
**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 30, 2008

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on April 21, 2008, were as follows:

Class	Number of Shares
Common Stock, \$0.0001 per share par value	1,618,689,983

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUALCOMM Incorporated

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

	<u>March 30, 2008</u>	<u>September 30, 2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,803	\$ 2,411
Marketable securities	3,325	4,170
Accounts receivable, net	728	715
Inventories	612	469
Deferred tax assets	357	435
Collateral held under securities lending	334	421
Other current assets	192	200
Total current assets	<u>8,351</u>	<u>8,821</u>
Marketable securities	4,436	5,234
Property, plant and equipment, net	1,817	1,788
Goodwill	1,520	1,325
Deferred tax assets	770	318
Other assets	1,258	1,009
Total assets	<u>\$ 18,152</u>	<u>\$ 18,495</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 658	\$ 635
Payroll and other benefits related liabilities	282	311
Unearned revenues	212	218
Income taxes payable	22	119
Obligations under securities lending	334	421
Other current liabilities	530	554
Total current liabilities	<u>2,038</u>	<u>2,258</u>
Unearned revenues	128	142
Income taxes payable	212	—
Other liabilities	297	260
Total liabilities	<u>2,675</u>	<u>2,660</u>
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; issuable in series; 8 shares authorized; none outstanding at March 30, 2008 and September 30, 2007	—	—
Common stock, \$0.0001 par value; 6,000 shares authorized; 1,617 and 1,646 shares issued and outstanding at March 30, 2008 and September 30, 2007, respectively	—	—
Paid-in capital	5,976	7,057
Retained earnings	9,616	8,541
Accumulated other comprehensive (loss) income	(115)	237
Total stockholders' equity	<u>15,477</u>	<u>15,835</u>
Total liabilities and stockholders' equity	<u>\$ 18,152</u>	<u>\$ 18,495</u>

See Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated

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

	Three Months Ended		Six Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Revenues:				
Equipment and services	\$ 1,725	\$ 1,370	\$ 3,429	\$ 2,712
Licensing and royalty fees	881	851	1,618	1,528
Total revenues	<u>2,606</u>	<u>2,221</u>	<u>5,047</u>	<u>4,240</u>
Operating expenses:				
Cost of equipment and services revenues	820	634	1,604	1,268
Research and development	553	454	1,064	895
Selling, general and administrative	420	385	808	754
Total operating expenses	<u>1,793</u>	<u>1,473</u>	<u>3,476</u>	<u>2,917</u>
Operating income	813	748	1,571	1,323
Investment income, net (Note 3)	93	180	265	383
Income before income taxes	906	928	1,836	1,706
Income tax expense	(140)	(202)	(303)	(333)
Net income	<u>\$ 766</u>	<u>\$ 726</u>	<u>\$ 1,533</u>	<u>\$ 1,373</u>
Basic earnings per common share	<u>\$ 0.47</u>	<u>\$ 0.44</u>	<u>\$ 0.94</u>	<u>\$ 0.83</u>
Diluted earnings per common share	<u>\$ 0.47</u>	<u>\$ 0.43</u>	<u>\$ 0.93</u>	<u>\$ 0.81</u>
Shares used in per share calculations:				
Basic	<u>1,617</u>	<u>1,659</u>	<u>1,626</u>	<u>1,656</u>
Diluted	<u>1,643</u>	<u>1,693</u>	<u>1,653</u>	<u>1,689</u>
Dividends per share announced	<u>\$ 0.14</u>	<u>\$ 0.12</u>	<u>\$ 0.28</u>	<u>\$ 0.24</u>

See Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated

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

	Six Months Ended	
	March 30, 2008	April 1, 2007
Operating Activities:		
Net income	\$ 1,533	\$ 1,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	219	184
Non-cash income tax expense	82	229
Non-cash portion of share-based compensation expense	255	257
Incremental tax benefits from stock options exercised	(101)	(119)
Net realized gains on marketable securities and other investments	(118)	(119)
Other-than-temporary losses on marketable securities and other investments	119	2
Other items, net	(11)	6
Changes in assets and liabilities, net of effects of acquisitions (Note 8):		
Accounts receivable, net	8	(17)
Inventories	(135)	(98)
Other assets	42	(155)
Trade accounts payable	20	134
Payroll, benefits and other liabilities	(66)	1
Unearned revenues	(20)	102
Net cash provided by operating activities	<u>1,827</u>	<u>1,780</u>
Investing Activities:		
Capital expenditures	(428)	(414)
Purchases of available-for-sale securities	(2,960)	(3,581)
Proceeds from sale of available-for-sale securities	3,989	4,345
Other investments and acquisitions, net of cash acquired	(275)	(227)
Change in collateral held under securities lending	87	—
Other items, net	26	1
Net cash provided by investing activities	<u>439</u>	<u>124</u>
Financing Activities:		
Proceeds from issuance of common stock	236	255
Incremental tax benefits from stock options exercised	101	119
Dividends paid	(455)	(398)
Repurchase and retirement of common stock	(1,670)	(136)
Change in obligations under securities lending	(87)	—
Net cash used by financing activities	<u>(1,875)</u>	<u>(160)</u>
Effect of exchange rate changes on cash	<u>1</u>	<u>2</u>
Net increase in cash and cash equivalents	392	1,746
Cash and cash equivalents at beginning of period	<u>2,411</u>	<u>1,607</u>
Cash and cash equivalents at end of period	<u>\$ 2,803</u>	<u>\$ 3,353</u>

See Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation

Financial Statement Preparation. The accompanying interim condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (the Company or QUALCOMM), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet at September 30, 2007 was derived from the audited financial statements at that date but may not include all disclosures required by accounting principles generally accepted in the United States. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month and six-month periods ended March 30, 2008 included 13 weeks and 26 weeks, respectively. The three-month and six-month periods ended April 1, 2007 included 13 weeks and 27 weeks, respectively.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of results of operations, financial position and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

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

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

Income Taxes. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes," which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 were effective for the Company beginning October 1, 2007. See Note 4 for additional information, including the effects of adoption on the Company's condensed consolidated financial statements.

Earnings Per Common Share. Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an option, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the estimated tax benefits that would be recorded in paid-in capital, if any, when the option is exercised are assumed to be used to repurchase shares in the current period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and six months ended March 30, 2008 were 26,447,000 and 27,453,000, respectively. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and six months ended April 1, 2007 were 33,519,000 and 32,897,000, respectively.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Employee stock options to purchase approximately 125,081,000 and 121,278,000 shares of common stock during the three months and six months ended March 30, 2008, respectively, and employee stock options to purchase approximately 92,463,000 and 98,304,000 shares of common stock during the three months and six months ended April 1, 2007, respectively, were outstanding but not included in the computation of diluted earnings per common share because the effect on diluted earnings per share would be anti-dilutive.

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

	Three Months Ended		Six Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Net income	\$ 766	\$ 726	\$ 1,533	\$ 1,373
Other comprehensive (loss) income:				
Foreign currency translation	(1)	3	9	11
Net unrealized (losses) gains on securities and derivative instruments, net of income taxes	(268)	22	(367)	187
Reclassification adjustment for net realized gains on securities and derivative instruments included in net income, net of income taxes	(8)	(29)	(56)	(67)
Reclassification adjustment for other-than-temporary losses on marketable securities included in net income, net of income taxes	28	2	62	2
Total other comprehensive (loss) income	(249)	(2)	(352)	133
Total comprehensive income	<u>\$ 517</u>	<u>\$ 724</u>	<u>\$ 1,181</u>	<u>\$ 1,506</u>

Accumulated other comprehensive (loss) income consisted of the following (in millions):

	March 30, 2008	September 30, 2007
Net unrealized (losses) gains on marketable securities and derivative instruments, net of income taxes	\$ (121)	\$ 240
Foreign currency translation	6	(3)
	<u>\$ (115)</u>	<u>\$ 237</u>

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

	Three Months Ended		Six Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Cost of equipment and services revenues	\$ 9	\$ 9	\$ 19	\$ 20
Research and development	60	58	117	115
Selling, general and administrative	61	60	121	123
Share-based compensation expense before taxes	130	127	257	258
Related income tax benefits	(42)	(43)	(83)	(88)
Share-based compensation expense, net of taxes	<u>\$ 88</u>	<u>\$ 84</u>	<u>\$ 174</u>	<u>\$ 170</u>
Net share-based compensation expense, per common share:				
Basic	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.11</u>	<u>\$ 0.10</u>

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company recorded \$35 million and \$24 million in share-based compensation expense during the six months ended March 30, 2008 and April 1, 2007, respectively, related to share-based awards granted during those periods. In addition, for the six months ended March 30, 2008 and April 1, 2007, \$101 million and \$119 million, respectively, was reclassified to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities to reflect the incremental tax benefits from stock options exercised in those periods. At March 30, 2008, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was \$1.5 billion, which is expected to be recognized over a weighted-average period of 3.5 years. Net stock options, after forfeitures and cancellations, granted during the six months ended March 30, 2008 and April 1, 2007 represented 1.5% and 1.1%, respectively, of outstanding shares as of the beginning of each fiscal period. Total stock options granted during the six months ended March 30, 2008 and April 1, 2007 represented 1.8% and 1.3%, respectively, of outstanding shares as of the end of each fiscal period.

