuance of finance receivables	(389)	(148,021)
Collection of finance receivables	194,850	527,033
Issuance of notes receivable	(30,283)	(1,172)
Other investments and acquisitions	(49,958)	(31,738)
Other items, net	546	1,246
Net cash used by investing activities	<u>(1,351,545)</u>	<u>(283,419)</u>
Financing Activities:		
Proceeds from issuance of common stock	131,509	112,696
Repurchase and retirement of common stock	—	(123,577)
Proceeds from put options	5,103	7,136
Payments on long-term debt	—	(150)
Dividends paid	(112,562)	—
Net cash provided (used) by financing activities	<u>24,050</u>	<u>(3,895)</u>
Net cash used by discontinued operations	<u>(20,257)</u>	<u>(65,112)</u>
Effect of exchange rate changes on cash	<u>9</u>	<u>(674)</u>
Net (decrease) increase in cash and cash equivalents	(98,576)	583,137
Cash and cash equivalents at beginning of period	2,045,094	1,406,704
Cash and cash equivalents at end of period	\$ 1,946,518	\$ 1,989,841

See Notes to Condensed Consolidated Financial Statements.

*As adjusted(Note 9)

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 28, 2003 is 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. The three month and six month periods ended March 28, 2004 and March 30, 2003 included 13 weeks and 26 weeks, respectively.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair 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 28, 2003. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

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

Principles of Consolidation

The Company's condensed consolidated financial statements include the assets, liabilities and operating results of majority-owned subsidiaries and other subsidiaries controlled by the Company. The ownership of other interest holders of consolidated subsidiaries, if any, is reflected as minority interest. All significant intercompany accounts and transactions are eliminated. The Company deconsolidated the Vésper Operating Companies during the first quarter of fiscal 2004 as a result of their sale in December 2003 and TowerCo during the second quarter of fiscal 2004 as a result of its sale in March 2004 (Note 9). Results of operations and cash flows related to the Vésper Operating Companies and TowerCo are presented as discontinued operations. The Company's statements of operations and cash flows for all prior periods have been adjusted to present the discontinued operations. The balance sheet as of September 28, 2003 was not adjusted to present assets and liabilities related to discontinued operations separately.

Effective as of the beginning of the second quarter of fiscal 2004, the Company adopted the revised interpretation of Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," (FIN 46-R). FIN 46-R requires that certain variable interest entities be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company does not have any investments in entities it believes are variable interest entities for which the Company is the primary beneficiary.

Royalty Revenues

The Company earns royalties on Code Division Multiple Access (CDMA) products sold worldwide by its licensees in the period that the licensees' sales occur. The Company's licensees, however, do not report and pay royalties owed until the subsequent quarter and, in some instances, payment is on a semi-annual basis. Therefore, the Company estimates royalty revenues from certain licensees (the Estimated Licensees) in the current quarter when reliable estimates of such amounts can be made. Not all royalties earned are estimated. Royalties for licensees for which the Company has minimal history and certain licensees that do not buy the Company's integrated circuit products are recorded one quarter in arrears when they are reported to the Company by those licensees. Once royalty reports are received from the Estimated Licensees, the variance between such reports and the estimate is recorded in royalty revenue in the period the reports are received. The recognition of this variance in most cases lags the royalty estimate by one quarter.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table summarizes royalty related data (in millions):

	Three Months Ended		Six Months Ended	
	March 28, 2004	March 30, 2003	March 28, 2004	March 30, 2003
Components of royalty revenues				
Prior period estimate	\$ 205	\$ 175	\$ 151	\$ 150
Royalties reported in current period related to prior period estimate	<u>262</u>	<u>208</u>	<u>208</u>	<u>167</u>
Prior period variance included in current period revenues	57	33	57	17
Other royalties reported in current period	51	29	358	256
Current period estimate	<u>237</u>	<u>155</u>	<u>237</u>	<u>155</u>
Total current period royalty revenues from licensees	<u>\$ 345</u>	<u>\$ 217</u>	<u>\$ 652</u>	<u>\$ 428</u>

Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's stock-based compensation plans and shares subject to written put options, and the weighted average number of common shares outstanding during the reporting period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and six months ended March 28, 2004 were 29,468,000 and 28,067,000, respectively. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and six months ended March 30, 2003 were 29,062,000 and 30,763,000, respectively.

Employee stock options to purchase approximately 17,230,000 and 27,593,000 shares of common stock during the three months and six months ended March 28, 2004, respectively, and employee stock options to purchase approximately 41,668,000 and 41,742,000 shares of common stock during the three months and six months ended March 30, 2003, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price was greater than the average market price of the common stock, and therefore, the effect on dilutive earnings per common share would be anti-dilutive. Put options outstanding to purchase 3,000,000 shares of common stock were not included in the earnings per share computation for the three months and six months ended March 28, 2004 and March 30, 2003 because the put options' exercise prices were less than the average market price of the common stock during the period, and therefore, the effect on diluted earnings per common share would be anti-dilutive (Note 6).

Stock-Based Compensation

The Company records compensation expense for employee stock options based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Because the Company establishes the exercise price based on the fair market value of the Company's stock at the date of grant, the options have no intrinsic value upon grant, and therefore no expense is recorded. Each quarter, the Company reports the potential dilutive impact of stock options in its diluted earnings per common share using the treasury stock method. Out-of-the-money stock options (i.e., the average stock price during the period is below the strike price of the option) are not included in diluted earnings per common share.

As required under Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation," and Statement of Financial Accounting Standards No. 148 (FAS 148), "Accounting for Stock-Based Compensation — Transition and Disclosure," the pro forma effects of stock-based compensation on net income and net earnings per common share have been estimated at the date of grant using the Black-Scholes option-pricing model.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in the Company's employee options. Use of an option valuation model, as required by FAS 123, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant. Because the

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Company's employee stock options have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect the Company's estimate of the fair value of those options, in the Company's opinion, existing valuation models, including Black-Scholes, are not reliable single measures and may misstate the fair value of the Company's employee stock options. The Black-Scholes weighted average estimated fair values of stock options granted during the three months and six months ended March 28, 2004 were \$30.53 and \$23.97 per share, respectively. The Black-Scholes weighted average estimated fair values of stock options granted during the three months and six months ended March 30, 2003 were \$20.84 and \$20.57 per share, respectively. The Black-Scholes weighted average estimated fair values of purchase rights pursuant to the Employee Stock Purchase Plans during the three months and six months ended March 28, 2004 were \$13.14 and \$10.72 per share, respectively. The weighted average estimated fair values of purchase rights pursuant to the Employee Stock Purchase Plans during the three months and six months ended March 30, 2003 were \$10.37 and \$9.75 per share, respectively.

For purposes of pro forma disclosures, the estimated fair value of the stock options is assumed to be amortized to expense over the stock options' vesting periods. The pro forma effects of recognizing compensation expense under the fair value method on net income and net earnings per common share were as follows (in thousands, except for earnings per common share):

	Three Months Ended		Six Months Ended	
	March 28, 2004	March 30, 2003	March 28, 2004	March 30, 2003
Net income, as reported	\$488,437	\$103,016	\$ 840,730	\$ 344,350
Add: Stock-based employee compensation expense included in reported net income, net of related tax benefits	7	148	1	465
Deduct: Stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(69,518)	(63,614)	(135,684)	(129,530)
Pro forma net income	<u>\$418,926</u>	<u>\$ 39,550</u>	<u>\$ 705,047</u>	<u>\$ 215,285</u>
Earnings per common share:				
Basic — as reported	\$ 0.61	\$ 0.13	\$ 1.05	\$ 0.44
Basic — pro forma	<u>\$ 0.52</u>	<u>\$ 0.05</u>	<u>\$ 0.88</u>	<u>\$ 0.27</u>
Diluted — as reported	\$ 0.58	\$ 0.13	\$ 1.01	\$ 0.42
Diluted — pro forma	<u>\$ 0.50</u>	<u>\$ 0.05</u>	<u>\$ 0.85</u>	<u>\$ 0.26</u>

Guarantees and Product Warranties

Changes in the Company's warranty liability were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	March 28, 2004	March 30, 2003	March 28, 2004	March 30, 2003
Balance at beginning of the period	\$ 3,357	\$ 12,905	\$ 3,547	\$ 15,670
Charges to expense	338	758	897	1,586
Release of warranty reserves	(324)	(4,620)	(974)	(4,620)
Usage	(165)	(1,250)	(264)	(4,843)
Balance at end of the period	<u>\$ 3,206</u>	<u>\$ 7,793</u>	<u>\$ 3,206</u>	<u>\$ 7,793</u>

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Comprehensive Income

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

	<u>March 28, 2004</u>	<u>September 28, 2003</u>
Foreign currency translation	\$(23,845)	\$ (82,987)
Unrealized gain on marketable securities, net of income taxes	78,232	59,218
	<u>\$ 54,387</u>	<u>\$ (23,769)</u>

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>March 28, 2004</u>	<u>March 30, 2003</u>	<u>March 28, 2004</u>	<u>March 30, 2003</u>
Net income	\$488,437	\$103,016	\$840,730	\$344,350
Other comprehensive income:				
Foreign currency translation	6,504	1,836	13,103	(18,727)
Unrealized gains (losses) on marketable securities, net of income taxes	24,150	(3,665)	27,765	25,986
Reclassification adjustment for foreign currency translation included in net income (Note 9)	—	—	46,039	—
Reclassification adjustment for other-than- temporary losses on marketable securities included in net income, net of income taxes	496	11,069	661	65,927
Reclassification adjustment for net realized gains included in net income, net of income taxes	(6,532)	(5,917)	(9,412)	(7,082)
Total other comprehensive income	<u>24,618</u>	<u>3,323</u>	<u>78,156</u>	<u>66,104</u>
Total comprehensive income	<u>\$513,055</u>	<u>\$106,339</u>	<u>\$918,886</u>	<u>\$410,454</u>

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 — Composition of Certain Financial Statement Items

Marketable Securities

Marketable securities were comprised as follows (in thousands):

	Current		Noncurrent	
	March 28, 2004	September 28, 2003	March 28, 2004	September 28, 2003
Held-to-maturity:				
Certificates of deposit	\$ —	\$ 5,073	\$ —	\$ —
U.S. Treasury and federal agency securities	10,369	489	70,091	129,988
Corporate bonds and notes	75,478	161,416	69,981	70,111
	<u>85,847</u>	<u>166,978</u>	<u>140,072</u>	<u>200,099</u>
Available-for-sale:				
U.S. Treasury and federal agency securities	844,761	695,454	—	—
Foreign government bonds	26,601	—	—	—
Corporate bonds and notes	1,811,250	1,117,968	21,242	22,099
Mortgage and asset-backed securities	736,335	485,859	—	—
Non-investment grade debt securities	40,256	39,316	558,262	458,768
Equity mutual fund	—	—	194,753	—
Equity securities	114,861	10,428	125,106	129,688
	<u>3,574,064</u>	<u>2,349,025</u>	<u>899,363</u>	<u>610,555</u>
	<u>\$3,659,911</u>	<u>\$ 2,516,003</u>	<u>\$1,039,435</u>	<u>\$ 810,654</u>

The Company invested a portion of its corporate cash in an equity mutual fund. This investment is classified as available-for-sale and non-current because the Company's intent is to hold the fund shares for dividend income and long-term appreciation.

Accounts Receivable

	March 28, 2004	September 28, 2003
	(in thousands)	
Trade, net of allowance for doubtful accounts of \$9,625 and \$12,352, respectively	\$570,970	\$ 460,477
Long-term contracts:		
Billed	20,867	10,047
Unbilled	3,281	6,898
Other	1,666	6,371
	<u>\$596,784</u>	<u>\$ 483,793</u>

Accounts receivable were reduced by \$22 million from September 28, 2003 as a result of discontinued operations (Note 9).

Finance Receivables

Finance receivables, which are included in other assets, result from arrangements in which the Company has agreed to provide its customers or certain CDMA customers of Telefonaktiebolaget LM Ericsson (Ericsson) with long-term interest bearing debt financing for the purchase of equipment and/or services.

The Company had an equipment 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 operator in Mexico (collectively referred to as Pegaso). On December 15, 2003, Pegaso prepaid \$193 million, including accrued interest, in full satisfaction of the equipment loan facility. As a result, the financing and related agreements were terminated. The

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Company recognized \$12 million in interest income related to Pegaso during the six months ended March 28, 2004, including \$10 million of deferred interest income recorded as a result of the prepayment.

A long-term financing commitment for \$346 million under an arrangement with Ericsson expired on November 6, 2003. At March 28, 2004, the Company had a remaining commitment to extend up to \$118 million in long-term financing to certain CDMA customers of Ericsson. The funding of this commitment, if it occurs, is not subject to a fixed expiration date and is subject to the CDMA customers meeting conditions prescribed in the financing arrangement and, in certain cases, to Ericsson also financing a portion of such sales and services. Financing under this arrangement is generally collateralized by the related equipment. The commitment represents the maximum amount to be financed; actual financing may be in lesser amounts.

Inventories

	March 28, 2004	September 28, 2003
	(in thousands)	
Raw materials	\$ 19,136	\$ 18,512
Work-in-process	2,699	3,000
Finished goods	75,206	88,839
	<u>\$ 97,041</u>	<u>\$ 110,351</u>

Inventories were reduced by \$8 million from September 28, 2003 as a result of discontinued operations (Note 9).

Property, Plant and Equipment

	March 28, 2004	September 28, 2003
	(in thousands)	
Land	\$ 46,884	\$ 47,214
Buildings and improvements	352,608	338,424
Computer equipment	389,631	378,983
Machinery and equipment	330,405	449,181
Furniture and office equipment	21,957	22,152
Leasehold improvements	51,112	42,750
	1,192,597	1,278,704
Less accumulated depreciation and amortization	(642,674)	(656,439)
	<u>\$ 549,923</u>	<u>\$ 622,265</u>

Depreciation and amortization expense from continuing operations related to property, plant and equipment for the three months and six months ended March 28, 2004 was \$32 million and \$62 million, respectively, as compared to \$29 million and \$54 million for the three months and six months ended March 30, 2003, respectively. The gross and net carrying values of property, plant and equipment were reduced by \$170 million and \$103 million, respectively, from September 28, 2003 as a result of discontinued operations (Note 9).

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Intangible Assets

The components of purchased intangible assets, which are included in other assets, were as follows (in thousands):

	March 28, 2004		September 28, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Wireless licenses	\$ 82,598	\$ (9,243)	\$ 174,480	\$ (7,858)
Marketing-related	21,230	(7,057)	20,683	(7,411)
Technology-based	54,319	(33,806)	35,558	(27,341)
Customer-related	15,154	(12,076)	16,652	(15,563)
Other	7,003	(465)	8,502	(1,089)
Total intangible assets	<u>\$ 180,304</u>	<u>\$ (62,647)</u>	<u>\$ 255,875</u>	<u>\$ (59,262)</u>

The gross carrying values of wireless licenses, customer-related intangible assets and marketing-related intangible assets were reduced by \$105 million, \$5 million and \$1 million, respectively, from September 28, 2003 as a result of discontinued operations (Note 9).

Amortization expense from continuing operations for the three months and six months ended March 28, 2004 was \$5 million and \$11 million, respectively, as compared to \$3 million and \$8 million for the three months and six months ended March 30, 2003, respectively. Amortization expense related to these intangible assets is expected to be \$7 million for the remainder of fiscal 2004, \$13 million in fiscal 2005, \$12 million in fiscal 2006, \$11 million in fiscal 2007 and \$8 million in fiscal 2008.

In September 2003, a European subsidiary of the Company acquired certain assets and assumed certain liabilities of Alcatel Mobicom for approximately \$12 million. Due to the Company's practice of consolidating foreign subsidiaries one month in arrears, the acquisition was recorded in the Company's condensed consolidated financial statements during the first quarter of fiscal 2004. The acquisition resulted in \$1 million, \$3 million and \$5 million increases in marketing-related intangible assets, customer-related intangible assets and goodwill, respectively. The purchase price was allocated based on the estimated fair values of acquired assets and assumed liabilities. Goodwill was increased by \$3 million in the second quarter of fiscal 2004 due to contingent consideration paid by the Company. Pro forma results have not been presented because the effect of this acquisition is not material.

Capitalized software development costs, which are included in other assets, were \$40 million and \$36 million at March 28, 2004 and September 28, 2003, respectively. Accumulated amortization on capitalized software was \$33 million and \$26 million at March 28, 2004 and September 28, 2003, respectively. Amortization expense from continuing operations related to capitalized software for the three months and six months ended March 28, 2004 was \$3 million and \$7 million, respectively, as compared to \$3 million and \$6 million for the three months and six months ended March 30, 2003, respectively.

Note 3 — Investments in Other Entities

Inquam Limited

The Company has invested \$200 million in the convertible preferred shares of Inquam Limited (Inquam) for an approximate 42% ownership interest in Inquam. Inquam owns, develops and manages wireless communications systems, either directly or indirectly, with the primary intent of deploying CDMA-based technology, primarily in Europe. Inquam is a variable interest entity. The Company does not consolidate Inquam because it is not the primary beneficiary. The Company also extended \$55 million in bridge loan financings to Inquam, which another investor agreed to match. The Company has funded \$55 million under these bridge loans since the third quarter in fiscal 2003 and had no remaining funding commitment at March 28, 2004. The other investor provided \$39 million under these bridge loans through April 16, 2004 and has indicated that the remaining \$16 million commitment will be funded during the Company's third fiscal quarter. The Company uses the equity method to account for its investment in Inquam. The Company recorded its equity in losses of Inquam of \$19 million and \$34 million for the three months and six months ended March 28, 2004, respectively, as compared to \$33 million and \$54 million for the three months and six months ended March 30, 2003, respectively. At March 28, 2004, the Company's equity and debt investments in Inquam totaled \$63 million, net of equity in losses.