Future Accounting Requirements. In September 2006, the FASB issued Statement No. 157 (FAS 157), "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value in the financial statements. FAS 157 does not require any new fair value measurements, but applies to other accounting pronouncements that require or permit fair value measurements. In February 2007, the FASB issued Statement No. 159 (FAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115," which provides companies the irrevocable option to measure many financial assets and liabilities at fair value with the changes in fair value recognized in earnings resulting in an opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The accounting provisions of FAS 157 and FAS 159 will be effective for the Company's fiscal 2009 beginning September 29, 2008. The Company is in the process of determining the effects, if any, the adoption of FAS 157 and FAS 159 will have on its consolidated financial statements.

In December 2007, the FASB revised Statement No. 141 (FAS 141R), "Business Combinations," which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R will be effective for the Company's fiscal 2010 beginning September 28, 2009. The Company is in the process of determining the effects, if any, the adoption of FAS 141R will have on its consolidated financial statements.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 — Composition of Certain Financial Statement Items

Marketable Securities.

	Current		Noncurrent	
	March 30, 2008	September 30, 2007	March 30, 2008	September 30, 2007
	(In millions)		(In millions)	
Available-for-sale:				
U.S. Treasury securities	\$ 141	\$ 58	\$ —	\$ —
Government-sponsored enterprise securities	155	219	—	—
Foreign government bonds	7	8	—	—
Corporate bonds and notes	2,117	2,939	71	21
Mortgage- and asset-backed securities	556	414	—	—
Auction rate securities	—	159	196	—
Non-investment-grade debt securities	12	19	2,032	1,812
Equity securities	191	203	903	1,316
Equity mutual funds and exchange traded funds	—	—	1,234	1,871
Debt mutual funds	146	151	—	214
	<u>\$ 3,325</u>	<u>\$ 4,170</u>	<u>\$ 4,436</u>	<u>\$ 5,234</u>

At March 30, 2008 and September 30, 2007, marketable securities included \$327 million and \$411 million, respectively, of securities that were loaned under the Company's securities lending program. At March 30, 2008 and September 30, 2007, unrealized gains on marketable securities were \$173 million and \$510 million, respectively, and unrealized losses were \$350 million and \$89 million, respectively. The unrealized losses on the Company's investments in marketable securities generally relate to market liquidity concerns that have depressed security values over the past several months. The Company considers these unrealized losses to be temporary.

At March 30, 2008, the Company classified its auction rate securities as noncurrent assets due to a disruption in credit markets that caused the auction mechanism to fail to set market-clearing rates and provide liquidity for sellers. However, a failed auction does not represent a default by the issuer of the underlying security. All of the Company's auction rate securities are rated AAA/Aaa, are collateralized by student loans substantially guaranteed by the U.S. government and continue to pay interest in accordance with their contractual terms. At March 30, 2008, the recorded values of the auction rate securities approximate their par values.

Property, Plant and Equipment.

	March 30, 2008	September 30, 2007
	(In millions)	
Land	\$ 124	\$ 124
Buildings and improvements	999	954
Computer equipment	851	800
Machinery and equipment	1,088	999
Furniture and office equipment	54	48
Leasehold improvements	211	205
	<u>3,327</u>	<u>3,130</u>
Less accumulated depreciation and amortization	<u>(1,510)</u>	<u>(1,342)</u>
	<u>\$ 1,817</u>	<u>\$ 1,788</u>

The net book values of property under capital leases included in buildings and improvements totaled \$99 million and \$91 million at March 30, 2008 and September 30, 2007, respectively. Capital lease additions were \$8 million and \$14 million during the three months and six months ended March 30, 2008, respectively, and \$6 million and \$14 million during the three months and six months ended April 1, 2007, respectively.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 — Investment Income, Net

	Three Months Ended		Six Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
	(In millions)		(In millions)	
Interest and dividend income	\$ 117	\$ 128	\$ 270	\$ 270
Interest expense	(6)	(2)	(13)	(3)
Net realized gains on marketable securities	13	51	91	115
Net realized gains on other investments	24	4	27	4
Other-than-temporary losses on marketable securities	(47)	(1)	(104)	(2)
Other-than-temporary losses on other investments	(15)	—	(15)	—
Gains (losses) on derivative instruments	4	—	6	(1)
Equity in gains of investees	3	—	3	—
	<u>\$ 93</u>	<u>\$ 180</u>	<u>\$ 265</u>	<u>\$ 383</u>

Note 4 — Income Taxes

The Company currently estimates its annual effective income tax rate to be approximately 16% for fiscal 2008, compared to the 9% effective income tax rate in fiscal 2007. The 15% effective tax rate recorded in the second quarter of fiscal 2008 was lower than the estimated annual effective tax rate for fiscal 2008 due to a change in the estimate of foreign earnings taxed at less than the United States federal tax rate. The estimated annual effective tax rate for fiscal 2008 is higher than the annual effective tax rate for fiscal 2007 primarily due to the impacts of prior year audits completed during fiscal 2007, the retroactive extension of the federal research and development tax credit during fiscal 2007 and the expiration of the federal research and development tax credit on December 31, 2007.

The estimated annual effective tax rate for fiscal 2008 is 19% lower than the United States federal statutory rate primarily due to benefits of approximately 23% related to foreign earnings taxed at less than the United States federal rate and 1% related to research and development tax credits, partially offset by state taxes of approximately 5%. The prior fiscal year rate was lower than the United States federal statutory rate primarily due to benefits related to foreign earnings taxed at less than the United States federal rate, the impact of tax audits completed during the year and the generation of research and development credits, partially offset by state taxes.

On October 1, 2007, the Company adopted FIN 48, which prescribes a comprehensive model for the financial statement recognition, measurement, classification and disclosure of uncertain tax positions. In the first step of the two-step process prescribed in the interpretation, the Company evaluates the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. In the second step, the Company measures the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. As a result of the adoption, the Company increased its liabilities related to uncertain tax positions by \$2 million and accounted for the cumulative effect of this change as a decrease to retained earnings. The Company historically classified such liabilities as reductions to deferred tax assets or as current income taxes payable. Upon adoption, the Company reclassified \$174 million in unrecognized tax benefits for which the Company does not anticipate payment or receipt of cash within one year to noncurrent income taxes payable. The total amount of gross unrecognized tax benefits as of the date of adoption of FIN 48 was \$224 million, of which \$159 million would affect the effective tax rate if recognized.

The Company's policy of including interest and penalties related to income taxes, including unrecognized tax benefits, within the provision for income taxes did not change as a result of implementing FIN 48. As of the date of adoption, the amounts recognized in income tax expense and income taxes payable for interest and penalties relating to unrecognized tax benefits were nominal.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of October 1, 2007, the Company is no longer subject to U.S. federal examinations by taxing authorities for years prior to fiscal 2004. The Internal Revenue Service is currently conducting an examination of the Company's U.S. income tax returns for fiscal 2005 and 2006, which is anticipated to be completed by August 2009. The Company is subject to examination by the California Franchise Tax Board for fiscal 2003 through 2006. The

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Company is also subject to income taxes in many state and local taxing jurisdictions in the U.S. and around the world, many of which are open to tax examinations for periods after fiscal 2002. Although the timing and ultimate resolution of audits is uncertain, the Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will materially change in the next 12 months.

The Company has not provided United States income taxes nor foreign withholding taxes on a cumulative total of approximately \$5.7 billion of undistributed earnings of certain non-United States subsidiaries indefinitely invested outside the United States. Should the Company decide to repatriate foreign earnings, the Company would have to adjust the income tax provision in the period management determines that the earnings will no longer be indefinitely invested outside the United States.