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On July 14, 2003, the Company approved an additional \$50 million equity investment in Inquam, subject to certain conditions, including a matching \$50 million investment by another existing investor in Inquam. The terms of the new equity investments are currently being negotiated. No commitments related to these potential investments were in place at March 28, 2004. It is the intention of both parties that \$30 million of the bridge loans will be repaid with the proceeds from this anticipated equity investment. The Company continues to evaluate its strategic alternatives with regard to its investment in and prospective involvement with Inquam.

On September 22, 2003, the Company agreed, along with the other major investor in Inquam, to guarantee the payment of amounts due by Inquam under a bank credit agreement. The Company's maximum liability under the guarantee is limited to an amount equal to 50% of the amounts outstanding under Inquam's credit agreement, up to a maximum of \$10 million. The full \$20 million was outstanding under the bank credit agreement as of March 28, 2004.

On January 12, 2004, the Company agreed to lend up to approximately \$4 million to a party affiliated with one of the other investors in Inquam for the purpose of supporting the continued expansion of CDMA in the 450 MHz frequency band in Western Europe. The Company funded \$1 million of this loan during the second quarter, and the loan was repaid in full on April 16, 2004. The availability period of this loan expired on January 31, 2004, and the Company no longer had an obligation to fund under this agreement at March 28, 2004.

Other

Other strategic investments as of March 28, 2004 totaled \$117 million, including \$44 million accounted for using the cost method. At March 28, 2004, effective ownership interests in these investees ranged from less than 1% to 50%. Funding commitments related to these investments totaled \$28 million at March 28, 2004, which the Company expects to fund through fiscal 2009. Such commitments are subject to the investees meeting certain conditions; actual equity funding may be in lesser amounts. An investee's failure to develop and provide competitive products and services due to lack of financing, market demand or an unfavorable economic environment could adversely affect the value of the Company's investment in the investee. There can be no assurance that the investees will be successful in their efforts.

Note 4 — Investment Income (Expense)

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

	Three Months Ended		Six Months Ended	
	March 28, 2004	March 30, 2003*	March 28, 2004	March 30, 2003*
Interest income	\$ 43,586	\$ 34,094	\$ 91,357	\$ 66,425
Net realized gains on marketable securities	10,805	9,972	15,569	11,268
Other-than-temporary losses on marketable securities	(820)	(18,458)	(1,095)	(73,349)
Other-than-temporary losses on other investments	—	(5,510)	(425)	(17,202)
Change in fair values of derivative investments	1,397	106	931	120
Equity in losses of investees	(20,898)	(38,651)	(36,969)	(65,246)
	<u>\$ 34,070</u>	<u>\$(18,447)</u>	<u>\$ 69,368</u>	<u>\$(77,984)</u>

* As adjust(Note 9)

During the second quarter of fiscal 2004, the Congressional Joint Committee on Taxation approved a refund to the Company of approximately \$42 million resulting from an audit by the United States Internal Revenue Service (IRS) of fiscal years 1997 through 1999. A tax receivable had previously been recorded for the tax refund excluding interest. Interest income of approximately \$7 million was recorded in the second quarter of fiscal 2004 for the interest expected to be received from the IRS.

Note 5 — Income Taxes

The Company currently estimates its annual effective income tax rate for continuing operations to be approximately 30% for fiscal 2004, as compared to the actual 34% effective income tax rate for continuing operations in fiscal 2003. The Company's estimated effective tax rate from continuing operations for fiscal 2004 decreased from 32% in the first quarter to 30% in the second quarter, which resulted in a 28% effective tax rate from

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continuing operations in the second quarter of fiscal 2004. The change in the estimated rate for fiscal 2004 resulted from the Company's forecast of its ability to utilize capital losses and higher expected foreign earnings taxed at less than the United States federal rate. The estimated annual effective tax rate for continuing operations for fiscal 2004 is lower than the United States federal statutory rate due to a benefit related to research and development tax credits and foreign earnings taxed at less than the United States federal rate, partially offset by state taxes. The prior fiscal year rate for continuing operations was lower than the United States federal statutory rate as a result of research and development credits, the deduction of certain losses related to foreign subsidiaries, and foreign earnings taxed at less than the United States federal rate, partially offset by state taxes and foreign and capital losses for which no tax benefit was recorded.

The Company has not provided for United States income taxes and foreign withholding taxes on a cumulative total of approximately \$1.2 billion of undistributed earnings of certain non-United States subsidiaries permanently invested outside the United States. Should the Company decide to repatriate foreign earnings, the Company would have to adjust the income tax provision in the period management determined that the Company would repatriate the earnings.

The Company believes, more likely than not, that it will have sufficient taxable income after stock option related deductions to utilize the majority of its deferred tax assets. As of March 28, 2004, the Company has provided a valuation allowance on net capital losses, foreign tax credits, and other foreign deferred tax assets in the amounts of \$166 million, \$54 million and \$20 million, respectively. The valuation allowance related to capital losses reflects the uncertainty surrounding the Company's ability to generate sufficient capital gains to utilize all capital losses. Based on the Company's current estimates of future taxable income, the Company expects that approximately \$54 million of foreign tax credits will expire unutilized by the end of fiscal year 2005. The valuation allowance for these foreign tax credits was recorded in the first quarter of fiscal 2004 as a charge to paid-in capital because the expected expiration of foreign tax credits will result from deductions related to stock options. Additionally, although the majority of foreign net operating losses have unlimited carryforward periods, the Company continues to provide a valuation allowance on substantially all of its foreign deferred tax assets at March 28, 2004 because of uncertainty regarding their realization due to a history of losses from these particular foreign operations.

The net deferred tax assets decreased by approximately \$187 million from September 28, 2003 to March 28, 2004 because of the foreign tax credit valuation allowance and the use of deferred tax assets to offset the current tax liability that otherwise would have resulted from current operations. Gross deferred tax assets and an equal amount of valuation allowance, primarily related to unused Brazilian net operating losses, each decreased by approximately \$475 million from September 28, 2003 to March 28, 2004 as a result of the disposition of the Vesper Operating Companies (Note 9), with no net effect on net deferred tax assets.

Note 6 — Stockholders' Equity

Changes in stockholders' equity for the six months ended March 28, 2004 were as follows (in thousands):

Balance at September 28, 2003	\$7,598,572
Net income	840,730
Tax benefit from the exercise of stock options	154,984
Other comprehensive income	78,156
Net proceeds from the issuance of common stock	131,509
Dividends	(193,452)
Valuation allowance provided on certain deferred tax assets (Note 5)	(54,190)
Balance at March 28, 2004	<u>\$8,556,309</u>

Stock Repurchase Program

On February 11, 2003, the Company authorized the investment of up to \$1 billion to repurchase shares of the Company's common stock over a two year period. During the three months and six months ended March 30, 2003, the Company bought 3,615,000 shares at an aggregate cost of \$124 million. While the Company did not repurchase any of the Company's common stock under this program during the six months ended March 28, 2004, the Company continues to evaluate repurchases under this program. At March 28, 2004, \$834 million remains authorized for repurchases under the program.

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In connection with the Company's stock repurchase program, the Company sold put options under three separate contracts with independent third parties during the three months ended March 28, 2004 that may require the Company to purchase 3,000,000 shares of its common stock upon exercise. The Company accounts for the written put options in accordance with Statement of Financial Standards No. 150 (FAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." In the event the put options are exercised, the contracts require that the options be physically settled in cash. The Company has determined that the put options should be classified as liabilities in accordance with FAS 150. As such, the Company recorded the \$5 million in premiums received as additions to other current liabilities, and changes in the fair values of the put options are recognized in the Company's statement of operations. At March 28, 2004, all three contracts, with expiration dates ranging from September 1, 2004 to September 9, 2004, were outstanding, and the recorded values of the option liabilities were \$5 million. If the options are exercised, the Company's effective repurchase prices for its shares (the strike prices less the option premiums received) will be below \$52 per share. Any shares repurchased upon exercise of the put options will be retired.

During the three months ended March 30, 2003, the Company sold put options under three separate contracts with independent third parties that required the Company to purchase 3,000,000 shares of its common stock upon exercise. All of these put options expired unexercised. The Company classified the put options as permanent equity in accordance with Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As such, the Company recorded the \$7 million in premiums received as paid-in capital.

Dividends

On March 2, 2004, the Company announced a cash dividend of \$0.10 per share on the Company's common stock, payable on June 25, 2004 to stockholders of record as of the close of business on May 28, 2004. During the three months and six months ended March 28, 2004 dividends charged to retained earnings were \$81 million and \$193 million, respectively. During the three months and six months ended March 30, 2003, dividends charged to retained earnings were \$39 million.

Note 7 — Commitments and Contingencies

Litigation

Schwartz, et al v. QUALCOMM: 87 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 estoppel, negligent misrepresentation, unjust enrichment, violation of California Labor Code Section 970, violation of California Civil Code Sections 1709-1710, rescission, violation of California Business & Professions Code Section 17200 and violation of California Civil Code Section 1575. The complaint seeks economic, emotional distress and punitive damages and unspecified amounts of interest. On November 29, 2001, the Court granted the Company's motion to dismiss 17 of the plaintiffs from the lawsuit. Subsequently, the Court dismissed three other plaintiffs from the lawsuit. On November 18, 2002, the Court granted the Company's motion to dismiss 61 of the remaining 67 plaintiffs from the lawsuit. The Company subsequently resolved the matters with the remaining plaintiffs. Those plaintiffs whose claims were dismissed have appealed.

Hanig et al. v. QUALCOMM, Boesel, et al v. QUALCOMM, Stone v. QUALCOMM, Ortiz et al v. QUALCOMM, Shannon et al. v. QUALCOMM, Deshon et al v. QUALCOMM, Earnhart et al. v. QUALCOMM: These cases were filed in San Diego County Superior Court by over 100 former employees, alleging claims for declaratory relief, breach of contract, intentional/negligent fraud, concealment, rescission, specific performance, work, labor and services, breach of the implied covenant of good faith and fair dealing, violation of California Business & Professions Code Section 17200 and unjust enrichment, claiming that they were entitled to full vesting of unvested stock options as a result of the sale of the Company's infrastructure business to Ericsson in 1999. The Company has answered the complaints, which have been consolidated.

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

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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, plus economic and liquidated damages of an unspecified amount. 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 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. On April 15, 2003, the Court granted the Company's summary judgment motions as to all remaining class members' disparate impact claims. On June 18, 2003, the Court ordered decertification of the class and dismissed the remaining claims of the opt-in plaintiffs without prejudice. Plaintiffs have filed an appeal. On June 20, 2003, 76 of the opt-in plaintiffs filed an action in Federal District Court for the Southern District of California, alleging violations of the Age Discrimination in Employment Act as a result of their layoffs in 1999. To date, the complaint has not been served.

Zoltar Satellite Alarm Systems, Inc. v. QUALCOMM, Inc. and SnapTrack, Inc.: On March 30, 2001, Zoltar Satellite Alarm Systems, Inc. (Zoltar) filed suit against QUALCOMM and SnapTrack, a QUALCOMM wholly-owned subsidiary, in the United States District Court for the Northern District of California seeking damages and injunctive relief and 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. Trial of this matter commenced on February 24, 2004. On March 25, 2004, the jury reached a unanimous verdict of no infringement in favor of the Company on six of the seven patent claims asserted by Zoltar. The jury was unable to reach a unanimous decision as to the seventh claim and as to certain issues relating to the invalidity and enforceability of the patents. The court now has under submission motions by the parties, including QUALCOMM and SnapTrack's motions for non-infringement as to the seventh claim and motions seeking the court's determination as to the invalidity and enforceability of certain of the patents and patent claims.

Texas Instruments Incorporated v. QUALCOMM Incorporated: On July 25, 2003, the Company filed an action in Delaware Superior Court against Texas Instruments Incorporated for breach of a patent portfolio license agreement between the parties, seeking damages and other relief. On September 23, 2003, Texas Instruments filed an action in Delaware Chancery Court against the Company alleging breach of the same agreement, seeking damages and other relief. The Company has since dismissed its case in Superior Court and refiled its claims as part of the action in the Chancery Court. On March 11, 2004, the Chancery Court denied Texas Instrument's motion seeking dismissal of the Company's claims. The case is now scheduled for a bench trial to occur on August 16, 2004, in Delaware.

QUALCOMM Incorporated v. Conexant Systems, Inc. and Skyworks Solutions Inc.: On October 8, 2002, the Company filed an action in the United States District Court for the Southern District of California against Conexant and Skyworks alleging infringement of five patents and misappropriation of trade secrets and seeking damages and injunctive relief. The Company is seeking to amend the complaint to bring the total number of patents at issue to nine. On December 4, 2003, Skyworks answered and counterclaimed against QUALCOMM, alleging infringement of four patents and misappropriation of trade secrets and seeking damages and injunctive relief. Discovery in the matter has recently begun.

QUALCOMM Incorporated v. Maxim Integrated Products, Inc.: On December 2, 2002, the Company filed an action in the United States District Court for the Southern District of California against Maxim Integrated Products, Inc. (Maxim) alleging infringement of three patents and seeking damages and injunctive relief. The Company has since amended the complaint, bringing the total number of patents at issue to five. On April 12, 2004, Maxim filed a First Amended Answer and Counterclaims to the Company's Second Amended Complaint. Maxim's amended counterclaims allege violation of antitrust laws and unfair business practices and seek damages and other relief. The Company believes the amended counterclaims are without merit and will seek the dismissal of the claims as a matter of law.

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The Company has been named, along with many other manufacturers of wireless phones, wireless operators and industry-related organizations, as a defendant in purported class action lawsuits (In re Wireless Telephone Frequency Emissions Products Liability Litigation, United States District Court for the District of Maryland), and in several individually filed actions, seeking personal injury, economic and/or punitive damages arising out of its sale of cellular phones. On March 5, 2003, the Court granted the defendants motions to dismiss five of the consolidated cases (Pinney, Gimpleson, Gillian, Farina and Naquin) on the grounds that the claims were preempted by federal law. On April 2, 2003, the plaintiffs filed a notice of appeal of this order and the Court's order denying remand. All remaining cases filed against the Company allege personal injury as a result of their use of a wireless telephone. 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, and the judge responsible for the multi-district litigation proceedings recently made such a ruling in another case to which the Company is not a party.

Although there can be no assurance that unfavorable outcomes in any of the foregoing matters would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the claims are without merit and will vigorously defend the actions. The Company has not recorded any accrual for contingent liability associated with the legal proceedings described above based on the Company's belief that a liability, while possible, is not probable. Further, any possible range of loss cannot be estimated at this time. The Company is engaged in numerous other legal actions arising in the ordinary course of its business and believes that the ultimate outcome of these actions will not have a material adverse effect on its operating results, liquidity or financial position.

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 for the remainder of fiscal 2004 and for each of the subsequent four years from fiscal 2005 through 2008 are \$24 million, \$38 million, \$25 million, \$14 million and \$5 million, respectively.

Purchase Obligations

The Company has agreements with suppliers to purchase inventory and other goods and services and estimates its noncancelable obligations under these agreements to be approximately \$591 million for the remainder of fiscal 2004 and \$129 million in fiscal 2005. Of these amounts, commitments to purchase integrated circuit product inventories comprised \$563 million and \$126 million, respectively. The Company also has commitments to purchase telecommunications services for the remainder of fiscal 2004 and for each of the subsequent four years from fiscal 2005 through fiscal 2008 for approximately \$11 million, \$20 million, \$19 million, \$2 million and \$2 million, respectively, and \$2 million thereafter.

Letters of Credit and Other Financial Commitments

In addition to the financing commitments to Ericsson (Note 2) and the Inquam guarantee commitment (Note 3), the Company had outstanding letters of credit and other financial commitments totaling \$1 million as of March 28, 2004, none of which were collateralized.

Note 8 — Segment Information

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

- QUALCOMM CDMA Technologies (QCT) — develops and supplies CDMA-based integrated circuits and system software for wireless voice and data communications and global positioning system products;
- QUALCOMM Technology Licensing (QTL) — grants licenses to use portions of the Company's intellectual property portfolio, which includes certain patent rights essential to or useful in the manufacture and sale of CDMA products, and collects license fees and royalties for such licenses;
- QUALCOMM Wireless & Internet (QWI) — comprised of:

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- QUALCOMM Internet Services (QIS) — provides technology to support and accelerate the convergence of wireless data, Internet and voice services, including its BREW product and services and QChat and BREWChat, which enable push-to-chat functionality on CDMA-based wireless devices;
- QUALCOMM Digital Media (QDM) — provides development, hardware and analytical expertise to United States government agencies involving wireless communications technologies and develops technologies and provides equipment 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
- QUALCOMM Wireless Business Solutions (QWBS) - provides satellite and terrestrial-based two-way data messaging, application and position reporting services to transportation companies, private fleets, construction equipment fleets and other enterprise companies.
- 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.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (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.

As a result of the disposition of the remaining operations and assets related to the Vesper Operating Companies and TowerCo (Note 9), consolidated investees of QSI, the Company determined that the results of operations related to the Vesper Operating Companies and TowerCo should be presented as discontinued operations. QSI revenues and EBT for all prior periods have been adjusted to reflect the reclassification of revenues and EBT related to these consolidated investees to discontinued operations.

During the second quarter of fiscal 2004, the Company reorganized its wholly-owned subsidiary SnapTrack Inc. (SnapTrack), a developer of wireless position location technology. The Company previously presented all of the revenues and operating results of SnapTrack in the QCT segment. As a result of the reorganization of SnapTrack, revenues and operating results related to SnapTrack's server software business (software for computer servers that allows operators to offer location-based services and applications) became part of the QIS division in the QWI segment. Revenues and operating results related to SnapTrack's client business (the gpsOne hybrid assisted global positioning system wireless location technology that is embedded with the integrated circuit products) remain with the QCT segment. Prior period segment information has been adjusted to conform to the new segment presentation.

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The table below presents revenues and EBT from continuing operations for reportable segments (in thousands):

	QCT*	QTL	QWI*	QSI*	Reconciling Items*	Total*
For the three months ended:						
March 28, 2004						
Revenues	\$ 711,257	\$390,257	\$144,627	\$ 29	\$ (30,522)	\$1,215,648
EBT	257,956	361,591	3,864	(15,055)	1,704	\$ 610,060
March 30, 2003						
Revenues	\$ 646,513	\$260,110	\$127,356	\$ 351	\$ (17,201)	\$1,017,129
EBT	221,696	236,192	9,194	(58,645)	(6,431)	\$ 402,006
For the six months ended:						
March 28, 2004						
Revenues	\$1,459,635	\$743,678	\$282,935	\$ 88	\$ (64,114)	\$2,422,222
EBT	518,433	686,264	9,531	(18,554)	17,742	\$1,213,416
March 30, 2003						
Revenues	\$1,350,913	\$515,533	\$243,856	\$ 649	\$ (25,560)	\$2,085,391
EBT	507,829	465,601	14,104	(156,518)	(4,583)	\$ 826,433

*As adjusted.

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

	Three Months Ended		Six Months Ended	
	March 28, 2004	March 30, 2003*	March 28, 2004	March 30, 2003*
Revenues				
Elimination of intersegment revenue	\$(36,549)	\$(36,365)	\$(73,850)	\$(69,948)
Other products	6,027	19,164	9,736	44,388
Reconciling items	\$(30,522)	\$(17,201)	\$(64,114)	\$(25,560)
Earnings before income taxes				
Unallocated amortization of acquisition-related intangible assets	\$ (1,196)	\$ (1,807)	\$ (2,990)	\$ (3,622)
Unallocated research and development expenses	(16,790)	(13,014)	(26,276)	(22,298)
Unallocated selling, general and administrative expenses	(18,043)	(14,105)	(20,934)	(21,881)
Unallocated investment income, net	50,696	33,569	88,324	59,559
Unallocated interest expense	(398)	(232)	(555)	(1,525)
EBT from other products	(10,000)	(6,716)	(14,945)	(10,023)
Intracompany profit	(2,565)	(4,126)	(4,882)	(4,793)
Reconciling items	\$ 1,704	\$ (6,431)	\$ 17,742	\$ (4,583)

*As adjusted.

Generally, revenues between operating segments are based on prevailing market rates for substantially similar products and services or an approximation thereof. Certain charges are allocated to the corporate functional department in the Company's management reports based on the decision that those charges should not be used to evaluate the segments' operating performance. Unallocated charges include amortization of acquisition-related intangible assets, research and development expenses and marketing expenses related to the development of the CDMA market that were not deemed to be directly related to the businesses of the operating segments.

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

	QCT*	QTL	QWI*	QSI*
For the three months ended:				
March 28, 2004				
Revenues from external customers	\$ 710,748	\$ 359,965	\$ 138,879	\$ 29
Intersegment revenues	509	30,292	5,748	—
March 30, 2003				
Revenues from external customers	\$ 646,089	\$ 231,809	\$ 119,716	\$ 351
Intersegment revenues	424	28,301	7,640	—
For the six months ended:				
March 28, 2004				
Revenues from external customers	\$1,458,551	\$ 681,714	\$ 272,133	\$ 88
Intersegment revenues	1,084	61,964	10,802	—
March 30, 2003				
Revenues from external customers	\$1,350,023	\$ 457,271	\$ 233,060	\$ 649
Intersegment revenues	890	58,262	10,796	—

*As adjusted.

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

	March 28, 2004	September 28, 2003*
QCT	\$ 327,321	\$ 308,939
QTL	246,529	154,887
QWI	114,006	94,456
QSI	437,137	839,156
Assets not allocated to segments	8,524,501	7,424,998
Total consolidated assets	<u>\$9,649,494</u>	<u>\$ 8,822,436</u>

*As adjusted.

QSI assets decreased by \$265 million from September 28, 2003 as a result of discontinued operations (Note 9).

Note 9 — Discontinued Operations in the QSI Segment

In fiscal 1999, the Company acquired ownership interests in Vésper São Paulo S.A. and Vésper S.A. (the Vésper Operating Companies). The Vésper Operating Companies were formed by a consortium of investors to provide fixed wireless and wireline telephone services in the northern, northeast and eastern regions of Brazil and in the state of São Paulo. In November 2001, the Company consummated a series of transactions resulting in an overall financial restructuring of the Vésper Operating Companies, which resulted in its holding direct and indirect controlling ownership interests in the Vésper Operating Companies. As a result, the Vésper Operating Companies were consolidated in the Company's QSI segment.

On December 2, 2003 (the Closing Date), Embratel Participações S.A. (Embratel) acquired the Company's direct and indirect ownership interests in the Vésper Operating Companies (the Embratel sale transaction) for no consideration. The Vésper Operating Companies' existing communication towers and related interests in tower site property leases (Vésper Towers) were not included in the Embratel sale transaction, and as such, the Company effectively retained, through a new wholly-owned subsidiary (TowerCo), ownership and control of the Vésper Towers. The Vésper Towers had a net book value of approximately \$5 million on the Closing Date. Concurrent with the closing, the Vésper Operating Companies entered into a 10-year agreement (renewable at the Vésper Operating Companies' option for up to two successive 5-year terms) whereby the Vésper Operating

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Companies would pay a monthly fee to the Company for use of aerial and ground space on the tower sites. The Company provided approximately \$6 million to fund operations of the Vesper Operating Companies during the first quarter of fiscal 2004 prior to their sale and additionally provided approximately \$39 million in aggregate funding to or for the benefit of the Vesper Operating Companies on or before the Closing Date to facilitate the Embratel sale transaction. Such funding enabled the Vesper Operating Companies to completely extinguish their existing local bank debt (at an agreed discount) to allow the Company to retain ownership of the Vesper Towers free and clear of any local bank security interest. The major classes of assets and liabilities sold in the Embratel sale transaction included: \$25 million in accounts receivable, \$5 million in inventory, \$24 million in other current assets, \$95 million in property, plant and equipment, \$6 million in other assets, \$52 million in accounts payable, \$5 million in payroll and other benefits related liabilities, \$6 million in unearned revenue, \$1 million in other current liabilities, \$14 million in long-term debt and \$3 million in other liabilities. The Company realized a net loss of \$52 million on the Embratel sale transaction during the first quarter of fiscal 2004, including a \$74 million loss on the net assets sold to Embratel and a \$46 million loss related to the recognition of cumulative foreign currency translation losses previously included in stockholders' equity, partially offset by \$68 million in gains related to the extinguishment of local bank debt and the settlement of other liabilities.

On November 19, 2002, the Company won bids to acquire personal mobile service (SMP) licenses in certain regions of Brazil. Approximately \$8 million of the approximate \$82 million purchase price for the SMP licenses was paid in December 2002. The remaining Brazilian real-denominated obligation was financed by the Brazilian government at an interest rate of 12% per annum, plus an adjustment for inflation. These SMP licenses were not included in the Embratel sale transaction. In December 2003, the Company initiated a waiver and return of the SMP licenses to Anatel, the telecommunications regulatory agency in Brazil. In February 2004, the waiver and return of the SMP licenses was approved by Anatel, and the license debt was extinguished. The Company realized a net gain of \$19 million as a result of the removal of the \$104 million SMP licenses and the related \$123 million debt and accrued interest during the second quarter of fiscal 2004.

On March 2, 2004, the Company sold TowerCo to Embratel in a separately negotiated transaction (the TowerCo sale transaction) for \$45 million in cash. TowerCo's assets were primarily comprised of \$5 million in property, plant and equipment. The Company realized a net gain of \$40 million on the TowerCo sale transaction during the second quarter of fiscal 2004. As a result of the disposition of the remaining operations and assets related to the Vesper Operating Companies, the Company determined that the results of operations and cash flows related to the Vesper Operating Companies, including the results related to TowerCo and the SMP licenses and the gains and losses realized on the Embratel and TowerCo sales transactions, should be presented as discontinued operations in its condensed consolidated statements of operations and cash flows. The Company's statements of operations and cash flows for all prior periods have been adjusted to present the discontinued operations.

For each of the three months and six months ended March 28, 2004, revenues of \$36 million were reported in the income (loss) from discontinued operations. For the three and six months ended March 30, 2003, revenues of \$26 million and \$55 million, respectively, were reported in the income (loss) from discontinued operations. At March 28, 2004, the Company had no remaining assets or liabilities related to the Vesper Operating Companies, TowerCo or the SMP licenses recorded on its condensed consolidated balance sheet.

Note 10 — Auction Discount Voucher

The Company was awarded a \$125 million Auction Discount Voucher (ADV) by the Federal Communications Commission (FCC) in June 2000 as the result of a legal ruling. The ADV is fully transferable and may, subject to certain conditions, be used in whole or in part by any entity in any FCC spectrum auction over a period of three years, including those in which the Company is not a participant. During November 2002, the FCC amended the terms of the ADV to allow the Company to use the ADV to satisfy existing FCC debt of other companies. During April 2003, the FCC granted the Company's request for a one-year extension of the ADV. As a result, the ADV expires in June 2004. The Company is evaluating whether it will need to seek another extension of the ADV. The Company used approximately \$77 million of the ADV's value prior to fiscal 2004.

During the first six months of fiscal 2004, the Company recorded \$4 million in other operating income and \$4 million in selling, general and administrative expenses in the QSI segment for cooperative marketing expenses

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incurred, with no effect on net income, related to an arrangement under which a portion of the ADV was transferred to a wireless operator prior to fiscal 2004.

During the first six months of fiscal 2004, the Company transferred approximately \$8 million of the ADV's value to a wireless operator for approximately \$8 million in cash. As a result of this transfer, the Company recorded an additional \$8 million in other operating income in the QSI segment during the first six months of fiscal 2004. The Company also used approximately \$30 million of the ADV during the first six months of fiscal 2004 as final payment for wireless licenses granted in fiscal 2004 in which the Company was the highest bidder in a FCC auction held during fiscal 2003. On a cumulative basis, the Company used \$38 million of the ADV as payment for these wireless licenses, for which the Company had no cost basis at March 28, 2004. The remaining value of the ADV at March 28, 2004 was approximately \$10 million. The Company had no cost basis in the ADV at March 28, 2004.

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 28, 2003 contained in our 2003 Annual Report on Form 10-K.

In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled Risk Factors and elsewhere in this Quarterly Report.

Overview

Quarterly Highlights

Revenues for the second quarter of fiscal 2004 were \$1.2 billion, with net income of \$488 million, including \$47 million of income relating to discontinued operations. During this quarter, the following developments occurred with respect to key elements of our business:

- Strong growth in CDMA subscribers throughout the world drove demand for our products and the products of our licensees. Network expansions in India, China and CDMA2000 1xEV-DO (Evolution Data Optimized) deployments by operators in South Korea, Japan and the United States, number portability requirements by regulators in South Korea and the United States, and the popularity of color screens and camera phones were major contributors. We shipped approximately 32 million Mobile Station Modem (MSM) integrated circuits, 99% of which were third generation (3G) CDMA2000 1X and 1xEV-DO;
- Better network coverage, network and handset interoperability and new handsets resulted in over four million WCDMA (UMTS) subscribers in Japan and Europe by the end of the quarter, according to the EMC World Cellular Information Service, a researcher and publisher of wireless industry market intelligence. Several leading manufacturers have announced the selection of our WCDMA (UMTS) compatible MSM 6250 integrated circuits for their WCDMA (UMTS) phone products. Nine subscriber licensees and eight infrastructure licensees reported sales of WCDMA (UMTS) products, and WCDMA (UMTS) royalties contributed approximately 12% of royalties reported in the second fiscal quarter for licensee sales during the first fiscal quarter;
- Our integrated circuits business experienced supply constraints which resulted in our inability to meet certain customer demands. To ensure better delivery of parts and components from our suppliers, we have extended our firm orders to our suppliers. Additionally, we are working to add capacity at our existing supply base, as well as evaluating potential new suppliers to augment our needs;
- Our QSI business activities continue to decrease as planned. We sold TowerCo in Brazil and no longer have any involvement with the Vesper Operating Companies. Outstanding QSI commitments decreased by \$127 million.

Our Business and Operating Segments

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

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

QCT is a leading developer and supplier of integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning. QCT's integrated circuit products and software are used in wireless phones and infrastructure equipment. The wireless phone integrated circuits include the Mobile Station Modem (MSM), Radio Frequency (RF) and Power Management (PM) devices. The wireless phone

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integrated circuits and software perform voice and data communication, multimedia and global positioning functions, radio conversion between radio and baseband signals and power management. The infrastructure equipment integrated circuits provide the core baseband CDMA modem functionality in the operator's equipment. QCT software products are the operating systems that control the phone and the functionality imbedded in our integrated circuit products. QCT revenues comprised 59% and 64% of total consolidated revenues in the second quarter of fiscal 2004 and 2003, respectively. QCT revenues comprised 60% and 65% of total consolidated revenues in the first six months of fiscal 2004 and 2003, respectively.

QTL grants licenses to use portions of our intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of CDMA (including cdmaOne, CDMA2000 1X/1xEV-DO/1xEV-DV, TD-SCDMA and WCDMA (UMTS)) products. QTL receives license fees as well as ongoing royalties based on worldwide sales by licensees of products incorporating our intellectual property. QTL revenues comprised 32% and 26% of total consolidated revenues in the second quarter of fiscal 2004 and 2003, respectively. QTL revenues comprised 31% and 25% of total consolidated revenues in the first six months of fiscal 2004 and 2003, respectively.

QWI, which includes QUALCOMM Wireless Business Solutions (QWBS), QUALCOMM Internet Services (QIS) and QUALCOMM Digital Media (QDM), generates revenue primarily through mobile communication products and services, software and software development aimed at support and delivery of wireless applications. QWBS provides satellite and terrestrial-based two-way data messaging and position reporting services to transportation companies, private fleets, construction equipment fleets and other enterprise companies. QIS provides the BREW product and services for the development and over-the-air deployment of data services on wireless devices. QIS also provides QChat and BREWChat, which enable push-to-chat functionality on CDMA-based wireless devices, and QPoint, which enables operators to offer E-911 and location-based applications and services. The QDM division is comprised of the Government Systems and Digital Cinema businesses. The Government Systems business provides development, hardware and analytical expertise to United States government agencies involving wireless communications technologies. The Digital Cinema business develops technologies and provides equipment to support the processing, transmission and management of content for a variety of media applications, including the delivery of digitized motion pictures. QWI revenues comprised 12% and 13% of total consolidated revenues in the second quarter of fiscal 2004 and 2003, respectively. QWI revenues comprised 12% of total consolidated revenues in the first six months of both fiscal 2004 and 2003.

QSI makes 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 operators, licensed device manufacturers and start-up companies that we believe open new markets for CDMA technology, support the design and introduction of new CDMA-based products or possess unique capabilities or technology to promote Internet data communications.

Looking Forward

As we look through the end of this fiscal year, our business is presented with certain key opportunities and risks. Worldwide demand for CDMA phones and devices with increased functionality such as color screens, cameras and multimedia capabilities is increasing, and we believe this trend will continue. The expansion of broadband global data service is expected to drive increased demand for CDMA products. We expect to see the next generation of 1xEV-DO capable phones, external and embedded modules for laptop computers and other devices in the near term. Verizon's recent announcement of its intent to proceed with a nationwide deployment of CDMA2000 1xEV-DO has had a positive effect, and we anticipate CDMA2000 1xEV-DO usage to expand.

We are working closely with many operators and manufacturers to support rapid and reliable WCDMA (UMTS) deployment and the availability of attractive, feature rich handsets and modules. We continue to anticipate growth in WCDMA (UMTS) in calendar 2004. We expect to see WCDMA (UMTS) deployments outside of Japan and Europe.

We expect continued subscriber growth in Asia. Local number portability and 1xEV-DO services are contributing to strong CDMA handset sales in South Korea, where the 1xEV-DO subscriber base exceeded six million at the end of March 2004, based on data compiled from operator websites. In Japan, CDMA2000 and WCDMA (UMTS) networks continue to attract new subscribers and handset upgrades by existing subscribers. We anticipate additional wireless licenses will be granted in China in calendar 2005, where the Chinese government is currently evaluating and considering 3G license awards for the 2.1 GHz spectrum band. When the awards are granted, additional operators in China will be authorized to upgrade to 3G or begin deployment of CDMA based networks.

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BREW will play an increasingly important role in generating consumer demand for a broad range of applications. BREW offers operators new capabilities for their products, as well as increased data revenues. We expect additional operators to launch BREW services and increasing volume in BREW downloads.

Although we have taken action to mitigate our shortages of integrated circuits supply, the effect of such shortages has caused some customer frustration, which could negatively affect our future business. To ensure better delivery of parts and components from our suppliers, we have extended our firm orders to our suppliers. Additionally, we are working to add capacity at our existing supply base, as well as evaluating potential new suppliers to augment our needs. We expect costs of certain integrated circuit products to increase as a result of these actions.