The Company believes, more likely than not, that it will have sufficient taxable income after share-based related deductions to utilize the majority of its deferred tax assets. As of March 30, 2008, the Company has provided a valuation allowance of \$10 million related to previously incurred capital losses. This valuation allowance reflects the uncertainty surrounding the Company's ability to generate sufficient capital gains to utilize all capital losses. In addition, the Company has provided a valuation allowance of \$15 million related to foreign net operating loss carryforwards that are expected to expire unutilized. Deferred tax assets, net of valuation allowance, increased by approximately \$374 million from September 30, 2007 to March 30, 2008, primarily due to the adoption of FIN 48, changes in unrealized marketable securities gains and losses and tax benefits from share-based compensation expense, partially offset by the use of tax credits as a result of continued profitable operations.

Note 5 — Stockholders' Equity

Changes in stockholders' equity for the six months ended March 30, 2008 were as follows (in millions):

Balance at September 30, 2007	\$ 15,835
Net income	1,533
Other comprehensive loss	(352)
Repurchase of common stock	(1,666)
Net proceeds from the issuance of common stock	229
Share-based compensation	256
Tax benefits from exercise of stock options	94
Dividends	(455)
Other	3
Balance at March 30, 2008	<u>\$ 15,477</u>

Stock Repurchase Program. On March 11, 2008, the Company announced that it had been authorized to repurchase up to \$2.0 billion of the Company's common stock. The \$2.0 billion stock repurchase program replaced a \$3.0 billion stock repurchase program, of which approximately \$2 million remained authorized for repurchases. The stock repurchase program has no expiration date. In connection with the Company's stock repurchase program, the Company sold put options on its own stock during fiscal 2007, which were exercised during the six months ended March 30, 2008 requiring the Company to repurchase and retire 5,000,000 shares of its common stock for approximately \$189 million (net of the put option premiums received). During the three months and six months ended March 30, 2008, the Company repurchased and retired 20,227,000 and 42,616,000 shares, respectively, of the Company's common stock for \$762 million and \$1.7 billion, respectively (net of the premiums received related to the put options that were exercised). While the Company has not made any repurchases under the \$2.0 billion stock repurchase program, the Company continues to evaluate repurchases under this program.

Dividends. On March 11, 2008, the Company announced an increase in its quarterly dividend effective for dividends payable after March 28, 2008 from \$0.14 to \$0.16 per share of common stock. On April 10, 2008, the Company announced a cash dividend of \$0.16 per share on the Company's common stock, payable on June 27, 2008 to stockholders of record as of May 30, 2008. Cash dividends announced in the six months ended March 30, 2008 and April 1, 2007 were as follows (in millions, except per share data):

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	2008		2007	
	Per Share	Total	Per Share	Total
First quarter	\$ 0.14	\$ 228	\$ 0.12	\$ 198
Second quarter	0.14	227	0.12	200
Total	<u>\$ 0.28</u>	<u>\$ 455</u>	<u>\$ 0.24</u>	<u>\$ 398</u>

Note 6 — Commitments and Contingencies

Litigation. *Broadcom Corporation v. QUALCOMM Incorporated:* On May 18, 2005, Broadcom filed two actions in the United States District Court for the Central District of California against the Company alleging infringement of ten patents and seeking monetary damages and injunctive relief based thereon. On the same date, Broadcom also filed a complaint in the United States International Trade Commission (ITC) alleging infringement of five of the same patents at issue in the Central District Court cases seeking a determination and relief under Section 337 of the Tariff Act of 1930. On July 1, 2005, Broadcom filed an action in the United States District Court for the District of New Jersey against the Company alleging violations of state and federal antitrust and unfair competition laws as well as common law claims, generally relating to licensing and chip sales activities, seeking monetary damages and injunctive relief based thereon. On September 1, 2006, the New Jersey District Court dismissed the complaint; Broadcom appealed. On September 4, 2007, the Court of Appeals for the Third Circuit reinstated two of the eight federal claims and five pendant state claims in Broadcom’s complaint and affirmed the dismissal of the remaining counts. On November 2, 2007, Broadcom filed an amended complaint in the New Jersey case, adding the allegations from a state court case in California that had been stayed, as discussed below, and a federal antitrust claim based on the California allegations. Two of the Broadcom patent claims filed in the other Central District patent action (which is stayed pending completion of the ITC action) have been dismissed by agreement of the parties. A trial relating to three Broadcom patents was held in May 2007 in one of the Central District Court actions, and on May 29, 2007, the jury rendered a verdict finding willful infringement of the three patents and awarding past damages in the approximate amount of \$20 million. The final judgment, including damages calculations through May 29, 2007 and pre-judgment interest, was approximately \$25 million, which has been secured by an irrevocable letter of credit and expensed pending appeals. On December 31, 2007, the court issued an order enjoining the Company from making, using, selling, shipping, supporting or marketing products that were found to infringe on Broadcom’s patents, subject to a specified limited license through January 2009 on two of the three patents and with respect to the third patent, a limited license as to one set of products. Certain terms were modified in a Second Amended and Restated Permanent Injunction issued by the court on March 11, 2008. The immediately enjoined products are those WCDMA products that relate to patent number 6,847,686 (the ‘686 patent). With respect to EV-DO products involving the ‘686 patent (as well as products relating to the two remaining patents), the judge’s order provides for a permanent injunction but stays the effect of that injunction until January 31, 2009 with respect to companies that purchased these enjoined products as of May 29, 2007. The stay is subject to certain conditions, including the Company’s payment of ongoing royalties. The Company has filed an appeal with the Court of Appeals for the Federal Circuit. The appeals court issued an order expediting the briefing schedule and setting the oral argument date in July 2008.

On February 14, 2006, an ITC hearing also commenced as to three patents alleged by Broadcom to be infringed by the Company. On October 10, 2006, the Administrative Law Judge (ALJ) issued an initial determination in which he recommended against any downstream remedies and found no infringement by the Company on two of the three remaining patents and most of the asserted claims of the third patent. The ALJ did find infringement on some claims of one patent. The ALJ did not recommend excluding chips accused by Broadcom but, instead, recommended a limited exclusion order directed only to chips that are already programmed with a specific software module and recommended a related cease and desist order. The Commission adopted the ALJ’s initial determination on violation and, on June 7, 2007, issued a cease and desist order and an exclusion order directed at chips programmed with specific software and certain downstream products first imported after the date of the exclusion order. The Federal Circuit has issued stays of the exclusion order with respect to the downstream products of all of the Company’s customers that requested the stay. The Company is appealing both the infringement finding and the cease and desist order and the exclusion order to the United States Court of Appeal for the Federal Circuit, and Broadcom is appealing certain rulings of the ALJ. Briefing has been completed, and the parties are awaiting an oral argument date. On November 9, 2007, Broadcom filed an enforcement complaint in the ITC, alleging violations of the ITC’s cease and desist order by the Company. The ITC instituted formal enforcement proceedings and referred

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the matter to the original ALJ who has scheduled a hearing on the matter commencing on April 22, 2008. The target date for completion of the investigation is November 28, 2008. On April 13, 2007, Broadcom filed a new complaint in California state court against the Company alleging unfair competition, breach of contract and fraud, and seeking injunctive and monetary relief. On October 5, 2007, the court ordered the case stayed pending resolution of the New Jersey case, referenced above.

QUALCOMM Incorporated v. Broadcom Corporation: On October 14, 2005, the Company filed an action in the United States District Court for the Southern District of California against Broadcom alleging infringement of two patents, each of which relates to video encoding and decoding for high-end multimedia processing, and seeking monetary damages and injunctive relief based thereon. In January 2007, a jury rendered a verdict finding the patents valid but not infringed. In a subsequent ruling, the trial judge held that the Company was not guilty of inequitable conduct before the United States Patent and Trademark Office (USPTO), but the Company's actions in a video-encoding standards development organization amounted to a waiver of the right to enforce the patents under any circumstances. The Court also ordered the Company to pay Broadcom's attorneys' fees and costs for the case. The Company and Broadcom each filed notices of appeal, but Broadcom subsequently dismissed its appeal. The briefing to the Court of Appeals for the Federal Circuit was completed on April 14, 2008. On January 7, 2008, the Magistrate Judge considering Broadcom's motions for sanctions against the Company for discovery violations issued an order sanctioning the Company and eight of its retained outside attorneys for those discovery violations. The Magistrate Judge referred the eight outside attorneys to the California State Bar for an investigation into possible ethics violations and ordered the Company to participate in a process to create a model discovery protocol. The Magistrate Judge reaffirmed the District Court's previous award of Broadcom's attorneys' fees. On March 5, 2008, the District Court vacated the portion of the Magistrate Judge's order only as it relates to the sanctions imposed on the Company's outside counsel and remanded the case to the Magistrate Judge for further proceedings on those issues.