To increase our revenues and market share, we are dependent upon the adoption and commercial deployment of 3G wireless communications equipment, products and services based on our CDMA technology. We face significant competition in our markets and expect that competition will continue, which may result in reduced average selling prices for our products and reduced average royalties.

In order to continue to develop new products to meet business opportunities, we must continue to expand our workforce of capable engineers. We expect research and development expenses to increase.

You should also refer to the Risk Factors included in this Quarterly Report for further discussion of these and other risks related to our business.

Revenue Concentrations

Revenues from customers in South Korea, the United States and Japan comprised 44%, 22% and 18%, respectively, of total consolidated revenues in the first six months of fiscal 2004 as compared to 48%, 22% and 14%, respectively, in the first six months of fiscal 2003. We distinguish revenue from external customers by geographic areas based on customer location. The increase in revenues from customers in Japan, as a percentage of the total, is primarily attributed to higher royalties from licensees in Japan resulting from the growth of CDMA and WCDMA (UMTS) in Japan as well as their success in exporting products worldwide. The decrease in revenues from customers in South Korea, as a percentage of the total, is primarily attributed to overall increases in revenues in geographic regions other than South Korea.

Developments Related to Certain Strategic Investments in the QSI Segment

Key developments in our strategic investments during the first six months of fiscal 2004 included the sale of the Vésper Operating Companies and related assets which are presented as discontinued operations, our receipt from Pegaso of prepayment of our \$193 million loan facility, and ongoing investment in Inquam.

Discontinued Operations

In fiscal 1999, we acquired ownership interests in Vésper São Paulo S.A. and Vésper S.A. (the Vésper Operating Companies). In November 2001, we consummated a series of transactions resulting in an overall financial restructuring of the Vésper Operating Companies, which resulted in our holding direct and indirect controlling ownership interests in the Vésper Operating Companies.

On December 2, 2003 (the Closing Date), Embratel Participações S.A. (Embratel) acquired our direct and indirect ownership interests in the Vésper Operating Companies (the Embratel sale transaction) for no consideration. The Vésper Operating Companies' existing communication towers and related interests in tower site property leases (Vésper Towers) were not included in the Embratel sale transaction, and as such, we effectively retained, through a new wholly-owned subsidiary (TowerCo), ownership and control of the Vésper Towers. The Vésper Towers had a net book value of approximately \$5 million at December 28, 2003. Concurrent with the closing, the Vésper Operating Companies entered into a 10-year agreement (renewable at the Vésper Operating Companies' option for up to two successive 5-year terms) whereby the Vésper Operating Companies would pay a monthly fee to us for use of aerial and ground space on the tower sites. We provided approximately \$6 million to fund operations of the Vésper Operating Companies during the first quarter of fiscal 2004 prior to their sale and additionally provided approximately \$39 million in aggregate funding to or for the benefit of the Vésper Operating Companies on or before the Closing Date to facilitate the Embratel sale transaction. Such funding enabled the Vésper Operating Companies to completely extinguish their existing local bank debt (at an agreed discount) to allow us to retain ownership of the Vésper Towers free and clear of any local bank security interest. The major classes of assets and liabilities sold in the Embratel sale transaction included: \$25 million in accounts receivable, \$5 million in inventory,

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\$24 million in other current assets, \$95 million in property, plant and equipment, \$6 million in other assets, \$52 million in accounts payable, \$5 million in payroll and other benefits related liabilities, \$6 million in unearned revenue, \$1 million in other current liabilities, \$14 million in long-term debt and \$3 million in other liabilities. We realized a net loss of \$52 million on the Embratel sale transaction during the first quarter of fiscal 2004, including a \$74 million loss on the net assets sold to Embratel and a \$46 million loss related to the recognition of cumulative foreign currency translation losses previously included in stockholders' equity, partially offset by \$68 million in gains related to the extinguishment of local bank debt and the settlement of other liabilities.

On November 19, 2002, we won bids to acquire personal mobile service (SMP) licenses in certain regions of Brazil. Approximately \$8 million of the approximate \$82 million purchase price for the SMP licenses was paid in December 2002. The remaining Brazilian real-denominated obligation was financed by the Brazilian government at an interest rate of 12% per annum, plus an adjustment for inflation. These SMP licenses were not included in the Embratel sale transaction. In December 2003, we initiated a waiver and return of the SMP licenses to Anatel, the telecommunications regulatory agency in Brazil. In February 2004, the waiver and return of the SMP licenses was approved by Anatel, and the license debt was extinguished. We realized a net gain of \$19 million as a result of the removal of the \$104 million SMP licenses and the related \$123 million debt and accrued interest during the second quarter of fiscal 2004.

On March 2, 2004, we sold TowerCo to Embratel in a separately negotiated transaction (the TowerCo sale transaction) for \$45 million in cash. TowerCo's assets were primarily comprised of \$5 million in property, plant and equipment. We realized a net gain of \$40 million on the TowerCo sale transaction during the second quarter of fiscal 2004. As a result of the disposition of the remaining operations and assets related to the Vésper Operating Companies, we determined that the results of operations and cash flows related to the Vésper Operating Companies, including the results related to TowerCo and the SMP licenses and the gains and losses realized on the Embratel and TowerCo sales transactions, should be presented as discontinued operations in our condensed consolidated statements of operations and cash flows. Our statements of operations and cash flows for all prior periods have been adjusted to present the discontinued operations.

For each of the three months and six months ended March 28, 2004, revenues of \$36 million were reported in the income (loss) from discontinued operations. For the three and six months ended March 30, 2003, revenues of \$26 million and \$55 million, respectively, were reported in the income (loss) from discontinued operations. At March 28, 2004, we had no remaining assets or liabilities related to the Vésper Operating Companies, TowerCo or the SMP licenses recorded on our condensed consolidated balance sheet.

Prepayment of the Pegaso Telecomunicaciones, S.A. de C.V. Loan Facility

We had an equipment 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 operator in Mexico (collectively referred to as Pegaso). On December 15, 2003, Pegaso prepaid \$193 million, including accrued interest, in full satisfaction of the equipment loan facility. As a result, the financing and related agreements were terminated. We recognized \$12 million in interest income related to Pegaso during the six months ended March 28, 2004, including \$10 million of deferred interest income recorded as a result of the prepayment.

Investment in Inquam Limited

We have invested \$200 million in the convertible preferred shares of Inquam Limited (Inquam) for an approximate 42% ownership interest in Inquam. Inquam owns, develops and manages wireless communications systems, either directly or indirectly, with the primary intent of deploying CDMA-based technology, primarily in Europe. Inquam is a variable interest entity. We do not consolidate Inquam because we are not the primary beneficiary. We also extended \$55 million in bridge loan financings to Inquam, which another investor agreed to match. We have funded \$55 million under these bridge loans since the third quarter of fiscal 2003 and had no remaining funding commitment at March 28, 2004. The other investor provided \$39 million under these bridge loans through April 16, 2004 and has indicated that the remaining \$16 million commitment will be funded during our third fiscal quarter. We use the equity method to account for our investment in Inquam. At March 28, 2004, our equity and debt investments in Inquam totaled \$63 million, net of equity in losses.

On July 14, 2003, we approved an additional \$50 million equity investment in Inquam, subject to certain conditions, including a matching \$50 million investment by another existing investor in Inquam. The terms of the new equity investments are currently being negotiated. No commitments related to these potential investments were in place at March 28, 2004. It is the intention of both parties that \$30 million of the bridge loans will be repaid with the proceeds from this anticipated equity investment.

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On September 22, 2003, we agreed, along with the other major investor in Inquam, to guarantee the payment of amounts due by Inquam under a bank credit agreement. Our maximum liability under the guarantee is limited to an amount equal to 50% of the amounts outstanding under Inquam's credit agreement, up to a maximum of \$10 million. The full \$20 million was outstanding under the bank credit agreement as of March 28, 2004.

On January 12, 2004, we agreed to lend up to approximately \$4 million to a party affiliated with one of the other investors in Inquam for the purpose of supporting the continued expansion of CDMA in the 450 MHz frequency band in Western Europe. We funded \$1 million of this loan during the second quarter, and the loan was repaid in full on April 16, 2004. The availability period of this loan expired on January 31, 2004, and we no longer had an obligation to fund under this agreement at March 28, 2004.

We expect that Inquam will focus its resources on the development of CDMA properties in the 450MHz frequency band in Romania and Western Europe and will transfer certain non-CDMA operations to one or more of Inquam's other shareholders. Inquam is expected to use approximately \$60 million to \$80 million in cash through the second half of calendar 2004. Inquam's management does not expect Inquam to be cash flow positive until calendar 2007 with its current business plan. We continue to evaluate our strategic alternatives with regard to our investment in and prospective involvement with Inquam. If the Inquam operating companies cannot raise debt financing as expected or new investors cannot be found, Inquam's growth potential and the value of our investment in Inquam may be negatively affected.

Second Quarter of Fiscal 2004 Compared to Second Quarter of Fiscal 2003

Revenues

Total revenues for the second quarter of fiscal 2004 were \$1,216 million, compared to \$1,017 million for the second quarter of fiscal 2003.

Revenues from sales of equipment and services for the second quarter of fiscal 2004 were \$820 million, compared to \$764 million for the second quarter of fiscal 2003. Revenues from sales of integrated circuit products increased \$57 million, resulting primarily from an increase of \$141 million related to higher unit shipments of MSM and accompanying radio frequency (RF) integrated circuits, partially offset by a decrease of \$83 million related to the effects of reductions in average sales prices and changes in product mix.

Revenues from licensing and royalty fees for the second quarter of fiscal 2004 were \$396 million, compared to \$254 million for the second quarter of fiscal 2003. The increase resulted primarily from higher QTL segment royalties, resulting primarily from an increase in phone and infrastructure equipment sales by our licensees and a \$24 million increase in the prior period variance (royalties reported in excess of estimated royalties) included in current period revenues. In the second quarter of fiscal 2004, our licensees reported CDMA phone sales for the first quarter of fiscal 2004 of approximately 37 million units, as compared to the 32 million units we had expected.

Cost of Equipment and Services

Cost of equipment and services revenues for the second quarter of fiscal 2004 was \$335 million, compared to \$341 million for the second quarter of fiscal 2003. Cost of equipment and services revenues as a percentage of equipment and services revenues was 41% for the second quarter of fiscal 2004, compared to 45% in the second quarter of fiscal 2003. The improvement in margin percentage in the second quarter of fiscal 2004 compared to the second quarter of fiscal 2003 was primarily due to an improvement in certain integrated circuit product margin percentages resulting from the effect of cost reductions, partially offset by the effects of reductions in average sales prices and changes in product mix. Cost of equipment and services revenues as a percentage of equipment and services revenues may fluctuate in future quarters depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

Research and Development Expenses

For the second quarter of fiscal 2004, research and development expenses were \$169 million or 14% of revenues, compared to \$132 million or 13% of revenues for the second quarter of fiscal 2003. The dollar and percentage increases in research and development expenses were primarily due to a \$35 million increase in costs related to integrated circuit products and corporate initiatives to support multimedia applications, high-speed wireless Internet access and multimode, multiband, multinet network products, including CDMA2000 1xEV-DO/1xEV-DV, GSM1x and WCDMA (UMTS).

Selling, General and Administrative Expenses

For the second quarter of fiscal 2004, selling, general and administrative expenses were \$138 million or 11% of revenues, compared to \$121 million or 12% of revenues for the second quarter of fiscal 2003. The dollar increase

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was primarily due to a \$14 million increase in employee related expenses and a \$7 million increase in professional fees and outside services.

Other Operating Income

For the second quarter of fiscal 2004, other operating income was \$5 million. There was no other operating income in the second quarter of fiscal 2003. Other operating income during the second quarter of fiscal 2004 resulted primarily from the transfer of a portion of an Auction Discount Voucher (ADV) awarded to us by the FCC in fiscal 2000 to a wireless operator.

Net Investment Income (Expense)

Net investment income was \$34 million for the second quarter of fiscal 2004, compared to net investment expense of \$18 million for the second quarter of fiscal 2003. The change was primarily comprised as follows (in millions):

	Three Months Ended		Change
	March 28, 2004	March 30, 2003	
Interest income:			
Corporate and other segments	\$ 44	\$ 28	\$ 16
QSI	—	6	(6)
Net realized gains on investments:			
Corporate	8	6	2
QSI	3	4	(1)
Other-than-temporary losses on marketable securities	(1)	(18)	17
Other-than-temporary losses on other investments	—	(6)	6
Change in fair values of derivative investments	1	—	1
Equity in losses of investees	(21)	(38)	17
	<u>\$ 34</u>	<u>\$ (18)</u>	<u>\$ 52</u>

The increase in interest income on cash and marketable securities held by corporate and other segments was a result of higher average cash and marketable securities balances, partially offset by the impact of lower interest rates earned on these balances, and \$7 million in interest income recorded as a result of a refund from the United States Internal Revenue Service. The decrease in QSI interest income was primarily the result of the prepayment on the Pegaso debt facility in the first quarter of fiscal 2004. The other-than-temporary losses on marketable securities during the second quarter of fiscal 2003 primarily related to a \$16 million impairment of our investment in a provider of semiconductor packaging, test and distribution services. Equity in losses of investees decreased primarily due to a decrease in losses incurred by Inquam, of which our share was \$19 million for the three months ended March 28, 2004, as compared to \$33 million for the three months ended March 30, 2003.

Income Tax Expense

Income tax expense from continuing operations was \$169 million for the second quarter of fiscal 2004, compared to \$144 million for the second quarter of fiscal 2003. The annual effective tax rate for continuing operations is estimated to be 30% for fiscal 2004, compared to the 35% estimated annual effective tax rate for continuing operations recorded during the second quarter of fiscal 2003. Our estimated effective tax rate from continuing operations for fiscal 2004 decreased from 32% in the first quarter to 30% in the second quarter, which resulted in a 28% effective tax rate for continuing operations in the second quarter of fiscal 2004. The change in the estimated rate for fiscal 2004 resulted from our forecast of our ability to utilize capital losses and higher expected foreign earnings taxed at less than the United States federal rate.

The estimated annual effective tax rate for continuing operations for fiscal 2004 is lower than the United States federal statutory rate due to a benefit related to research and development tax credits and foreign earnings taxed at less than the United States federal rate, partially offset by state taxes. The expected 2004 effective tax rate for continuing operations of 30% is lower than the actual 2003 effective tax rate for continuing operations of 34%, as anticipated foreign earnings taxed at less than the United States federal tax rate are greater in fiscal 2004, and estimated foreign and capital losses for which no tax benefit will be recorded are less than those realized for fiscal 2003, partially offset by the effect of the deduction of certain losses related to foreign

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subsidiaries in fiscal 2003. Foreign earnings taxed at less than the United States federal rate are expected to increase in fiscal 2004 due to increased foreign earnings and the adjustment of an intercompany royalty agreement.

As of March 28, 2004, we had a valuation allowance of approximately \$166 million on previously incurred capital losses due to uncertainty as to our ability to generate sufficient capital gains to utilize all capital losses. We will continue to assess the realizability of capital losses. The amount of the valuation allowance on capital losses may be adjusted in the future as our ability to utilize capital losses changes. A change in the valuation allowance may impact the provision for income taxes in the period the change occurs. We are currently considering actions that may result in our ability to utilize some of the capital losses currently reserved, which may result in a reduction of our valuation allowance and tax expense in subsequent quarters.

First Six Months of Fiscal 2004 Compared to First Six Months of Fiscal 2003

Revenues

Total revenues for the first six months of fiscal 2004 were \$2,422 million, compared to \$2,085 million for the first six months of fiscal 2003. Revenues from LG Electronics, Samsung, Motorola and Kyocera, customers of our QCT, QTL and other nonreportable segments, comprised an aggregate of 16%, 14%, 11% and 8% of total consolidated revenues, respectively, in the first six months of fiscal 2004, as compared to 13%, 18%, 12% and 10% of total consolidated revenues, respectively, in the first six months of fiscal 2003. The percentage for Kyocera in the first six months of fiscal 2003 included 2% related to services provided to Kyocera by employees from our terrestrial-based CDMA wireless consumer phone business which was sold to Kyocera in February 2000. This arrangement expired in February 2003.

Revenues from sales of equipment and services for the first six months of fiscal 2004 were \$1,673 million, compared to \$1,592 million for the first six months of fiscal 2003. Revenues from sales of integrated circuit products increased \$95 million, resulting primarily from an increase of \$247 million related to higher unit shipments of MSM and accompanying RF integrated circuits, partially offset by a decrease of \$151 million related to the effects of reductions in average sales prices and changes in product mix.

Revenues from licensing and royalty fees for the first six months of fiscal 2004 were \$750 million, compared to \$493 million for the first six months of fiscal 2003. The increase resulted from higher QTL segment royalties, resulting primarily from an increase in phone and infrastructure equipment sales by our licensees and a \$40 million increase in the prior period variance (royalties reported in excess of estimated royalties) included in current period revenues.

Cost of Equipment and Services

Cost of equipment and services revenues for the first six months of fiscal 2004 was \$705 million, compared to \$693 million for the first six months of fiscal 2003. Cost of equipment and services revenues as a percentage of equipment and services revenues was 42% for the first six months of fiscal 2004, compared to 44% in the first six months of fiscal 2003. The improvement in margin percentage in the first six months of fiscal 2004 compared to the first six months of fiscal 2003 was primarily due to an improvement in certain integrated circuit product margin percentages resulting from the effect of cost reductions, largely offset by the effects of reductions in average sales prices and changes in product mix. Cost of equipment and services revenues as a percentage of equipment and services revenues may fluctuate in future quarters depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

Research and Development

For the first six months of fiscal 2004, research and development expenses were \$319 million or 13% of revenues, compared to \$244 million or 12% of revenues for the first six months of fiscal 2003. The dollar and percentage increases in research and development expenses primarily resulted from a \$71 million increase in costs related to integrated circuit products and corporate initiatives to support multimedia applications, high-speed wireless Internet access and multimode, multiband, multinetwork products, including CDMA2000 1xEV-DO/1xEV-DV, GSM1x and WCDMA (UMTS).

Selling, General and Administrative Expenses

For the first six months of fiscal 2004, selling, general and administrative expenses were \$260 million or 11% of revenues, compared to \$238 million or 11% of revenues for the first six months of fiscal 2003. The dollar increase was primarily due to a \$25 million increase in employee related expenses and an \$8 million increase in professional fees and outside services, partially offset by a \$5 million decrease related to the wind down of Wireless Knowledge

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activities and \$5 million related to the write down of a note receivable from a development stage CDMA wireless operator in the first six months of fiscal 2003.

Other Operating Income

For the first six months of fiscal 2004, other operating income was \$11 million. There was no other operating income in the first six months of fiscal 2003. Other operating income during the first six months of fiscal 2004 resulted primarily from the transfers of portions of the ADV to a wireless operator.

Net Investment Income (Expense)

Net investment income was \$69 million for the first six months of fiscal 2004, compared to net investment expense of \$78 million for the first six months of fiscal 2003. The change was primarily comprised as follows (in millions):

	Six Months Ended		Change
	March 28, 2004	March 30, 2003	
Interest income:			
Corporate and other segments	\$ 79	\$ 54	\$ 25
QSI	12	12	—
Net realized gains on investments:			
Corporate	11	6	5
QSI	4	5	(1)
Other-than-temporary losses on marketable securities	(1)	(73)	72
Other-than-temporary losses on other investments	—	(17)	17
Change in fair values of derivative investments	1	—	1
Equity in losses of investees	(37)	(65)	28
	<u>\$ 69</u>	<u>\$ (78)</u>	<u>\$ 147</u>

The increase in interest income on cash and marketable securities held by corporate and other segments was a result of higher average cash and marketable securities balances, partially offset by the impact of lower interest rates earned on these balances. The other-than-temporary losses on marketable securities during the first six months of fiscal 2003 primarily related to a \$55 million impairment of our investment in an operator in Korea and a \$16 million impairment of our investment in a provider of semi-conductor packaging, test and distribution services. The other-than-temporary losses on other investments during the first six months of fiscal 2003 related to the impairment of our investments in two development stage CDMA wireless operators. Equity in losses of investees decreased primarily due to a decrease in losses incurred by Inquam, of which our share was \$34 million for the six months ended March 28, 2004, as compared to \$54 million for the six months ended March 30, 2003.

Income Tax Expense

Income tax expense from continuing operations was \$362 million for the first six months of fiscal 2004, compared to \$292 million from continuing operations for the first six months of fiscal 2003. The annual effective tax rate for continuing operations is estimated to be 30% for fiscal 2004, compared to the 35% annual effective tax rate for continuing operations recorded during the first six months of fiscal 2003.

The estimated annual effective tax rate for continuing operations for fiscal 2004 is lower than the United States federal statutory rate due to a benefit related to research and development tax credits and foreign earnings taxed at less than the United States federal rate, partially offset by state taxes. The expected 2004 effective tax rate for continuing operations of 30% is lower than the actual 2003 effective tax rate for continuing operations of 34%, as anticipated foreign earnings taxed at less than the United States federal tax rate are greater in fiscal 2004, and estimated capital losses for which no tax benefit will be recorded are less than those realized for fiscal 2003, partially offset by the effect of the deduction of certain losses related to foreign subsidiaries in fiscal 2003. Foreign earnings taxed at less than the United States federal rate are expected to increase in fiscal 2004 due to increased foreign earnings and the adjustment of an intercompany royalty agreement.

As of March 28, 2004, we had a valuation allowance of approximately \$166 million on previously incurred capital losses due to uncertainty as to our ability to generate sufficient capital gains to utilize all capital losses. We will continue to assess the realizability of capital losses. The amount of the valuation allowance on capital losses may

be adjusted in the future as our ability to utilize capital losses changes. A change in the valuation allowance may impact the provision for income taxes in the period the change occurs. We are currently considering actions that may result in our ability to utilize some of the capital loss currently reserved, which may result in a reduction of our valuation allowance and tax expense in subsequent quarters.

Our Segment Results for the Second Quarter of Fiscal 2004 Compared to the Second Quarter of Fiscal 2003

The following should be read in conjunction with the second quarter financial results of fiscal 2003 for each reporting segment. See “Notes to Condensed Consolidated Financial Statements — Note 8 — Segment Information.”

QCT Segment. QCT revenues for the second quarter of fiscal 2004 were \$711 million, compared to \$647 million for the second quarter of fiscal 2003. Equipment and services revenues, primarily from MSM and accompanying RF integrated circuits, were \$696 million for the second quarter of fiscal 2004, compared to \$639 million for the second quarter of fiscal 2003. The increase in MSM and accompanying RF integrated circuits revenue was comprised of \$141 million related to higher unit shipments, partially offset by a decrease of \$83 million related to the effects of reductions in average sales prices and changes in product mix. Approximately 32 million MSM integrated circuits were sold during the second quarter of fiscal 2004, compared to approximately 28 million for the second quarter of fiscal 2003.

QCT’s earnings before taxes for the second quarter of fiscal 2004 were \$258 million, compared to \$222 million for the second quarter of fiscal 2003. QCT’s operating income as a percentage of its revenues (operating margin percentage) was 36% in the second quarter of fiscal 2004, compared to 34% in the second quarter of fiscal 2003. The increase in operating margin percentage in the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003 primarily resulted from the increase in gross margin percentage, partially offset by a 26% increase in research and development and selling, general and administrative expenses. Research and development and selling, general and administrative expenses were \$26 million higher and \$6 million higher, respectively, for the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003 primarily associated with increased investment in new integrated circuit products and technology initiatives to support multimedia applications, high-speed wireless Internet access and multiband, multimode, multinet network products including CDMA2000 1xEV-DO/1xEV-DV, GSM1x and WCDMA (UMTS).

QTL Segment. QTL revenues for the second quarter of fiscal 2004 were \$390 million, compared to \$260 million for the second quarter of fiscal 2003. Royalty revenues from licensees were \$345 million in the second quarter of fiscal 2004, compared to \$217 million in the second quarter of fiscal 2003. Revenues from license fees were \$15 million in the second quarter of both fiscal 2004 and 2003. Other revenues were comprised of intersegment royalties. During the second quarter of both fiscal 2004 and 2003, we recognized \$1 million in revenue related to equity received as consideration for license fees.

We earn royalties on CDMA products sold worldwide by our licensees in the period that the licensees’ sales occur. Our licensees, however, do not report and pay royalties owed until the subsequent quarter and, in some instances, payment is on a semi-annual basis. Therefore, we estimate the royalty revenues from certain licensees (the Estimated Licensees) in the current quarter when reliable estimates of such amounts can be made. Not all royalties earned are estimated. Once royalty reports are received from the Estimated Licensees, the variance between such reports and the estimate is recorded in royalty revenue in the period the reports are received. The recognition of this variance in most cases lags the royalty estimate by one quarter. Given our historical position in CDMA, we believe that we have the ability to reliably estimate royalty revenues. As the CDMA market further develops and diversifies, our ability to forecast may decrease, and if so, we may no longer be able to reliably estimate and may change our accounting policy to record royalties as revenue when they are reported by our licensees.

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The following table summarizes royalty related data (in millions):

	Three Months Ended	
	March 28, 2004	March 30, 2003
Components of royalty revenues		
Prior period estimate	\$ 205	\$ 175
Royalties reported in current period related to prior period estimate	262	208
Prior period variance included in current period revenues	57	33
Other royalties reported in current period	51	29
Current period estimate	237	155
Total current period royalty revenues from licensees	\$ 345	\$ 217

For the three months ended March 28, 2004, we estimated royalties of \$205 million from the Estimated Licensees for the first quarter of fiscal 2004. The actual royalties reported to us by the Estimated Licensees, on a one quarter lag basis, during the three months ended March 28, 2004 were \$262 million. The variance of \$57 million recorded in royalty revenues in the second quarter of fiscal 2004 was attributable to greater phone sales at slightly higher average prices by our Estimated Licensees than we had anticipated. To achieve these phone unit volumes, we believe that our Estimated Licensees reduced their inventories below historical levels in our first fiscal quarter. Total royalty revenues from licensees for the three months ended March 28, 2004 of \$345 million included: 1) the prior period variance of \$57 million, 2) other royalties reported in this period of \$51 million, and 3) the estimate made for this quarter of \$237 million based upon Estimated Licensees' estimated sales during this quarter, which we believe will be reported by the Estimated Licensees in the third quarter of fiscal 2004.

QTL's earnings before taxes for the second quarter of fiscal 2004 were \$362 million, compared to \$236 million for the second quarter of fiscal 2003. QTL's operating margin percentage was 93% in the second quarter of fiscal 2004, compared to 91% in the second quarter of fiscal 2003. The increase in both 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. In the second quarter of fiscal 2004, our licensees reported CDMA phone sales for the first quarter of fiscal 2004 of approximately 37 million units, compared to 27 million units reported in the second quarter of fiscal 2003.

QWI Segment. QWI revenues for the second quarter of fiscal 2004 were \$145 million, compared with \$127 million for the second quarter of fiscal 2003. Revenues increased primarily due to a \$13 million increase in QWBS revenue and an \$11 million increase in QIS revenue, partially offset by a \$5 million decrease in QDM revenue. As a result of the adoption of Emerging Issues Task Force Issue No. 00-21 (EITF 00-21) in the fourth quarter of fiscal 2003, QWBS started recording revenue for certain equipment sales upon shipment instead of amortizing the related revenue over a future period. The amortization of QWBS equipment revenue that was deferred in the periods prior to the adoption of EITF 00-21 will continue with a declining impact through 2008. QWBS amortized \$20 million in revenue related to such prior period equipment sales in the second quarter of fiscal 2004, compared to \$24 million in the second quarter of fiscal 2003. The net increase in QWBS revenue is primarily attributed to revenue recognized in the second quarter of fiscal 2004 that would have been deferred and amortized in prior periods. QWBS shipped approximately 11,200 OmniTRACS and other related communications systems during the second quarter of fiscal 2004, compared to approximately 8,400 in the second quarter of fiscal 2003. The increase in QIS revenue is primarily attributable to an increase in software fees related to our BREW products. The decrease in QDM revenue resulted from the timing of a development services contract with the United States government.

QWI's earnings before taxes for the second quarter of fiscal 2004 were \$4 million, compared to \$9 million for the second quarter of fiscal 2003. QWI's operating margin percentage was 3% in the second quarter of fiscal 2004, compared to 7% in the second quarter of fiscal 2003. The decrease in QWI earnings before taxes was primarily due to a \$4 million increase in QWI research and development spending. The decrease in QWI's operating margin percentage in the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003 was primarily related to a decline in QWBS gross margin percentage, partially offset by an improvement in QIS gross margin percentage. The decline in QWBS gross margin percentage in the second quarter of fiscal 2004 compared to the second quarter of fiscal 2003 is primarily attributable to an increase in equipment sales, with margins lower than the margins on messaging services, as a percentage of total revenue. During the second quarter of fiscal 2004, QWBS began the process of moving high volume, standard product manufacturing to Mexico. The low volume, prototype and new product manufacturing activities will remain in San Diego. The move is anticipated to be completed by the

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third quarter of fiscal 2005. QWBS may incur additional costs as a result of this move. The improvement in QIS gross margin percentage is primarily due to the increase in software fees related to our BREW products.

QSI Segment. QSI's losses before taxes from continuing operations for the second quarter of fiscal 2004 were \$15 million, compared to \$59 million for the second quarter of fiscal 2003. Equity in losses of investees decreased by \$18 million primarily due to a decrease in losses incurred by Inquam during the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003, of which our share was \$19 million for the three months ended March 28, 2004, as compared to \$33 million for the three months ended March 30, 2003. During the second quarter of fiscal 2003, we recorded \$24 million in other-than-temporary losses on investments.

Our Segment Results for the First Six Months of Fiscal 2004 Compared to the First Six Months of Fiscal 2003

The following should be read in conjunction with the first six months financial results of fiscal 2003 for each reporting segment. See "Notes to Condensed Consolidated Financial Statements — Note 8 — Segment Information."

QCT Segment. QCT revenues for the first six months of fiscal 2004 were \$1,460 million, compared to \$1,351 million for the first six months of fiscal 2003. Equipment and services revenues, primarily from MSM and accompanying RF integrated circuits, were \$1,433 million for the first six months of fiscal 2004, compared to \$1,338 million for the first six months of fiscal 2003. The increase in MSM and accompanying RF integrated circuits revenue was comprised of \$247 million related to higher unit shipments, partially offset by a decrease of \$151 million related to the effects of reductions in average sales prices and changes in product mix. Approximately 64 million MSM integrated circuits were sold during the first six months of fiscal 2004, compared to approximately 56 million for the first six months of fiscal 2003.

QCT's earnings before taxes for the first six months of fiscal 2004 were \$518 million, compared to \$508 million for the first six months of fiscal 2003. QCT's operating income as a percentage of its revenues (operating margin percentage) was 36% in the first six months of fiscal 2004, compared to 38% in the first six months of fiscal 2003. The decrease in operating margin percentage in the first six months of fiscal 2004 as compared to the first six months of fiscal 2003 primarily resulted from a 31% increase in research and development and selling, general and administrative expenses. Research and development and selling, general and administrative expenses were \$57 million higher and \$16 million higher, respectively, for the first six months of fiscal 2004 as compared to the first six months of fiscal 2003 primarily associated with increased investment in new integrated circuit products and technology initiatives to support multimedia applications, high-speed wireless Internet access and multiband, multimode, multinetwork products including CDMA2000 1xEV-DO/1xEV-DV, GSM1x and WCDMA (UMTS).

QTL Segment. QTL revenues for the first six months of fiscal 2004 were \$744 million, compared to \$516 million for the first six months of fiscal 2003. Royalty revenues from licensees were \$652 million in the first six months of fiscal 2004, compared to \$428 million in the first six months of fiscal 2003. Revenues from license fees were \$30 million in the first six months of fiscal 2004, compared to \$29 million in the first six months of fiscal 2003. Other revenues were comprised of intersegment royalties. During the first six months of fiscal 2004 and 2003, we recognized \$2 million and \$3 million in revenue, respectively, related to equity received as consideration for license fees.

The following table summarizes royalty related data (in millions):

	Six Months Ended	
	March 28, 2004	March 30, 2003
Components of royalty revenues		
Prior period estimate	\$ 151	\$ 150
Royalties reported in current period related to prior period estimate	208	167
Prior period variance included in current period revenues	57	17
Other royalties reported in current period	358	256
Current period estimate	237	155
Total current period royalty revenues from licensees	\$ 652	\$ 428

For the six months ended March 28, 2004, we estimated royalties of \$151 million from the Estimated Licensees for the fourth quarter of fiscal 2003. The actual royalties reported to us by the Estimated Licensees, on a one quarter

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lag basis, during the three months ended December 28, 2003 were \$208 million. The variance of \$57 million recorded in royalty revenues in the first quarter of fiscal 2004 was primarily attributable to greater phone sales at higher average prices by our Estimated Licensees than we had anticipated. To achieve these phone unit volumes, we believe that our Estimated Licensees reduced their inventories below historical levels in our fourth fiscal quarter. Total royalty revenues from licensees for the six months ended March 28, 2004 of \$652 million included: 1) the prior period variance of \$57 million, 2) other royalties reported in this period of \$358 million, and 3) the estimate made for this quarter of \$237 million based upon Estimated Licensees' estimated sales during this quarter, which we believe will be reported by the Estimated Licensees in the third quarter of fiscal 2004.

QTL's earnings before taxes for the first six months of fiscal 2004 were \$686 million, compared to \$466 million for the first six months of fiscal 2003. QTL's operating margin percentage was 92% in the first six months of fiscal 2004, compared to 90% in the first six months of fiscal 2003. The increase in both 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.

QWI Segment. QWI revenues for the first six months of fiscal 2004 were \$283 million, compared with \$244 million for the first six months of fiscal 2003. Revenues increased primarily due to a \$29 million increase in QWBS revenue and a \$9 million increase in QIS revenue. As a result of the adoption of EITF 00-21 in the fourth quarter of fiscal 2003, QWBS started recording revenue for certain equipment sales upon shipment instead of amortizing the related revenue over a future period. The amortization of QWBS equipment revenue that was deferred in the periods prior to the adoption of EITF 00-21 will continue with a declining impact through 2008. QWBS amortized \$41 million in revenue related to such prior period equipment sales in the first six months of fiscal 2004, compared to \$49 million in the first six months of fiscal 2003. The net increase in QWBS revenue is primarily attributed to revenue recognized in the first six months of fiscal 2004 that would have been deferred and amortized in prior periods. QWBS shipped approximately 22,300 OmniTRACS and other related communications systems during the first six months of fiscal 2004, compared to approximately 19,000 in the first six months of fiscal 2003. The increase in QIS revenue is primarily attributable to an increase in software fees related to our BREW products.