Actions by the Company and its subsidiaries against Nokia Corporation and/or Nokia Inc.: On November 4, 2005, the Company, along with its wholly-owned subsidiary, SnapTrack, filed an action in the United States District Court for the Southern District of California against Nokia alleging infringement of eleven QUALCOMM patents and one SnapTrack patent relating to GSM/GPRS/EDGE and position location and seeking monetary damages and injunctive relief. The case has been stayed pending resolution of the ITC case referred to below. On May 24, 2006, the Company filed an action in the Chancery Division of the High Court of Justice for England and Wales against Nokia alleging infringement of two QUALCOMM patents relating to GSM/GPRS/EDGE, seeking monetary damages and injunctive relief. On March 3, 2008, the U.K. court ruled that the patents were infringed, but invalid based on prior art. On June 9, 2006, the Company filed a complaint with the ITC against Nokia alleging importation of products that infringe six QUALCOMM patents relating to power control, video encoding and decoding, and power conservation mode technologies and seeking an exclusionary order and a cease and desist order. On July 7, 2006, the ITC commenced an investigation, and the Company subsequently withdrew three of the patents from the proceedings. The trial was completed in September 2007, and the ITC ALJ issued an Initial Determination on December 12, 2007 of no violation by Nokia, and on February 27, 2008 the Commission issued a Final Determination declining to review the ALJ's Initial Determination. The deadline for filing a notice of appeal to the Court of Appeals for the Federal Circuit is April 25, 2008.

In 2006, the Company filed actions against Nokia in the District Court of Dusseldorf, Federal Republic of Germany, the High Court of Paris, France, the Milan Court, Italy and the People's Republic of China, alleging infringement of patents relating to GSM/GPRS/EDGE, seeking monetary damages and seeking injunctive relief. Those cases, along with the Texas case described below, were stayed pursuant to agreement of the parties, pending resolution of the first phase of issues in the Delaware case, also described below. On April 2, 2007, the Company filed suit against Nokia in the Eastern District of Texas, Marshall Division for infringement of three patents and in the Western District of Wisconsin for infringement of two patents. These cases are directed to Nokia GSM/GPRS/EDGE cellular phones. In response, Nokia filed counterclaims alleging infringement by the Company of six Nokia patents, two of which Nokia also asserted against the Company's subsidiary, MediaFLO USA, Inc. Petitions have been filed with the USPTO seeking reexamination of the three patents at issue in the Texas case. In response, the USPTO has initiated reexamination proceedings but to date has not issued any office actions. On July 11, 2007, the Wisconsin Court issued an order transferring that case to the United States District Court for the Southern District of California, and the parties have consolidated the matter with the San Diego matter referenced

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above and stipulated to a stay of the proceedings pending final resolution of the ITC matter referenced above. On April 5, 2007, the Company filed an arbitration demand with the American Arbitration Association requesting a ruling that, among other things, Nokia's continued use of the Company's patents in Nokia's CDMA cellular devices (including WCDMA) after April 9, 2007 constitutes an election by Nokia to extend its license under the parties' existing agreement. On July 9, 2007, the Company filed an amended demand for arbitration, alleging that Nokia's institution of certain patent infringement proceedings against the Company was a material breach of the license agreement between the parties. The arbitration matter has been transferred by agreement of the parties and consolidated with the case described below pending in Delaware Chancery Court.

Nokia Corporation and Nokia Inc. v. QUALCOMM Incorporated: On August 9, 2006, Nokia Corporation and Nokia Inc. filed a complaint in Delaware Chancery Court seeking declaratory and injunctive relief relating to alleged commitments made by the Company to wireless industry standards setting organizations. On April 12, 2007 and June 5, 2007, the Company filed counterclaims seeking declarations that, among other things, the Company's 2001 license agreement with Nokia fulfilled and/or superseded any ostensible obligations to offer or grant patent licenses to Nokia allegedly arising from the Company's participation in certain standards setting organizations. At the Court's suggestion, the parties stipulated to consolidate the arbitration matter filed by the Company referenced above into the Delaware case. The Court ordered the case to be tried in two phases, with trial of the first phase to commence in July 2008. In March 2007, Nokia filed actions in Germany and the Netherlands alleging that certain of the Company's patents are exhausted with regard to Nokia's products placed on the European market that contain chipsets supplied to Nokia by Texas Instruments. On October 23, 2007, the German court dismissed Nokia's claims. On November 14, 2007, the Dutch court dismissed Nokia's claims. Nokia did not appeal either decision, and its time for appeal has lapsed. On August 16, 2007, Nokia Corporation and Nokia Inc. filed a complaint with the ITC alleging importation of products that infringe five Nokia patents and seeking an exclusionary order and a cease and desist order. The ITC instituted an investigation on September 17, 2007. The Company filed a motion to terminate the investigation pending resolution of the arbitration proceeding instituted by the Company on April 5, 2007. On October 18, 2007, the ALJ issued an order recommending the Company's motion be granted. On November 21, 2007, the ITC announced that it would not review the ALJ's determination, thus rendering that determination final.

European Commission Complaint: On October 28, 2005, it was reported that six companies (Broadcom, Nokia, Texas Instruments, NEC, Panasonic and Ericsson) filed complaints with the European Commission, alleging that the Company violated European Union competition law in its WCDMA licensing practices. The Company has received the complaints and has submitted replies to the allegations, as well as documents and other information requested by the European Commission. On October 1, 2007, the European Commission announced that it was initiating a proceeding, though it has not decided to issue a Statement of Objections, and it has not made any conclusions as to the merits of the complaints.

Tessera, Inc. v. QUALCOMM Incorporated: On April 17, 2007, Tessera, Inc. filed a patent infringement lawsuit in the United States District Court for the Eastern Division of Texas and a complaint with the ITC pursuant to Section 337 of the Tariff Act of 1930 against the Company and other companies, alleging infringement of two patents relating to semiconductor packaging structures and seeking monetary damages and injunctive and other relief based hereon. The District Court suit for damages is stayed pending resolution of the ITC proceeding. The ITC instituted the investigation on May 15, 2007. The patents at issue are being reexamined by the USPTO based on petitions filed by a third-party. The USPTO's Central Reexamination Unit has issued office actions rejecting all of the asserted patent claims on the grounds that they are invalid in view of certain prior art. Tessera is contesting these rejections, and the USPTO has not made a final decision. On February 26, 2008, the ALJ stayed the ITC proceedings pending completion of the USPTO's reexamination proceedings. On March 27, 2008, the Commission reversed the ALJ's order and ordered the ITC proceeding to be reinstated. A new hearing date has not yet been scheduled.

In April 2008, two complaints were filed on behalf of purported classes of individuals who purchased UMTS devices or service, seeking damages and injunctive relief under federal and/or state antitrust and unfair competition laws as a result of the Company's licensing and sales practices. The Company has not yet responded to the complaints.

Other: 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, and individually filed

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actions pending in Pennsylvania and Washington D.C., seeking monetary damages arising out of its sale of cellular phones. The courts that have reviewed similar claims against other companies to date have held that there was insufficient scientific basis for the plaintiffs' claims in those cases.

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

The Japan Fair Trade Commission has also received unspecified complaints alleging the Company's business practices are, in some way, a violation of Japanese law. The Company has not received the complaints but has submitted certain requested information and documents to the Japan Fair Trade Commission.

Although there can be no assurance that unfavorable outcomes in any of the foregoing matters would not have a material adverse effect on the Company's operating results, liquidity or financial position, the Company believes the claims made by other parties are without merit and will vigorously defend the actions. Other than amounts relating to the *Broadcom Corporation v. QUALCOMM Incorporated* and *QUALCOMM Incorporated v. Broadcom Corporation* matters, the Company has not recorded any accrual for contingent liabilities associated with the other legal proceedings described above, based on the Company's belief that additional liabilities, while possible, are 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.