QWI's earnings before taxes for the first six months of fiscal 2004 were \$10 million, compared to \$14 million for the first six months of fiscal 2003. QWI's operating margin percentage was 4% in the first six months of fiscal 2004, compared to 6% in the first six months of fiscal 2003. The decrease in QWI earnings before taxes was primarily due to a \$12 million increase in QWI research and development and selling, general and administrative expenses, partially offset by a \$7 million increase in QIS gross margin primarily due to the increase in software fees related to our BREW products. The decrease in QWI's operating margin percentage in the first six months of fiscal 2004 as compared to the first six months of fiscal 2003 was primarily related to a decline in QWBS gross margin percentage and a 24% increase in research and development expenses. The decline in QWBS gross margin percentage in the second quarter of fiscal 2004 compared to the second quarter of fiscal 2003 is primarily attributable to an increase in equipment sales, with margins lower than the margins on messaging services, as a percent of total QWBS revenue.

QSI Segment. QSI's losses before taxes from continuing operations for the first six months of fiscal 2004 were \$19 million, compared to \$157 million for the first six months of fiscal 2003. Equity in losses of investees decreased by \$29 million primarily due to a decrease in losses incurred by Inquam during the first six months of fiscal 2004, as compared to the same period in fiscal 2003, of which our share was \$34 million for the six months ended March 28, 2004, as compared to \$54 million for the six months ended March 30, 2003. During the first six months of fiscal 2003, we recorded \$90 million in other-than-temporary losses on investments.

Liquidity and Capital Resources

Cash and cash equivalents and marketable securities were \$6.6 billion at March 28, 2004, an increase of \$1.3 billion from September 28, 2003. The increase was primarily the result of \$1.2 billion in cash provided by operating activities, \$194 million in net collections on finance receivables, mainly comprised of the prepayment from Pegaso, and \$132 million in net proceeds from the issuance of common stock under our stock option and employee stock purchase plans, partially offset by \$118 million in capital expenditures, \$113 million in dividend payments, \$50 million invested in other entities and acquisitions, including the Alcatel acquisition, and \$28 million in bridge loans to Inquam.

Accounts receivable decreased by 9% during the second quarter of fiscal 2004. The decrease in accounts receivable was primarily due to consistent revenues compared to the prior quarter and increased cash receipts for royalty receivables. Days sales outstanding on a consolidated basis were 44 days at March 28, 2004 compared to 46

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days at December 28, 2003. The change in days sales outstanding reflects an increase in cash receipts while sales remained consistent with the previous quarter.

In February 2003, we authorized the investment of up to \$1 billion to repurchase shares of our common stock over a two year period. While we did not repurchase any of our common stock during the six months ended March 28, 2004, we continue to evaluate repurchases under this program. At March 28, 2004, \$834 million remains authorized for repurchases under the program. In connection with our stock repurchase program, we sold put options during the three months ended March 28, 2004 that may require us to purchase 3,000,000 shares of our common stock upon exercise. We recorded \$5 million in premiums received for the put options as additions to other current liabilities. We did not repurchase any shares under the put options during the three months ended March 28, 2004. On March 2, 2004, the Company announced a cash dividend of \$0.10 per share on the Company's common stock, payable on June 25, 2004 to stockholders of record as of the close of business on May 28, 2004.

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 agreements with Ericsson, other commitments, the payment of dividends and possible additional stock repurchases. In fiscal 2003, we began design and construction on two new facilities in San Diego, California totaling one million square feet to meet the requirements projected in our business plan. The remaining cost of these new facilities is expected to approximate \$234 million through 2007.

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. 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.

On July 14, 2003, we approved an additional \$50 million investment in Inquam, subject to certain conditions, including a matching \$50 million investment by another existing investor in Inquam. We are currently negotiating the terms and conditions of the investment agreement. No commitments related to these potential investments were in place at March 28, 2004. We provided \$55 million in bridge loan funding from the third quarter of fiscal 2003 through March 28, 2004, and we expect \$30 million of the bridge loans will be repaid with the proceeds from this anticipated equity investment.

Contractual Obligations

We have no significant contractual obligations not fully recorded on our Consolidated Condensed Balance Sheets or fully disclosed in the Notes to our Condensed Consolidated Financial Statements. We have no off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

At March 28, 2004, our outstanding contractual obligations included (in millions):

	Contractual Obligations Payments Due By Period					No Expiration Date
	Total	Remainder of Fiscal 2004	Fiscal 2005-2006	Fiscal 2007-2008	Beyond Fiscal 2008	
Long-term financing under Ericsson arrangement ⁽¹⁾	\$ 118	\$ —	\$ —	\$ —	\$ —	\$ 118
Purchase obligations	776	602	168	4	2	—
Operating leases	106	24	63	19	—	—
Equity investments ⁽¹⁾	28	—	—	—	—	28
Inquam guarantee	10	10	—	—	—	—
Other commitments	1	1	—	—	—	—
Total commitments	1,039	637	231	23	2	146
Other long-term liabilities ⁽²⁾	78	—	1	17	—	60
Total recorded liabilities	78	—	1	17	—	60
Total	\$1,117	\$ 637	\$ 232	\$ 40	\$ 2	\$ 206

(1) The majority of these commitments do not have fixed funding dates. Amounts are presented based on the expiration of the commitment, but actual funding may occur earlier or not at all as funding is subject to certain conditions. Commitments represent the maximum amounts to be financed or funded under these arrangements; actual financing or funding may be in lesser amounts.

(2) Certain long-term liabilities reflected on our balance sheet, such as unearned revenue, are not presented in this table because they do not require cash settlement in the future.

Additional information regarding our financial commitments at March 28, 2004 is provided in the Notes to our Condensed Consolidated Financial Statements. See “Notes to Condensed Consolidated Financial Statements, Note 2 — Composition of Certain Financial Statement Items, Finance Receivables, Note 3 — Investments in Other Entities and Note 7 — Commitments and Contingencies.”

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 28, 2003, including our financial statements and the related notes.

Risks Related to Our Businesses

If CDMA technology is not widely deployed, our revenues may not grow as anticipated.

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 deployed 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 operators 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 commercial deployment of third generation (3G) wireless communications equipment, products and services based on our CDMA technology. Although network operators have commercially deployed CDMA2000 1X, we cannot predict the timing or success of further commercial deployments of CDMA2000 1X, WCDMA (UMTS) or other CDMA systems. If existing deployments are not commercially successful, or if new commercial deployments of CDMA2000 1X, WCDMA (UMTS) or other CDMA systems are delayed or unsuccessful, our business and financial results may be harmed. In addition, our business could be harmed if network operators deploy competing technologies or switch existing networks from CDMA to GSM or if network operators introduce new technologies.

Our business and the deployment of CDMA technology are dependent on the success of our customers and licensees. Our customers and licensees may incur lower operating margins on CDMA-based products than on products using alternative technologies due to greater competition in the CDMA-based market, lack of product improvements or other factors. If CDMA handset and/or infrastructure manufacturers exit the CDMA market, the deployment of CDMA technology could be negatively affected, and our business could suffer.

Our four largest customers as of March 28, 2004 accounted for 48% and 53%, of consolidated revenues in the first six months of fiscal 2004 and 2003, respectively, and 53% and 50% of consolidated revenues in fiscal 2003 and 2002, respectively. The loss of any one of our major customers or any reduction in the demand for devices utilizing our CDMA technology could reduce our revenues and harm our ability to achieve or sustain acceptable levels of operating results.

QCT Segment

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 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;
- the success of these customers' products that incorporate our products;
- shortages of key products and components;
- fluctuations in channel inventory levels;
- the success of products sold to our customers by licensed competitors;

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- the rate of deployment of new technology by the network operators and the rate of adoption of new technology by the end consumers;
- the extent to which certain customers successfully develop and produce CDMA-based integrated circuits and system software to meet their own needs;
- general economic conditions;
- changes in governmental regulations in countries where we or our customers currently operate or plan to operate; and
- widespread illness.

QTL Segment

Our QTL segment derives royalty revenues from sales of CDMA products 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, introduce and deliver high volume products that achieve and sustain market acceptance. We have little or no control over the sales efforts of our licensees, and we cannot assure you that our licensees will be successful or that the demand for wireless communications devices and services offered by our licensees will continue to increase. Any reduction in the demand for or any delay in the development, introduction or delivery of wireless communications devices utilizing our CDMA technology could have a material adverse effect on our business. Weakness in the value of foreign currencies in which our customers' products are sold may reduce the amount of royalties payable to us in U.S. dollars.

QWI Segment

Our QIS division derives revenues primarily from software fees related to our BREW products, a QChat licensing agreement with Nextel and licensing revenues related to our QPoint product. We derive a significant portion of our QIS revenue from network operators offering BREW services. The future success of our QIS division depends in part upon the ability of network operators, wireless device manufacturers and developers to continue the momentum in wireless data and sustain market acceptance for quality wireless applications and services. We cannot assure you that they will be successful or will not build or buy similar capacity such that they no longer require BREW services. We also cannot assure you that the demand for BREW services will continue to increase. Any reduction in the demand for these services could have a material adverse effect on our business.

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

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

Consolidated revenues from international customers as a percentage of total revenues were 78% in the first six months of both fiscal 2004 and 2003, and 77% and 69% in fiscal 2003 and 2002, respectively. Because most of our foreign sales are denominated in U.S. dollars, our products and those of our customers and licensees that are sold in U.S. dollars become less price-competitive in international markets if the value of the U.S. dollar increases relative to foreign currencies.

In many international markets, barriers to entry are created by long-standing relationships between our potential customers and their local 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 succeed in significant foreign markets, such as China or India;

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- cultural differences in the conduct of business;
- difficulty in attracting qualified personnel and managing foreign activities;
- recessions in economies outside the United States;
- longer payment cycles for and greater difficulties collecting accounts receivable;
- export controls, tariffs and other trade protection measures;
- fluctuations in currency exchange rates;
- inflation and deflation;
- nationalization, expropriation and limitations on repatriation of cash;
- social, economic and political instability;
- natural disasters, acts of terrorism, widespread illness and war;
- taxation; and
- changes in laws and policies affecting trade, foreign 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. Declines in currency values in selected regions may adversely affect our operating results because our products and those of our customers and licensees may become more expensive to purchase in the countries of the affected currencies. During the first six months of fiscal 2004, 44% and 18% of our revenues were from customers and licensees based in South Korea and Japan, respectively, as compared to 48% and 14%, respectively, during the first six months of fiscal 2003. During fiscal 2003, 45% and 15% of our revenues were from customers and licensees based in South Korea and Japan, respectively, as compared to 39% and 18% during fiscal 2002. 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.

The wireless markets in China and India represent growth opportunities for us. In January 2002, China Unicom launched its nationwide CDMA network, and China Unicom had over 20 million CDMA subscribers at the end of February 2004. In May 2003, Reliance Infocomm launched its nationwide CDMA network in India, and Reliance Infocomm had nearly seven million subscribers at the end of March 2004. If China Unicom or Reliance Infocomm or the governments of China or India make technology deployment or other decisions that result in actions that are adverse to the expansion of CDMA technologies in China or India, our business could be harmed.

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

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

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

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

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- Assets or liabilities of our consolidated subsidiaries and our foreign investees that are not denominated in the functional currency of those entities are subject to the effects of currency fluctuations, which may affect our reported earnings. Our exposure to foreign currencies may increase as we expand into new markets.
- Investments in our consolidated foreign subsidiaries and in other foreign entities that use the local currency as the functional currency may decline in value as a result of declines in local currency values.
- Our trade receivables are generally United States dollar denominated. Any significant increase in the value of the dollar against our customers' or licensees' functional currencies could result in an increase in our customers' or licensees' cash flow requirements and could consequently affect our ability to collect receivables.
- Foreign CDMA wireless operators to whom we have provided financing may be unable to pay their debts to us, which are denominated in U.S. dollars, from revenues generated by their projects, which are denominated in local currencies.
- Strengthening of currency values in selected regions may adversely affect our operating results because the activities of our foreign subsidiaries may become more expensive in U.S. dollars.
- Strengthening of currency values in selected regions may adversely affect our cash flows and investment results because strategic investment obligations denominated in foreign currencies may become more expensive, and the U.S. dollar cost of equity in losses of foreign investees may increase.
- Foreign exchange hedging transactions could affect our cash flows and earnings because they may require the payment of structuring fees and they may limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies.

We depend upon a limited number of third party manufacturers to provide subassemblies and parts for 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.

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. A reduction or interruption in component supply, an inability of our foundry partners to react to rapid shifts in demand or a significant increase in component prices could have a material adverse effect on our business or profitability. Component shortages could adversely affect our ability and that of our customers and licensees to ship products on a timely basis and 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. Additionally, failure to meet customer demand in a timely manner could damage our reputation and harm our customer relationships potentially resulting in reduced market share.

QCT Segment

We subcontract all of the 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, Taiwan Semiconductor Manufacturing Co. and United Microelectronics are the primary foundry partners for our family of baseband integrated circuits. IBM, Motorola and Texas Instruments are the primary foundry partners for our family of radio frequency and analog 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 typically 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 recently experienced supply constraints which resulted in our inability to meet certain customer demands. To ensure better delivery of parts and components from our suppliers, we have extended our firm orders to our suppliers. Additionally, we are working to add capacity at our existing supply base, as well as evaluating potential new suppliers to augment our needs. We expect costs of certain integrated circuit products to increase as a result of these actions. To the extent that our firm commitments from our manufacturers are insufficient to meet demand over a specific time period or in any specific quantity, our manufacturers may allocate, and in the past have allocated, capacity to the production of other products while reducing deliveries to us on short notice.

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

QWI Segment

Several of the critical subassemblies and parts used in our QWBS division's 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, OmniExpress and GlobalTRACS products. These third parties include companies such as Tyco International (M/A Com), Rakon, Mini-Circuits, Cambridge Tool & Mfg., Andrew Corporation, American Design, Deutsch ECD, PCI Limited, KeyTronic EMS, Seavey Engineering Associates, Symbol Technologies, Navman NZ, Thomson-Airpax Mechatronics, Eagle-Picher Industries, Sony/Ericsson and Sharp Corporation. Our reliance on sole or limited source vendors involves 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.

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

We have provided significant funding to CDMA wireless operators to promote the worldwide adoption of CDMA products and services. Due to financial and competitive challenges facing CDMA wireless operators, we cannot assure you that our investments will generate financial returns or that they will result in increased adoption or continued use of CDMA technologies. Domestic and international CDMA wireless operators to whom we have provided financing have limited operating histories, are faced with significant capital requirements, are highly leveraged and/or have limited financial resources. If these CDMA wireless operators are not successful, we may have to write down our investments in or loans to these wireless operators. Certain wireless operators 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 write-downs or 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 wireless operators that we finance. These spectrum licenses initially may constitute the primary asset of the wireless operators. The amount of financing that we have provided and that we could provide in the future is substantial. If we are unable to recover our investments in or loans to these CDMA wireless operators, our financial condition may be harmed. See "Notes to Condensed Consolidated Financial Statements, Note 2 — Composition of Certain Financial Statement Items, Marketable Securities and Finance Receivables and Note 3 — Investments in Other Entities."

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 engage in strategic transactions 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 global adoption of CDMA and the use of the wireless Internet. 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.

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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 may impair stockholder value or otherwise adversely affect our business and the trading price of our stock. Any such transaction may require us to incur non-recurring or other charges and/or to consolidate or record our equity in losses and may pose significant integration challenges and/or management and business disruptions, any of which could harm our operating results and business.

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

Our 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 and services are responsible for 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 customer or licensee demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain acceptable levels of profitability. We and our customers or licensees may also 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. Resolving any defect or failure related issues could consume financial and/or engineering resources that could affect future product release schedules.

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

Global economic weakness can have wide-ranging effects on markets that we serve, particularly wireless communications equipment manufacturers and network operators. The wireless communications industry recently appears to be recovering from an industry-wide recession. We cannot predict whether a recovery will continue, the rate of any such recovery, or what effects negative events, such as war, may have on the economy or on phone inventories at CDMA equipment manufacturers and operators. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the global economy and to the wireless communications industry and create further uncertainties. Further, an economic recovery may not benefit us in the near term. If it does not, our ability to increase or maintain our revenues and operating results may be impaired. In addition, because we intend to continue to make significant investments in research and development and to maintain extensive ongoing customer service and support capability, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

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

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

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

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- system cost; and
- customer support.

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

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, NEC, Nortel, VIA Telecom, Samsung, Matsushita and Siemens, all of which are also our licensees with the exception of Intel. With respect to our OmniTRACS, TruckMAIL, OmniExpress, GlobalTRACS, QConnect, OmniOne, EutelTRACS and LINQ 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. Similarly, some original equipment manufacturers of trucks and truck components are beginning to offer built-in, on-board communications and position location reporting systems that may impact our margins and intensify competition in our current and new markets. Some potential competitors of our QWBS business, if they are successful, may harm our ability to compete in certain markets.

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

- longer operating histories and presence in key markets;
- greater name recognition;
- motivation by our customers in certain circumstances to find alternate suppliers;
- access to larger customer bases; and
- greater sales and marketing, manufacturing, distribution, technical and other resources than we have.

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

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.

Our future operating results will be affected by many factors, including, but not limited to: our ability to retain existing or secure anticipated customers or licensees, both domestically and internationally; our ability to develop, introduce and market new technology, products and services on a timely basis; management of inventory by us and our customers and their customers in response to shifts in market demand; changes in the mix of technology and products developed, licensed, produced and sold; seasonal customer demand; and other factors described elsewhere in this report and in these risk factors.