Purchase Obligations. The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Noncancelable obligations under these agreements as of March 30, 2008 for the remainder of fiscal 2008 and for each of the subsequent four years from fiscal 2009 through 2012 were approximately \$896 million, \$141 million, \$103 million, \$46 million and \$32 million, respectively, and \$8 million thereafter. Of these amounts, for the remainder of fiscal 2008 and for fiscal 2009, commitments to purchase integrated circuit product inventories comprised \$702 million and \$31 million, respectively.

Leases. The Company leases certain of its facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 30 years and with provisions in certain leases for cost-of-living increases. The Company leases certain property under capital lease agreements that expire at various dates through 2039. Capital lease obligations are included in other liabilities. The future minimum lease payments for all capital leases and operating leases as of March 30, 2008 were as follows (in millions):

	Capital Leases	Operating Leases	Total
Remainder of fiscal 2008	\$ 3	\$ 40	\$ 43
2009	7	70	77
2010	7	57	64
2011	7	41	48
2012	7	35	42
Thereafter	201	192	393
Total minimum lease payments	<u>\$ 232</u>	<u>\$ 435</u>	<u>\$ 667</u>
Deduct: Amounts representing interest	<u>(127)</u>		
Present value of minimum lease payments	105		
Deduct: Current portion of capital lease obligations	—		
Long-term portion of capital lease obligations	<u>\$ 105</u>		

Note 7 — Segment Information

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

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- Qualcomm CDMA Technologies (QCT) — develops and supplies integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning system products based on our CDMA technology and other technologies;
- Qualcomm Technology Licensing (QTL) — grants licenses to use portions of the Company’s intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing cdmaOne, CDMA2000, WCDMA, CDMA TDD and/or OFDMA standards and their derivatives, and collects license fees and royalties in partial consideration for such licenses;
- Qualcomm Wireless & Internet (QWI) — comprised of:
 - o Qualcomm Internet Services (QIS) — provides technology to support and accelerate the convergence of the wireless data market, including its BREW and QChat products and services;
 - o Qualcomm Government Technologies (QGOV) — provides development, hardware and analytical expertise to United States government agencies involving wireless communications technologies; and
 - o Qualcomm Enterprise Services (QES) — provides satellite and terrestrial-based two-way data messaging, position reporting and wireless application services to transportation companies, private fleets, construction equipment fleets and other enterprise companies. QES also sells products that operate on the Globalstar low-Earth-orbit satellite-based telecommunications system and provides related services.
 - o Firethorn — builds and manages software applications that enable financial institutions and wireless operators to offer mobile commerce capabilities.
- Qualcomm Strategic Initiatives (QSI) — manages the Company’s strategic investment activities, including MediaFLO USA, Inc. (MediaFLO USA), the Company’s wholly-owned wireless multimedia operator subsidiary. QSI also makes strategic investments to promote the worldwide adoption of CDMA-based products and services.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT). EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Certain income and charges are not allocated to segments in the Company’s management reports because they are not considered in evaluating the segments’ operating performance. The table below presents revenues and EBT for reportable segments (in millions):

	QCT	QTL	QWI	QSI	Reconciling Items	Total
For the three months ended:						
March 30, 2008						
Revenues	\$1,620	\$ 795	\$194	\$ 2	\$ (5)	\$2,606
EBT	427	684	—	(63)	(142)	906
April 1, 2007						
Revenues	\$1,259	\$ 759	\$198	\$ —	\$ 5	\$2,221
EBT	368	636	20	(42)	(54)	928
For the six months ended:						
March 30, 2008						
Revenues	\$3,194	\$1,445	\$405	\$ 4	\$ (1)	\$5,047
EBT	897	1,224	24	(117)	(192)	1,836
April 1, 2007						
Revenues	\$2,490	\$1,359	\$387	\$ —	\$ 4	\$4,240
EBT	684	1,134	40	(85)	(67)	1,706

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

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	Three Months Ended		Six Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Revenues				
Elimination of intersegment revenue	\$ (5)	\$ (3)	\$ (8)	\$ (11)
Other nonreportable segments	—	8	7	15
Reconciling items	<u>\$ (5)</u>	<u>\$ 5</u>	<u>\$ (1)</u>	<u>\$ 4</u>
Earnings (loss) before income taxes				
Unallocated research and development expenses	\$ (78)	\$ (95)	\$ (154)	\$ (177)
Unallocated selling, general and administrative expenses	(82)	(81)	(164)	(161)
Unallocated cost of equipment and services revenues	(9)	(9)	(19)	(20)
Unallocated investment income, net	81	169	242	368
Other nonreportable segments	(52)	(37)	(95)	(72)
Intracompany eliminations	<u>(2)</u>	<u>(1)</u>	<u>(2)</u>	<u>(5)</u>
Reconciling items	<u>\$ (142)</u>	<u>\$ (54)</u>	<u>\$ (192)</u>	<u>\$ (67)</u>

During the three months and six months ended March 30, 2008, unallocated research and development expenses included \$60 million and \$117 million, respectively, and unallocated selling, general and administrative expenses included \$61 million and \$119 million, respectively, of share-based compensation expense. During the three months and six months ended April 1, 2007, unallocated research and development expenses included \$58 million and \$115 million, respectively, and unallocated selling, general and administrative expenses included \$59 million and \$121 million, respectively, of share-based compensation expense. Unallocated cost of equipment and services revenues was comprised entirely of share-based compensation expense.

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

	QCT	QTL	QWI	QSI
For the three months ended:				
March 30, 2008				
Revenues from external customers	\$1,618	\$ 794	\$192	\$ 2
Intersegment revenues	2	1	2	—
April 1, 2007				
Revenues from external customers	\$1,257	\$ 758	\$197	\$—
Intersegment revenues	2	1	1	—
For the six months ended:				
March 30, 2008				
Revenues from external customers	\$3,190	\$1,444	\$401	\$ 4
Intersegment revenues	4	1	4	—
April 1, 2007				
Revenues from external customers	\$2,482	\$1,358	\$384	\$—
Intersegment revenues	8	1	3	—

Intersegment revenues are based on prevailing market rates for substantially similar products and services or an approximation thereof, and the purchasing segment records the cost of revenues (or inventory write-downs) at the selling segment's original cost. The elimination of the selling segment's gross margin is included with other intersegment eliminations in reconciling items.

Segment assets are comprised of accounts receivable and inventories for QCT, QTL and QWI. The QSI segment assets include certain marketable securities, notes receivable, wireless licenses, other investments and all assets of QSI's consolidated subsidiary, MediaFLO USA, including property, plant and equipment. QSI's assets related to the MediaFLO USA business totaled \$508 million and \$457 million at March 30, 2008 and

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September 30, 2007, respectively. Reconciling items for total assets included \$212 million and \$215 million at March 30, 2008 and September 30, 2007, respectively, of goodwill and other assets related to the Qualcomm MEMS Technologies division, a nonreportable segment developing display technology for mobile devices and other applications. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of cash, cash equivalents, certain marketable securities, property, plant and equipment, deferred tax assets, goodwill and certain intangible and other assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

	March 30, 2008	September 30, 2007
QCT	\$ 1,079	\$ 921
QTL	16	29
QWI	205	200
QSI	891	896
Reconciling items	<u>15,961</u>	<u>16,449</u>
Total consolidated assets	<u>\$ 18,152</u>	<u>\$ 18,495</u>

Note 8 — Acquisitions

During the six months ended March 30, 2008, the Company acquired five businesses for total cash consideration of \$262 million. Approximately \$3 million in consideration payable in cash through June 2009 was held back as security for certain indemnification obligations. The Company is in the process of finalizing the accounting for the acquisitions and does not anticipate material adjustments to the preliminary purchase price allocations. Goodwill recognized in these transactions amounted to \$202 million, of which \$26 million is expected to be deductible for tax purposes. Technology-based intangible assets recognized in the amount of \$57 million are being amortized on a straight-line basis over a weighted-average amortization period of 6 years. The condensed consolidated financial statements include the operating results of these businesses from their respective dates of acquisition. Pro forma results of operations have not been presented because the effects of the acquisitions were not material.

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

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 30, 2007 contained in our 2007 Annual Report on Form 10-K.

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

Overview

Recent Developments

Revenues for the second quarter of fiscal 2008 were \$2.6 billion, with net income of \$766 million. The following recent developments occurred with respect to key elements of our business or our industry during the second quarter of fiscal 2008:

- Worldwide wireless subscribers grew by approximately 4% to reach approximately 3.5 billion⁽¹⁾
- CDMA subscribers, including both 2G (cdmaOne) and 3G (CDMA2000 1X, 1xEV-DO and WCDMA), are approximately 18% of total worldwide wireless subscribers to date. ⁽¹⁾
- 3G subscribers (all CDMA-based) grew to approximately 625 million worldwide by March 30, 2008, including approximately 400 million CDMA2000 1X/1xEV-DO subscribers and approximately 225 million WCDMA/HSPA subscribers. ⁽¹⁾
- CDMA-based device shipments continue to grow at a strong pace. We estimate approximately 112 million units shipped during the fourth calendar quarter, an increase of 27% over the 88 million units shipped in the year ago quarter. ^{(2) (4)}
- In the handset market, CDMA-based unit shipments grew 26% year-over-year, compared to 12% year-over-year growth across all technologies.⁽³⁾
- The average selling price of CDMA-based devices was estimated to be approximately \$222, up 4% from the year ago quarter^{(2) (4)}
- We shipped approximately 85 million Mobile Station Modem (MSM) integrated circuits for CDMA-based wireless devices and data modules, an increase of 39%, compared to approximately 61 million MSM integrated circuits in the year ago quarter.
- In late 2004, we discovered that Ericsson and Sony Ericsson were underreporting and underpaying royalties to us for sales of subscriber units under the license agreement between Ericsson and us. In March 2008, the parties resolved the dispute as to both past and future sales. As part of the settlement, the parties have dismissed the arbitration addressing this dispute.
- During the second quarter of fiscal 2008, we entered into an agreement with Nokia Corp. to consolidate the arbitration we had filed against Nokia into the pre-existing litigation in Delaware originally filed by Nokia. That case now addresses, among other things, our dispute with Nokia regarding Nokia's obligation to pay royalties for the use of certain of our patents. As a result of the dispute, under generally accepted accounting principles, we are not recording royalty revenue attributable to Nokia's sales after April 9, 2007 until a court awards damages or the disputes are otherwise resolved by agreement, resulting in a negative impact on royalty revenues reported by our QTL segment. We expect legal activity in this area to remain high through 2009.
- We continue to be engaged in litigation with Broadcom Corporation in various forums. On December 31, 2007, the Federal District Court in Santa Ana, California issued an injunction as to certain of our products, while enjoining but mandating a limited license with respect to other products. We continue the effort to design products to avoid the claims of the patents found by the jury to infringe Broadcom's patents. We have introduced chipsets ready for commercial-production devices that do not include the accused function of the 6,847,686 patent. We are appealing the adverse finding in this case on an expedited schedule.

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- (1) According to Wireless Intelligence, an independent source of wireless operator data.
 - (2) Second quarter of fiscal 2008 information was derived from reports provided by our licensees/manufacturers during the quarter and our own estimates of unreported activity. Second quarter of fiscal 2007 information was derived from reports provided by our licensees/manufacturers during the quarter.
 - (3) Based on current reports by Strategy Analytics, a global research and consulting firm, in their Global Handset Market Share Updates.
 - (4) We perform periodic audits of the royalties payable by our licensees. As a result of our audit process, we determined during the fourth quarter of fiscal 2007 that total CDMA-based device shipments and average selling prices (ASPs) should be adjusted for certain periods. Historical units and ASPs for the second quarter of fiscal 2007 have been revised to reflect these adjustments. The adjustments related only to device shipments and ASPs and did not impact the amount or timing of our revenues.

Our Business and Operating Segments

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

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

QCT is a leading developer and supplier of CDMA-based integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning system products. QCT's integrated circuit products and system software are used in wireless devices, particularly mobile phones, data cards and infrastructure equipment. The integrated circuits for wireless devices include the Mobile Station Modem (MSM), Radio Frequency (RF) and Power Management (PM) devices. These integrated circuits for wireless devices and system software perform voice and data communication, multimedia and global positioning functions, radio conversion between RF and baseband signals and power management. QCT's system software enables the other device components to interface with the integrated circuit products and is the foundation software enabling phone manufacturers to develop devices utilizing the functionality within the integrated circuits. The infrastructure equipment integrated circuits and system software perform the core baseband CDMA modem functionality in the wireless operator's base station equipment. In addition to the key components in a wireless system, QCT provides system reference designs and development tools to assist in customizing wireless devices and user interfaces, to integrate our products with components developed by others, and to test interoperability with existing and planned networks. QCT revenues comprised 62% and 57% of total consolidated revenues in the second quarter of fiscal 2008 and 2007, respectively, and 63% and 59% of total consolidated revenues for the first six months of fiscal 2008 and 2007, respectively.

QCT utilizes a fabless production business model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. We rely on independent third-party suppliers to perform the manufacturing and assembly, and most of the testing, of our integrated circuits. Our suppliers are also responsible for the procurement of most of the raw materials used in the production of our integrated circuits. We employ both turnkey and two-stage manufacturing business models to purchase our integrated circuits. Turnkey is when our foundry suppliers are responsible for delivering fully assembled and tested integrated circuits. Under the two-stage manufacturing business model, we purchase completed die directly from semiconductor manufacturing foundries and contract directly with third-party manufacturers for back-end assembly and test services. We refer to this two-stage manufacturing business model as Integrated Fabless Manufacturing (IFM).

QTL grants licenses to use portions of our intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing cdmaOne, CDMA2000, WCDMA, CDMA TDD, GPRS/EDGE and/or OFDMA standards and their derivatives. QTL receives license fees as well as ongoing royalties based on worldwide sales by licensees

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of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments. Ongoing royalties are generally based upon a percentage of the wholesale selling price of licensed products, net of certain permissible deductions (e.g. certain shipping costs, packing costs, VAT, etc.). QTL revenues comprised 31% and 34% of total consolidated revenues in the second quarter of fiscal 2008 and 2007, respectively, and 29% and 32% of total consolidated revenues for the first six months of fiscal 2008 and 2007, respectively. The vast majority of such revenues have been generated through our licensees' sales of cdmaOne, CDMA2000 and WCDMA products.

QWI, which includes Qualcomm Enterprise Services (QES), Qualcomm Internet Services (QIS), Qualcomm Government Technologies (QGOV) and Firethorn, generates revenues primarily through mobile communication products and services, software and software development aimed at support and delivery of wireless applications. QES sells equipment, software and services used by transportation and other companies to connect wirelessly with their assets, products and workforce. QES also sells products that operate on the Globalstar low-Earth-orbit satellite-based telecommunications system and provides related services. Through March 2008, QES has shipped approximately 1,247,000 terrestrial-based and satellite-based communications systems. QIS provides BREW-based (Binary Runtime Environment for Wireless) products that include user interface and content delivery and management products and services for the wireless industry. QIS also provides QChat, which enables virtually instantaneous push-to-talk functionality on CDMA-based wireless devices. The QGOV division provides development, hardware and analytical expertise involving wireless communications technologies to United States government agencies. Firethorn builds and manages software applications that enable financial institutions and wireless operators to offer mobile commerce capabilities. QWI revenues comprised 7% and 9% of total consolidated revenues in the second quarter of fiscal 2008 and 2007, respectively, and 8% and 9% of total consolidated revenues for the first six months of fiscal 2008 and 2007, respectively.