These factors affecting our future operating results are difficult to forecast and could harm our quarterly or annual operating results. If our operating results fail to meet the financial guidance we provide to investors or the

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expectations of investment analysts or investors in any period, securities class action litigation could be brought against us and/or the market price of our common stock could decline.

Our stock price is volatile.

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

- announcements concerning us or our competitors, including the selection of wireless communications technology by wireless operators and the timing of the roll-out of those systems;
- receipt of substantial orders or order cancellations for integrated circuits and system software products;
- quality deficiencies in services or products;
- announcements regarding financial developments or technological innovations;
- international developments, such as technology mandates, political developments or changes in economic policies;
- lack of capital to invest in 3G networks;
- new commercial products;
- changes in recommendations of securities analysts;
- government regulations, including stock option accounting and tax regulations;
- energy blackouts;
- acts of terrorism and war;
- inflation and deflation;
- widespread illness;
- 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.

From time to time, we may repurchase our common stock at prices that may later be higher than the fair market value of the stock. This could result in a loss of value for stockholders if the shares were reissued at lower prices.

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. In addition, stock volatility may be precipitated by failure to meet earnings expectations or other factors, such as the potential uncertainty in future reported earnings created by the adoption of option expensing and the related valuation models used to determine such expense.

Our industry is subject to rapid technological change, and we must keep pace to successfully compete.

New technological innovations generally require a substantial investment before they are commercially viable. We intend to continue to make substantial investments in developing new products and technologies, and it is possible that our development efforts will not be successful and that our new technologies will not result in meaningful revenues. In particular, we intend to continue to invest significant resources in developing integrated circuit products to support high-speed wireless Internet access and multimode, multiband, multinet network operation including CDMA2000 1xEV-DO/1xEV-DV, GSM1x, WCDMA (UMTS) and multimedia applications which encompass development of graphical display, camera and video capabilities, as well as higher computational

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capability and lower power on-chip computers and signal processors. We will also continue our significant development efforts with respect to our BREW applications development platform, providing applications developers with an open standard platform for wireless devices on which to develop their products. An open standard platform means that BREW can be made to interface with many software applications, including those developed by others. We cannot assure you that the revenues generated from these products will meet our expectations.

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.

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, demand for our products and our customers' and licensees' products that use our technology could decrease, and our competitive position could be damaged.

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 other technologies and products. Litigation may be required to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our proprietary rights or incur substantial unexpected operating costs. Any action we take to 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 other companies 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 against products using 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 of our products 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 our products is enhanced and overlaps with the products of other companies, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. Any claims, with or without merit, could be time consuming, result in costly litigation, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have a material adverse effect upon our operating results. In any

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potential dispute involving our patents or other intellectual property, our licensees could also become the targets of litigation. Any such litigation could severely disrupt the business of our licensees, which in turn could hurt our relations with our licensees and cause our revenues to decrease.

A number of other companies have claimed to own patents essential to various 3G CDMA standards. If we or other product manufacturers are required to obtain additional licenses and/or pay royalties to one or more patent holders, this could have a material adverse effect on the commercial implementation of our CDMA products and technologies and our profitability.

Other companies or entities also may commence actions seeking to establish the invalidity of our patents. In the event that one or more of our patents are challenged, a court may invalidate the patent or determine that the patent is not enforceable, which could harm our competitive position. If any of our key patents are invalidated, or if the scope of the claims in any of these patents is limited by court decision, we could be prevented from licensing the invalidated or limited portion of 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 such a patent challenge is not successful, it could be expensive and time consuming, divert management attention from our business and harm our reputation.

Potential tax liabilities could adversely affect our results.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. In such case, a material effect on our income tax provision and net income in the period or periods in which that determination is made could result.

The high amount of capital required to obtain radio frequency licenses and deploy and expand wireless networks 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, wireless operators must obtain rights to use specific radio frequencies. The allocation of frequencies is regulated in the United States and other countries throughout the world and limited spectrum space is allocated to wireless communications services. Industry growth may be affected by the amount of capital required to: obtain licenses to use new frequencies; deploy wireless networks to offer voice and data services; and expand wireless networks to grow voice and data services. Over the last several years, the amount paid for spectrum licenses has increased significantly, particularly for frequencies used in connection with 3G technology. In addition, litigation and disputes involving prior and future spectrum auctions has delayed the expansion of wireless networks in the United States and elsewhere, and it is possible that this delay could continue for a significant amount of time. The significant cost of licenses and wireless networks, and delays associated with disputes over new licenses, may slow the growth of the industry if wireless operators are unable to obtain or service the additional capital necessary to implement 3G wireless networks. Our growth could be adversely affected if this occurs.

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 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.

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

Concerns over the effects of radio frequency emissions, even if unfounded, may have the effect of discouraging the use of wireless phones, which would decrease demand for our products and those of our licensees and customers.

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In recent years, the FCC and foreign regulatory agencies have updated the guidelines and methods they use for evaluating radio frequency emissions from radio equipment, including wireless phones. In addition, interest groups have requested that the FCC investigate claims that wireless communications technologies pose health concerns and cause interference with airbags, hearing aids and medical devices. There also may be some safety risks due to a lack of attention associated with the use of wireless phones 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 depends on the availability of satellite and other networks for our OmniTRACS, EutelTRACS, OmniExpress, LINQ, GlobalTRACS, QConnect and OmniOne systems and other communications products.

Our OmniTRACS system currently operates 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 and includes transponder and satellite protection (back-up capacity in the event of a transponder or satellite failure). Based on system capacity analysis, we believe that the United States OmniTRACS operations will not require additional transponder capacity through 2004. We believe that in the event additional transponder capacity would be required in fiscal 2004 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, GlobalTRACS, QConnect 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 system redundancy, the implementation of security measures and the existence of a Disaster Recovery Plan for our internal information technology networking systems, our systems are vulnerable to damages from computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure, accident or security breach that causes interruptions in our operations or to our customers' or licensees' operations could result in a material disruption to our business. To the extent that any disruption or security breach results in a loss or damage to our customers' data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result. In addition, we may incur additional costs to remedy the damages caused by these disruptions or security breaches.

Message transmissions for domestic OmniTRACS, OmniExpress, GlobalTRACS, QConnect 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 cannot provide assurance that we will continue to declare dividends at all or in any particular amounts.

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

Government regulation may adversely affect our business.

Our products and those of our customers and licensees are subject to various regulations, including FCC regulations in the United States and other international regulations, as well as the specifications of national, regional

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and international standards bodies. Changes in the regulation of our activities, including changes in the allocation of available spectrum by the United States government and other governments or exclusion or limitation of our technology by a government or standards body, could have a material adverse effect on our business, operating results, liquidity and financial position.

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

Certain of our businesses have experienced periods of rapid growth that have placed, and may 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 employees.

Our future success depends largely upon the continued service of our Board members, executive officers and other key management and technical personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified personnel. In addition, implementing our product and business strategy requires specialized engineering and other talent, and our revenues are highly dependent on technological and product innovations. Key employees represent a significant asset, and the competition for these employees is intense in the wireless communications industry. Our fiscal 2004 plan anticipates a significant increase in engineering resources. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

We may have particular difficulty attracting and retaining key personnel in periods of poor operating performance given the significant use of incentive compensation by our competitors. We do not have employment agreements with our key management personnel and do not maintain key person life insurance on any of our personnel. The loss of one or more of our key employees or our inability to attract, retain and motivate qualified personnel could negatively impact our ability to design, develop and commercialize our products and technology.

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

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

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

For example, any changes requiring that we record compensation expense in the statement of operations for employee stock options using the fair value method or changes in existing taxation rules related to stock options could have a significant negative effect on our reported results. Several agencies and entities are considering, and the Financial Accounting Standards Board (FASB) has announced, proposals to change generally accepted accounting principles in the United States that, if implemented, would require us to record charges to earnings for employee stock option grants. This pending requirement would negatively impact our earnings.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ National Market rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2003 Annual Report on Form 10-K.

We have fixed income securities consisting of cash equivalents and investments in marketable debt securities. Changes in the general level of United States interest rates can affect the principal values and yields of fixed income investments. 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 Rates
(Dollars in millions)**

	Remainder of 2004	2005	2006	2007	2008	Thereafter	No Single Maturity	Total	Fair Value
March 28, 2004:									
Cash and cash equivalents	\$ 217	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 217	\$ 217
Interest rate	1.1%								
Held-to-maturity securities	\$ 86	\$ 10	\$ 130	\$ —	\$ —	\$ —	\$ —	\$ 226	\$ 227
Interest rate	3.8%	1.5%	1.7%						
Available-for-sale securities:									
Investment grade	\$ 72	\$559	\$1,171	\$645	\$179	\$ 79	\$ 735	\$3,440	\$3,440
Interest rate	2.7%	2.0%	2.2%	2.8%	2.4%	3.7%	2.8%		
Non-investment grade	\$ 10	\$ 2	\$ 5	\$ 9	\$ 37	\$ 536	\$ —	\$ 599	\$ 599
Interest rate	8.7%	8.3%	12.2%	9.4%	8.7%	7.9%			
	2004	2005	2006	2007	2008	Thereafter	No Single Maturity	Total	Fair Value
September 28, 2003:									
Cash and cash equivalents	\$284	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 284	\$ 284
Interest rate	1.1%								
Held-to-maturity securities	\$167	\$ 20	\$180	\$ —	\$ —	\$ —	\$ —	\$ 367	\$ 368
Interest rate	3.4%	1.8%	2.0%						
Available-for-sale securities:									
Investment grade	\$177	\$701	\$602	\$239	\$ 98	\$ 20	\$ 484	\$2,321	\$2,321
Interest rate	3.0%	2.0%	2.4%	2.9%	3.3%	7.2%	3.2%		
Non-investment grade	\$ 11	\$ 2	\$ 8	\$ 11	\$ 41	\$ 425	\$ —	\$ 498	\$ 498
Interest rate	8.7%	7.7%	9.2%	9.6%	8.9%	8.3%			

We hold marketable securities, equity mutual fund shares and derivative investments subject to equity price risk. The recorded values of marketable equity securities increased to \$240 million at March 28, 2004 from \$140 million at September 28, 2003. As of March 28, 2004, one equity position constituted approximately 30% of the fair value of the marketable securities portfolio. The recorded value of equity mutual fund shares at March 28, 2004 was \$195 million. The recorded value of derivative investment assets, mainly comprised of warrants, subject to Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," at March 28, 2004 was \$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.

We sold put options that may require us to purchase 3,000,000 shares of our common stock upon exercise. The written put options are classified as other current liabilities. If the fair value of our common stock at March 28, 2004 decreased by 30%, the amount required to physically settle the contracts would exceed the fair value of the shares repurchased by approximately \$17 million, net of the \$5 million in premiums received.

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At March 28, 2004, there have been no other material changes to the market risks described at September 28, 2003. 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.

ITEM 4. CONTROLS AND PROCEDURES

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

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, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities (in thousands except per share data):

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
December 29, 2003 to January 25, 2004	—	—	—	\$ 834,375
January 26, 2004 to February 22, 2004	—	—	—	\$ 834,375
February 23, 2004 to March 28, 2004	—	—	—	\$ 834,375
Total	—	—	—	\$ 834,375

(1) On February 11, 2003, the Company announced that the Board of Directors approved a stock repurchase program of up to \$1 billion to repurchase shares of the Company’s stock over a two year period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Our Annual Meeting of Stockholders was held on March 2, 2004. Four proposals were considered. The first proposal was to elect four directors to hold office for three years or until their successors are elected and qualified, and each candidate received the following votes:

	For	Withheld
Adelia A. Coffman	522,130,239	172,231,817
Raymond V. Dittamore	667,719,421	26,642,635
Irwin Mark Jacobs	666,669,583	27,692,472
Richard Sulpizio	666,844,092	27,517,964

All of the foregoing candidates were elected. The following directors were not elected at the meeting but have terms continuing after the meeting, as set forth below:

	Elected Through
Robert E. Kahn	2005 Annual Meeting
Duane A. Nelles	2005 Annual Meeting
Frank Savage	2005 Annual Meeting
Brent Scowcroft	2005 Annual Meeting
Richard C. Atkinson	2006 Annual Meeting
Diana Lady Dougan	2006 Annual Meeting

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	Elected Through
Peter M. Sacerdote	2006 Annual Meeting
Marc I. Stern	2006 Annual Meeting

The second proposal was to approve an amendment to increase the share reserve of the 2001 Stock Option Plan by 32,000,000 shares. This proposal received the following votes:

For	Against	Abstain	Broker Non-Votes
402,763,640	110,452,694	4,571,635	176,586,638

The foregoing proposal was approved.

The third proposal was to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the 2004 fiscal year. This proposal received the following votes:

For	Against	Abstain	Broker Non-Votes
674,835,101	15,328,700	4,210,806	—

The foregoing proposal was approved.

The fourth proposal was a stockholder proposal to recommend that the Board of Directors take the necessary steps to elect the directors annually, instead of a three year staggered system. This proposal received the following votes:

For	Against	Abstain	Broker Non-Votes
373,870,258	135,479,088	8,436,924	176,588,337

The foregoing proposal was approved.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 2.1 Restructuring Agreement, dated as of November 9, 2001, by and among the Company, Vesper São Paulo S.A., Vesper S.A., Vesper Holding São 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 São 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)
- 2.5 Embratel Share Purchase Agreement dated as of September 25, 2003, by and among Vesper Holding, Ltd., QUALCOMM do Brasil Ltda. and Embratel Participações S.A. (2)
- 3.1 Restated Certificate of Incorporation. (3)
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation. (3)

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3.3	Certificate of Designation of Preferences. (3)
3.4	Bylaws. (3)
3.5	Amendment of the Bylaws. (3)
10.55	Amendment to 2001 Stock Option Plan
10.56	Offer of Employment to Richard Sulpizio
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Irwin Mark Jacobs.
31.2	Certification pursuant to Section 302 of the Sarbanes — Oxley Act of 2002 for William E. Keitel.
32.1	Certification pursuant to 18 USC. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for Irwin Mark Jacobs.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 for William E. Keitel.

-
- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on November 28, 2001.
 - (2) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 28, 2003.
 - (3) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended March 30, 2003.

(b) Reports on Form 8-K

We furnished to the SEC a report on Form 8-K dated January 21, 2004, containing our January 21, 2004 Press Release related to our announcement of first quarter of fiscal 2004 results.

SIGNATURES

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

QUALCOMM Incorporated

/S/ WILLIAM E. KEITEL

William E. Keitel
Executive Vice President and
Chief Financial Officer

Dated: April 21, 2004

QUALCOMM INCORPORATED
2001 STOCK OPTION PLAN

AS AMENDED BY THE COMPENSATION COMMITTEE ON JULY 9, 2001
AS AMENDED BY THE BOARD ON DECEMBER 1, 2003

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

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

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

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

2. DEFINITIONS AND CONSTRUCTION.

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

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

(b) "BOARD" means the Board of Directors of the Company. "BOARD" shall also mean the Committee.

(c) A "CHANGE IN CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "TRANSACTION") wherein the

stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 2.1(u) (iii), the corporation or other business entity to which the assets of the Company were transferred (the "TRANSFEREE"), as the case may be. The Board shall determine in its discretion whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related. Notwithstanding the preceding sentence, a Change in Control shall not include a Spinoff Transaction.

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

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

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

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

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

directors of any other Participating Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

determined by the Board in its discretion, of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

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

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

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

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

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

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

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

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

(dd) "SERVICE" means

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

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

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

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

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

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

(ii) "SUCCESSOR" means a corporation into or with which the Company is merged or consolidated or which acquires all or substantially all of

the assets of the Company and which is designated by the Board as a Successor for purposes of the Plan.

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

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

3. ADMINISTRATION.

3.1 ADMINISTRATION BY THE COMMITTEE. The Plan shall be administered by the Committee and its designees.

3.2 AUTHORITY OF OFFICERS. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Committee has delegated such authority to the Officer with respect to such matter, right, obligation, determination or election.

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

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

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

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

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

(e) to amend, modify, extend, cancel (subject to the limitations in Section 11 and Section 3.5) or renew any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;

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

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

(h) to determine the Fair Market Value of shares of Stock or other property;

(i) to construe, interpret and apply the provisions of the Plan and Options granted under it, in its discretion; to establish, amend and revoke rules and regulations for its administration; and to take all such actions and make all such decisions as may be necessary or appropriate for the operation and administration of the Plan, including, without limitation, all such decisions and determinations as may be expressly delegated to the Committee

by the terms of the Plan. The Committee, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem, in its discretion, necessary, desirable, appropriate or expedient to make the Plan fully effective.

3.4 SCOPE OF REVIEW OF COMMITTEE ACTION.

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

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

3.5 OPTION REPRICING PROHIBITED. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding Options and the grant in substitution therefore of new Options having a lower exercise price or (b) the amendment of outstanding Options to reduce the exercise price thereof. This paragraph shall not be construed to apply to "issuing or assuming a stock option in a transaction to which section 424(a) applies," within the meaning of Section 424 of the Code.

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

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

3.8 INDEMNIFICATION. In addition to such other rights of indemnification as they may have as members of the Board or Officers or Employees of the Participating Company Group, members of the Board and any Officers or Employees of the Participating Company Group to whom authority to act for the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same, and to retain complete control over the litigation and/or settlement of such suit, action or proceeding.