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

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

Looking Forward

The deployment of 3G networks (CDMA2000 and WCDMA) enables higher voice capacity and data rates, thereby supporting more minutes of use and data intensive applications like multimedia. As a result, we expect continued growth in demand for 3G products and services around the world. As we look forward to the next several months, the following items are likely to have an impact on our business:

- The deployment and upgrading of CDMA2000 networks is expected to continue.
 - o More than 255 operators have launched CDMA2000 1X;(1)
 - o More than 95 operators have deployed the higher data speeds of 1xEV-DO and more than 30 operators have deployed, and several more are preparing to deploy EV-DO Revision A. (1)

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- GSM operators are expected to continue transitioning to WCDMA networks.
 - o More than 210 GSM operators have migrated their networks to WCDMA;⁽²⁾
 - o More than 180 operators have launched commercial HSDPA networks, and more than 30 operators have launched commercial HSUPA networks.⁽²⁾
- We expect WCDMA device prices will continue to segment into high and low end due to high volumes and vibrant competition in marketplaces around the world. As more operators deploy the higher data speeds of HSPA, we expect consumer demand for advanced 3G devices to accelerate.
- To meet growing demand for advanced 3G wireless devices and increased multimedia MSM functionality, we intend to continue to invest significant resources toward the development of multimedia products, software and services for the wireless industry. However, we expect that a considerable portion of our research and development initiatives in fiscal 2008 will not reach commercialization until several years in the future.
- We expect demand for low-end wireless devices to continue to grow and have developed a family of Qualcomm Single Chip (QSC) products, which integrate the baseband, radio frequency and power management functions into one chip, lowering component counts and enabling faster time-to-market for our customers. While we continue to invest resources aggressively to expand our QSC product family to address the low-end market more effectively with CDMA-based products, we still face significant competition from GSM-based products, particularly in emerging markets.
- We will continue to invest in the evolution of CDMA and a broad range of other technologies as part of our vision to enable a range of technologies, each optimized for specific services, including the following products and technologies:
 - o The continued evolution of CDMA-based technologies, including the long-term roadmaps of 1xEV-DO and High Speed Packet Access (HSPA);
 - o OFDM- and OFDMA-based technologies;
 - o Our BREW applications platform, content delivery services and user interfaces;
 - o Our MediaFLO MDS and FLO technology for delivery of multimedia content; and
 - o Our IMOD display technology.

In addition to the foregoing business and market-based matters, the following items are likely to have an impact on our business and results of operations over the next several months:

- We expect that we will continue to be involved in litigation, including our ongoing disputes with Broadcom and Nokia, and to appear in front of administrative and regulatory bodies, including the European Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission to defend our business model and, in some cases, to rebuff efforts by companies to gain competitive advantage or negotiating leverage.
- We have been and will continue evaluating and providing reasonable assistance to our customers. This includes, in some cases, certain levels of financial support to minimize the impact of the litigation in which we are involved.
- We will continue to devote resources to working with and educating all participants in the wireless value chain as to the benefits of our business model in promoting a highly competitive and innovative wireless market. However, we expect that certain companies may continue to be dissatisfied with the need to pay reasonable royalties for the use of our technology and not welcome the success of our business model in enabling new, highly cost-effective competitors to their products. We expect that such companies will continue to challenge our business model in various forums throughout the world.

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- (1) According to public reports made available at www.cdg.org.
 - (2) As reported by the Global mobile Suppliers Association, an international organization of WCDMA and GSM (Global System for Mobile Communications) suppliers in their April 2008 reports.

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

Revenue Concentrations

Revenues from customers in South Korea, China, Japan and the United States comprised 35%, 22%, 16% and 10%, respectively, of total consolidated revenues for the first six months of fiscal 2008, as compared to 29%, 22%, 18% and 14%, respectively, for the first six months of fiscal 2007. We distinguish revenues from external customers by geographic areas based on the location to which our products, software or services are delivered and, for QTL's licensing and royalty revenues, the invoiced addresses of our licensees. The increase in revenues from customers in South Korea from 29% to 35% of total revenues is primarily attributable to increased shipments of integrated circuits to CDMA device manufacturers with locations in South Korea and royalty revenues from customers in South Korea. Combined revenues from customers in Japan and the United States decreased as a percentage of total revenues, from 32% to 26%, primarily due to the increased activity by manufacturers with locations in South Korea.

Critical Accounting Policies and Estimates

Income Taxes. On October 1, 2007, we adopted the accounting provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." As a result of the adoption, we increased our liabilities related to uncertain tax positions by \$2 million and accounted for the cumulative effect of this change as a decrease to retained earnings. See "Notes to Condensed Consolidated Financial Statements, Note 4 — Income Taxes" for additional information. As of March 30, 2008, our liability for net unrecognized tax benefits was \$212 million.

Our income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result of the implementation of FIN 48, we recognize liabilities for uncertain tax positions based on the two-step process prescribed in the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While we believe we have appropriate support for the positions taken on our tax returns, we regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. Although the timing and ultimate resolution of audits is uncertain, we do not believe it is reasonably possible that the total amounts of unrecognized tax benefits will materially change in the next 12 months.

Second Quarter of Fiscal 2008 Compared to Second Quarter of Fiscal 2007

Revenues. Total revenues for the second quarter of fiscal 2008 were \$2.61 billion, compared to \$2.22 billion for the second quarter of fiscal 2007.

Revenues from sales of equipment and services for the second quarter of fiscal 2008 were \$1.73 billion, compared to \$1.37 billion for the second quarter of fiscal 2007. Revenues from sales of integrated circuit products increased \$359 million, resulting primarily from an increase of \$329 million related to higher unit shipments, mostly consisting of MSM and accompanying RF and PM integrated circuits, and an increase of \$36 million related to the net effects of changes in product mix and the average sales prices of such products.

Revenues from licensing and royalty fees for the second quarter of fiscal 2008 were \$881 million, compared to \$851 million for the second quarter of fiscal 2007. Revenues from licensing and royalty fees increased primarily as a result of a \$38 million increase in QTL royalties related to an increase in sales of CDMA-based products by licensees driven by the continued adoption of WCDMA at higher ASPs than CDMA and settlement of the Sony Ericsson arbitration, partially offset by the effect of Nokia's failure to report royalties on its sales after April 9, 2007.

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Cost of Equipment and Services. Cost of equipment and services revenues for the second quarter of fiscal 2008 was \$820 million, compared to \$634 million for the second quarter of fiscal 2007. Cost of equipment and services revenues as a percentage of equipment and services revenues was 48% for the second quarter of fiscal 2008, compared to 46% for the second quarter of fiscal 2007. The decline in gross margin percentage in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 was primarily attributable to the effect of the commencement of our MediaFLO services in March 2007. Cost of equipment and services revenues included \$9 million in share-based compensation in the second quarter of both fiscal 2008 and 2007. 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 2008, research and development expenses were \$553 million or 21% of revenues, compared to \$454 million or 20% of revenues for the second quarter of fiscal 2007. The dollar increase was primarily attributable to a \$90 million increase in costs related to the development of integrated circuit products, next-generation CDMA and OFDMA technologies, the expansion of our intellectual property portfolio and other initiatives to support the acceleration of advanced wireless products and services, including lower-cost devices, the integration of wireless with consumer electronics and computing, the convergence of multiband, multimode, multinet network products and technologies, third-party operating systems and services platforms. The technologies supporting these initiatives may include CDMA2000 1X, 1xEV-DO, EV-DO Revision A, EV-DO Revision B, WCDMA (including GSM/GPRS/EDGE), HSDPA, HSUPA and OFDMA. Research and development expenses related to the development of our FLO technology, MediaFLO MDS, IMOD display products using MEMS technology, BREW products and mobile commerce applications increased by \$15 million. Research and development expenses for the second quarter of fiscal 2008 included share-based compensation of \$60 million, compared to \$58 million in the second quarter of fiscal 2007. Research and development expenses for the second quarter of fiscal 2007 also included in-process research and development of \$10 million. No in-process research and development was recorded in the second quarter of fiscal 2008.

Selling, General and Administrative Expenses. For the second quarter of fiscal 2008, selling, general and administrative expenses were \$420 million or 16% of revenues, compared to \$385 million or 17% of revenues for the second quarter of fiscal 2007. The dollar increase was primarily attributable to a \$29 million increase in professional fees and a \$20 million increase in employee-related expenses, partially offset by a \$21 million decrease in bad debt expense. Selling, general and administrative expenses for the second quarter of fiscal 2008 included share-based compensation of \$61 million, compared to \$60 million in the second quarter of fiscal 2007.

Net Investment Income. Net investment income was \$93 million for the second quarter of fiscal 2008, compared to \$180 million for the second quarter of fiscal 2007. The net decrease was comprised as follows (in millions):

	Three Months Ended		Change
	March 30, 2008	April 1, 2007	
Interest and dividend income:			
Corporate and other segments	\$ 117	\$ 125	\$ (8)
QSI	—	3	(3)
Interest expense	(6)	(2)	(4)
Net realized gains on investments:			
Corporate	13	49	(36)
QSI	24	6	18
Other-than-temporary losses on investments	(62)	(1)	(61)
Gains on derivative instruments	4	—	4
Equity in earnings of investees	3	—	3
	<u>\$ 93</u>	<u>\$ 180</u>	<u>\$ (87)</u>

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The decrease in interest and dividend income on cash, cash equivalents and marketable securities held by corporate and other segments was primarily a result of lower average balances on interest-bearing securities and lower interest rates. Other-than-temporary losses in the second quarter of fiscal 2008 generally related to market liquidity concerns that have depressed securities values over the past few months, which also contributed to the decrease in net realized gains on corporate investments. Net realized gains on QSI investments in the second quarter of fiscal 2008 were related to the sale of our investment in Inquam.