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

4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be One Hundred and Ninety One Million, Five Hundred and Forty Thousand, Five Hundred and Seventeen (191,540,517). The share reserve shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. However, the share reserve, determined at any time, shall be reduced by the number of shares subject to the Prior Plan Options. If

an outstanding Option, including a Prior Plan Option, for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company at the Participant's exercise or purchase price, the shares of Stock allocable to the unexercised portion of such Option or Prior Plan Option or such repurchased shares of Stock shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Options, in the ISO Share Issuance Limit set forth in Section 4.1, in the Section 162(m) Grant Limit set forth in Section 5.3, and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership

Change Event, as defined in Section 2.1(u) shares of another corporation (the "NEW SHARES"), the Committee may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the Stock subject to the Option.

5. ELIGIBILITY AND OPTION LIMITATIONS.

5.1 PERSONS ELIGIBLE FOR OPTIONS.

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

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

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

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

Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first.

5.3 SECTION 162(m) GRANT LIMIT. Subject to adjustment as provided in Section 4.2, at any such time as the Company is a "publicly held corporation"

within the meaning of Section 162(m), no Employee or prospective Employee shall be granted one or more Options within any fiscal year of the Company which in the aggregate are for the purchase of more than Three Million (3,000,000) shares (the "SECTION 162(m) GRANT LIMIT"). An Option which is canceled in the same fiscal year of the Company in which it was granted shall continue to be counted against the Section 162(m) Grant Limit for such period.

6. TERMS AND CONDITIONS OF OPTIONS.

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

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

6.2 EXERCISABILITY AND TERM OF OPTIONS.

(a) OPTION VESTING AND EXERCISABILITY. Options shall vest and become exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Option Agreement evidencing such Option; provided, however, that (A) no Option shall, unless otherwise provided by Sections 6.5 and 8, become one hundred percent (100%) vested in a period of less than three (3) years after the grant of such Option, (B) no Incentive Stock Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, and (C) no Incentive Stock Option granted to a Ten Percent Stockholder shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option. Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, any Option granted hereunder shall terminate ten (10) years

after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions, or the terms of the Plan.

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

6.3 PAYMENT OF EXERCISE PRICE.

(a) FORMS OF CONSIDERATION AUTHORIZED. Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "CASHLESS EXERCISE"), (iv) provided that the Participant is an Employee, and not an Officer (unless otherwise not prohibited by law, including, without limitation, any regulation promulgated by the Board of Governors of the Federal Reserve System) and in the Company's sole and absolute discretion at the time the Option is exercised, by delivery of the Participant's promissory note in a form approved by the Company for the aggregate exercise price, provided that, if the Company is incorporated in the State of Delaware, the Participant shall pay in cash that portion of the aggregate exercise price not less than the par value of the shares being acquired, (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Committee may at any

time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) LIMITATIONS ON FORMS OF CONSIDERATION.

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

exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

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

(iii) PAYMENT BY PROMISSORY NOTE. No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms as the Committee shall determine. The Committee shall have the authority to permit or require the Participant to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Committee, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Participant shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

6.4 TRANSFERABILITY. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the Incentive Stock Option is granted only by such person. A vested Nonstatutory Stock Option shall not be transferable in any manner (including without limitation, sale, alienation, anticipation, pledge, encumbrance, or assignment) other than, (i) by will or by the laws of descent and distribution, (ii) by written designation of a beneficiary, in a form acceptable to the Company, with such designation taking effect upon the death of a Participant, (iii) by delivering written notice to the Company, in a form acceptable to the Company (including such representations, warranties and indemnifications as the Company shall require a Participant to make to protect the Company's interests and ensure that this Nonstatutory Stock Option has been transferred under the circumstances approved by the Company), by gift to a Participant's spouse, former spouse, children, stepchildren, grandchildren, parent, stepparent, grandparent, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, persons having one of the foregoing types of relationship with a Participant due to adoption, any person sharing a Participant's household (other than a tenant or employee), a foundation in which these persons or the Participant control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. A transfer to an entity in which more than fifty percent of the voting interests are owned by these persons (or the Participant) in exchange for an interest in that entity is specifically included as a permissible type of transfer. In addition, a transfer to a trust created solely for the benefit (i.e., a Participant and/or any or all of the foregoing persons hold more than 50 percent of the beneficial interest in the trust) of a Participant and/or any or all of the foregoing persons is also a permissible transferee, or (iv) such other transferees as may be authorized by the Committee in its sole and absolute discretion. During a Participant's life this Nonstatutory Stock Option is exercisable only by the Participant or a transferee satisfying the above conditions. Except in the event of a Participant's death, upon transfer of a Nonstatutory Stock Option to any or all of the foregoing persons, the Participant, as the Optionee, is liable for

any and all taxes due upon exercise of those transferred Nonstatutory Stock Options. At no time will a transferee who is considered an affiliate under Rule 144(a)(1) be able to sell any or all such Stock without complying with Rule 144. The right of a transferee to exercise the transferred portion of this Nonstatutory Stock Option shall terminate in accordance with the Participant's right of exercise under this Nonstatutory Stock Option and is further subject to such representations, warranties and indemnifications from the transferee that

the Company requires the transferee to make to protect the Company's interests and ensure that this Nonstatutory Stock Option has been transferred under the circumstances approved by the Company. Once a portion of a Nonstatutory Stock Option is transferred, no further transfer may be made of that portion of the Nonstatutory Stock Option.

6.5 EFFECT OF TERMINATION OF SERVICE.

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

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

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

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

(iv) TERMINATION AFTER LAYOFF. If the Participant's Service ceases as a result of "Layoff" (as defined below), then, subject to the Participant's execution of a general release of claims satisfactory to the Company, (A) the exercisability and vesting of the Option and, in the case of an immediately exercisable Option, any shares acquired upon the

exercise thereof shall be accelerated effective as of the date on which the Participant's Service terminated by ten percent (10%) of the shares which would otherwise be unvested on such date, and (B) the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. Notwithstanding the foregoing, if the Company's auditors determine that the provisions or operation of the preceding sentence would cause the Company to incur a compensation expense and provided further that in the absence of the preceding sentence no such compensation expense would be incurred, then the preceding sentence shall be without force or effect, and the vesting and exercisability of each outstanding Option and any shares acquired upon the exercise thereof shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

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

(vi) TERMINATION AFTER CHANGE IN CONTROL. If the Participant's Service ceases as a result of Termination After Change in Control (as defined below), then (A) the exercisability and vesting of the Option and, in the case of an immediately exercisable Option, any shares acquired upon the exercise thereof shall be accelerated effective as of the date on which the Participant's Service terminated, and (B) the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of six (6) months after the

date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(vii) OTHER TERMINATION OF SERVICE. Except as otherwise provided in Section 6.5(a) (i) through (vi), if the Participant's Service with the Participating Company Group terminates for any reason, then to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminates, the Option may be exercised by the Participant at any time prior to the expiration of thirty (30) days after the date on which the Participant's Service terminates, but in any event no later than the Option Expiration Date.

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

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

(d) CERTAIN DEFINITIONS.

(i) "CAUSE" shall mean any of the following: (1) the Participant's theft, dishonesty, or falsification of any Participating Company documents or records; (2) the Participant's improper use or disclosure of a Participating Company's confidential or proprietary information; (3) any action by the Participant which has a detrimental effect on a Participating Company's reputation or business; (4) the Participant's failure or inability to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure or inability; (5) any material breach by the Participant of any employment or service agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; (6) the Participant's conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Participant's ability to perform his or her duties with a Participating Company; or (7) violation of a material Company policy.

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

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

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

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

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

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

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

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

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

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

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

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

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

7. STANDARD FORMS OF AGREEMENTS.

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

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

8. CHANGE IN CONTROL. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "ACQUIRING CORPORATION"), may, without the consent of any Participant, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options in connection with a Change in Control, the exercisability and vesting of each such outstanding Option and any shares acquired upon the exercise thereof held by Participants whose Service has not terminated prior to such date shall be accelerated, effective as of the date ten (10) days prior to the date of the Change in Control. The exercise or vesting of any Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section and the provisions of such Option Agreement shall be conditioned upon the consummation of the Change in Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 2.1(u)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less

than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Committee otherwise provides in its discretion.

9. TAX WITHHOLDING.

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

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

10. COMPLIANCE WITH SECURITIES LAW.

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

11. TERMINATION OR AMENDMENT OF PLAN.

The Committee may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's stockholders, there shall be (A) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (B) no change in the class of persons eligible to receive Incentive Stock Options, and (C) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Committee. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Participant, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

12. MISCELLANEOUS PROVISIONS.

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

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

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

ADDENDUM TO THE
QUALCOMM INCORPORATED
2001 STOCK OPTION PLAN
WITH PROVISIONS APPLICABLE TO PERSONS
SUBJECT TO THE LAWS OF THE REPUBLIC OF FRANCE

Pursuant to its authority to administer and amend the Plan, the Committee has adopted the following provisions so that an Option granted to Employees who are subject to the laws of the Republic of France will provide the maximum benefits under the provisions of French law (the "French Option"), and to provide incentives for such Employee to exert maximum efforts for the success of the Participating Company Group. QUALCOMM Incorporated (for purposes of this Addendum the "Parent Company") intends that French Options granted pursuant to these provisions shall qualify for the favorable treatment applicable to stock options that comply with Sections L 225-177 to L 225-186 of the French commercial code (Sections L 208-1 to L 208-8-2 of the Law n(degree) 66-537 of July 24, 1966) (hereafter the "French Law"). The terms of the Plan, as adopted and subsequently amended by the Board and the Committee, and as modified by the following provisions, constitute QUALCOMM Incorporated's Stock Option Plan for Employees subject to the laws of the Republic of France ("the French Plan"). Under the French Plan, such Employees will be granted only French Options. In no case will such Employees be granted substitute awards. Except as set forth below, the terms of the Option Agreement for a French Option shall otherwise comply with the other terms of the Plan.

1. ELIGIBILITY FOR FRENCH OPTION.

1.1 Notwithstanding any other provision of the Plan, French Options may only be granted to the following individuals:

(a) having an employment contract, as of the date of grant of a French Option, with a French Subsidiary Corporation or with a "French Group Company" (as defined below);

(b) and/or to the non-employee Directors having a management function (i.e., such as the "president-directeur general", the "directeur-general", the "members of the "directoire") of the French Subsidiary Corporation upon the date of grant (or a French Group Company as defined below).

1.2 A French Group Company is any company having any of the following relationships with the Parent Company:

(a) at least 10% of the French Subsidiary Corporation capital is held, directly or indirectly, by the Parent Company, or

(b) the French Subsidiary Corporation directly or indirectly holds at least 10% of the Parent Company's capital, or

(c) at least 50% of the French Subsidiary Corporation's capital is held, directly or indirectly by a company which holds, directly or indirectly, at least 50% of the Parent Company's capital.

1.3 No person shall be eligible for the grant of a French Option if, at the time of grant, such person owns (or is deemed to own pursuant to the applicable laws of France) stocks corresponding to more than ten percent (10%) of either (i) the total combined voting power of all classes of stock of the Parent Company or of any of its Affiliates, or (ii) the Parent Company's capital shares (as defined under French law).

2. ADMINISTRATION.

2.1 The French Plan, including the determination of the time to grant a French Option, shall be administered in accordance with Section 3 of the Plan.

2.2 Except as otherwise provided in the French Plan, terms used in the French Plan shall have the same meanings as set forth under Section 2 of the Plan.

2.3 Throughout the term of the Plan, no French Option shall be granted, if by making such grant, the aggregate number of shares subject to outstanding French Options could at any time exceed one-third of the aggregate number of all shares of all classes of stock of the Parent Company authorized for issuance.

3. FRENCH OPTION PROVISIONS.

3.1 PRICE. The exercise price of a French Option shall be no less than the higher of: (a) ninety-five percent (95%) of the average closing sales price for such Stock as quoted on such exchange or market for the twenty (20) market trading days immediately preceding the day of grant, as reported in The Wall Street Journal or such other source as the Committee deems reliable; or (b) one hundred percent (100%) of the Fair Market Value of the Stock.

3.2 TRANSFERABILITY. The terms of a French Option shall provide that during the lifetime of the Optionee, the French Option may be exercised only by the Optionee. The terms of a French Option shall not permit transfer of the French Option, except on death and then only to the extent permitted by French law. In the event of the death of the Optionee during the Optionee's continuous Service as an Employee or a non-employee Director as defined under Section 1.a), such French Option may be transferred to the extent permitted by French law. A French Option so transferred may be exercised (to the extent the Optionee was entitled to exercise such French Option as of the date of death) by the transferee only within the period ending on the earlier of (i) the date six (6) months following the date of death, or (ii) the expiration of the term of such French Option as set forth in the Option Agreement.

3.3 VESTING. A French Option shall vest (become exercisable) as provided in the Option Agreement, subject to the condition that on the vesting date, the Optionee is a salaried employee of the Parent Company or its Affiliate, except such condition shall not apply in the event of the Optionee's Disability or Death. The Option Agreement for a French Option may, but need not, include a provision whereby the Optionee may elect, at any time while an

Employee, to exercise the French Option as to any part or all of the shares subject to such French Option prior to the full vesting of such French Option. Any unvested shares so purchased shall be subject to a repurchase right in favor of the Parent Company until such shares have vested and may be subject to any other restriction the Committee determines to be appropriate (e.g., a prohibition on the sale of such unvested shares without the prior written consent of the Parent Company).

3.4 DEATH. In the event of the death of an Optionee, the Option Agreement for a French Option shall provide that such Optionee's heirs may only exercise the French Option within a period of time not to exceed six (6) months following such Optionee's death (and in no event after the date on which the French Option would otherwise terminate). If, after the Optionee's death, the French Option is not exercised within the time specified in the Option Agreement, the French Option shall terminate, and the shares covered by such French Option shall revert to and again become available for issuance pursuant to Options (whether or not a French Option) granted under the Plan.

3.5 RECORDING. The shares acquired upon exercise of a French Option will be recorded in an account in the name of the Optionee.

4. ADJUSTMENTS UPON CHANGES IN STOCK.

Any adjustment pursuant to Section 4.2 of the Plan, of stock subject to a French Option, shall be made (a) in accordance with the applicable law of the state in which the Parent Company is incorporated at the time the adjustment is made, and (b) in accordance with any applicable rules of the stock exchange (including for this purpose the Nasdaq National Market System) which the Parent Company uses to determine Fair Market Value; provided however, that such adjustments are made in compliance with French law, i.e. in the case of restructuring transactions by the Parent Company:

(a) an increase, by cash contribution of the capital increase in cash reserved to its existing shareholders,

(b) an issuance of convertible or exchangeable bonds reserved to the Parent Company's existing shareholders,

(c) a capitalization of premiums or earnings followed by a free distribution of shares,

(d) a distribution of retained earnings either in cash or in shares,

(e) a reduction of corporate capital by set off against losses completed by the reduction of the number of shares.

5. INTERPRETATION.

It is intended that options granted under the French Plan shall qualify for the favorable tax and social security treatment applicable to stock options granted under French law (as defined above) and in accordance with the relevant provisions set forth by French tax law and the French tax administration. The terms of the French Plan shall be interpreted accordingly and in accordance with

the relevant provisions set forth by French tax and social security laws, as well as the French tax and social security regulations.

6. GOVERNING LAW.

Except as required by French corporate, tax and social security laws and regulations, the Plan shall be governed and construed in accordance with the laws of the State of California and the United States of America.

7. ADOPTION.

The French Plan was adopted by a meeting of the Committee duly appointed by the Board, held on February 27, 2001.

March 5, 2004

Rich Sulpizio
C/O QUALCOMM
5775 Morehouse Drive
San Diego, CA 92121

Dear Rich:

I am pleased to offer you a position to join QUALCOMM Incorporated as an Executive Vice President, reporting to Jeff Jacobs, President of Global Development, with a start date of March 8, 2004. The terms of the offer are as follows:

1. A starting salary at an hourly pay rate of \$230.77, which is equivalent to \$480,001.60 on an annual basis.
2. A comprehensive benefits package for you and your dependents paid by QUALCOMM. A summary of these benefits is available on our website, <https://jobs.qualcomm.com/staffing/ExtBenefitsBrochure.asp>. In addition to these standard benefits, you are also eligible to participate in the supplemental health plan, which reimburses most expenses not covered by our primary insurer, supplemental life and disability insurance coverage.

Please return a signed copy of the attached documents, which cover Terms of Employment and Inventions Disclosure. If you have questions, please contact me at (858) 658-2000.

Congratulations and welcome to the QUALCOMM team!

Sincerely,

/s/ Ben Hanson

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Ben Hanson
Senior Director, Staffing
Human Resources

Enclosures

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Irwin Mark Jacobs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of QUALCOMM Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 21, 2004

/s/ Irwin Mark Jacobs

Irwin Mark Jacobs,
Chief Executive Officer and Chairman

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William E. Keitel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of QUALCOMM Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 21, 2004

/s/ William E. Keitel

William E. Keitel,
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of QUALCOMM Incorporated (the "Company") on Form 10-Q for the fiscal quarter ended March 28, 2004 (the "Report"), I, Irwin Mark Jacobs, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 21, 2004

/s/ Irwin Mark Jacobs

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Irwin Mark Jacobs,
Chief Executive Officer and Chairman

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to QUALCOMM Incorporated and will be retained by QUALCOMM Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Quarterly Report of QUALCOMM Incorporated (the "Company") on Form 10-Q for the fiscal quarter ended March 28, 2004 (the "Report"), I, William E. Keitel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 21, 2004

/s/ William E. Keitel

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William E. Keitel,
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to QUALCOMM Incorporated and will be retained by QUALCOMM Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.