Income Tax Expense. Income tax expense was \$140 million for the second quarter of fiscal 2008, compared to \$202 million for the second quarter of fiscal 2007. The annual effective tax rate is estimated to be 16% for fiscal 2008, compared to the annual effective rate of 9% for fiscal 2007. The 15% effective tax rate recorded in the second quarter of fiscal 2008 was lower than the estimated annual effective tax rate for fiscal 2008 due to a change in our estimate of foreign earnings taxed at less than the United States federal tax rate. The 22% effective tax rate recorded in the second quarter of fiscal 2007 was higher than the annual effective tax rate primarily due to the impact of prior year audits completed during the fourth quarter of fiscal 2007.

The estimated annual effective tax rate for fiscal 2008 is 19% lower than the United States federal statutory rate primarily due to benefits of approximately 23% related to foreign earnings taxed at less than the United States federal rate and 1% related to research and development tax credits, partially offset by state taxes of approximately 5%.

First Six Months of Fiscal 2008 Compared to First Six Months of Fiscal 2007

Revenues. Total revenues for the first six months of fiscal 2008 were \$5.05 billion, compared to \$4.24 billion for the first six months of fiscal 2007. Revenues from two customers of our QCT, QTL and QWI segments (each of whom accounted for more than 10% of our consolidated revenues for the period) comprised approximately 30% and 26% in aggregate of total consolidated revenues in the first six months of fiscal 2008 and 2007, respectively.

Revenues from sales of equipment and services for the first six months of fiscal 2008 were \$3.43 billion, compared to \$2.71 billion for the first six months of fiscal 2007. Revenues from sales of integrated circuit products increased \$698 million, resulting primarily from an increase of \$621 million related to higher unit shipments, mostly consisting of MSM and accompanying RF and PM integrated circuits, and an increase of \$100 million related to the net effects of changes in product mix and the average sales prices of such products.

Revenues from licensing and royalty fees for the first six months of fiscal 2008 were \$1.62 billion, compared to \$1.53 billion for the first six months of fiscal 2007. Revenues from licensing and royalty fees increased primarily as a result of a \$92 million increase in QTL royalties related to an increase in sales of CDMA-based products by licensees driven by the continued adoption of WCDMA at higher ASPs than CDMA and settlement of the Sony Ericsson arbitration, partially offset by the effect of Nokia's failure to report royalties on its sales after April 9, 2007.

Cost of Equipment and Services. Cost of equipment and services revenues for the first six months of fiscal 2008 was \$1.60 billion, compared to \$1.27 billion for the first six months of fiscal 2007. Cost of equipment and services revenues as a percentage of equipment and services revenues was 47% for the first six months of fiscal 2008 and 2007. Gross margin percentage remained flat in the first six months of fiscal 2008 compared to the first six months of fiscal 2007 primarily due to the increase in QCT equipment and services revenues as a percentage of total equipment and services revenues, offset by the effect related to the commencement of our MediaFLO services in March 2007. Cost of equipment and services revenues in the first six months of fiscal 2008 included \$19 million in share-based compensation, compared to \$20 million in the first six months of fiscal 2007.

Research and Development Expenses. For the first six months of fiscal 2008, research and development expenses were \$1.06 billion or 21% of revenues, compared to \$895 million or 21% of revenues for the first six months of fiscal 2007. The dollar increase was primarily attributable to a \$151 million increase in costs related to the development of integrated circuit products, next-generation CDMA and OFDMA technologies, the expansion of our intellectual property portfolio and other initiatives to support the acceleration of advanced wireless products and services, including lower-cost devices, the integration of wireless with consumer electronics and computing, the convergence of multiband, multimode, multinet network products and technologies, third-party operating systems and services platforms. The technologies supporting these initiatives may include CDMA2000 1X, 1xEV-DO, EV-DO Revision A, EV-DO Revision B, WCDMA (including GSM/GPRS/EDGE), HSDPA, HSUPA and OFDMA. Research and development expenses related to the development of our FLO technology, MediaFLO MDS, IMOD display products using MEMS technology, BREW products and mobile commerce applications increased by \$29 million. Research and development expenses in the first six months of fiscal 2008 included share-based compensation and in-process research and development of \$117 million and \$2 million, respectively, compared to \$115 million and \$10 million, respectively, in the first six months of fiscal 2007.

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Selling, General and Administrative Expenses. For the first six months of fiscal 2008, selling, general and administrative expenses were \$808 million or 16% of revenues, compared to \$754 million or 18% of revenues for the first six months of fiscal 2007. The dollar increase was primarily attributable to a \$52 million increase in employee-related expenses and a \$38 million increase in professional fees, partially offset by a \$36 million decrease in bad debt expense. Selling, general and administrative expenses in the first six months of fiscal 2008 included share-based compensation of \$121 million, compared to \$123 million in the first six months of fiscal 2007.

Net Investment Income. Net investment income was \$265 million for the first six months of fiscal 2008, compared to \$383 million for the first six months of fiscal 2007. The net decrease was comprised as follows (in millions):

	Six Months Ended		Change
	March 30, 2008	April 1, 2007	
Interest and dividend income:			
Corporate and other segments	\$ 269	\$ 266	\$ 3
QSI	1	4	(3)
Interest expense	(13)	(3)	(10)
Net realized gains on investments:			
Corporate	83	112	(29)
QSI	35	7	28
Other-than-temporary losses on investments	(119)	(2)	(117)
Gains (losses) on derivative instruments	6	(1)	7
Equity in earnings of investees	3	—	3
	<u>\$ 265</u>	<u>\$ 383</u>	<u>\$ (118)</u>

Other-than-temporary losses in the first six months of fiscal 2008 generally related to market liquidity concerns that have depressed securities values over the past few months, which also contributed to the decrease in net realized gains on corporate investments. Net realized gains on QSI investments in the first six months of fiscal 2008 relate primarily to the sale of our investment in Inquam.

Income Tax Expense. Income tax expense was \$303 million for the first six months of fiscal 2008, compared to \$333 million for the first six months of fiscal 2007. The effective tax rate was 17% for the first six months of fiscal 2008, compared to 20% for the first six months of fiscal 2007. The annual effective tax rate is estimated to be 16% for fiscal 2008, compared to the annual effective rate of 9% for fiscal 2007. The 17% effective tax rate recorded in the first six months of fiscal 2008 was higher than the estimated annual effective tax rate for fiscal 2008 due to the effect of discrete items recorded in the first six months of fiscal 2008, primarily the revaluation of deferred tax assets to reflect changes in the blended state tax rate and a change in the forecast of our ability to use capital loss carryforwards, partially offset by a change in our estimate of foreign earnings taxed at less than the United States federal tax rate that occurred in the second quarter of fiscal 2008. The 20% effective tax rate recorded in the first six months of fiscal 2007 was higher than the annual effective tax rate of 9% primarily due to the impact of prior year audits completed during the fourth quarter of fiscal 2007.

The estimated annual effective tax rate for fiscal 2008 is 19% lower than the United States federal statutory rate primarily due to benefits of approximately 23% related to foreign earnings taxed at less than the United States federal rate and 1% related to research and development tax credits, partially offset by state taxes of approximately 5%.

Our Segment Results for the Second Quarter of Fiscal 2008 Compared to the Second Quarter of Fiscal 2007

The following should be read in conjunction with the second quarter financial results of fiscal 2008 for each reporting segment. See “Notes to Condensed Consolidated Financial Statements, Note 7 — Segment Information.”

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QCT Segment. QCT revenues for the second quarter of fiscal 2008 were \$1.62 billion, compared to \$1.26 billion for the second quarter of fiscal 2007. Equipment and services revenues, mostly consisting of MSM and accompanying RF and PM integrated circuits, were \$1.58 billion for the second quarter of fiscal 2008, compared to \$1.22 billion for the second quarter of fiscal 2007. The increase in equipment and services revenues resulted primarily from an increase of \$329 million related to higher unit shipments and an increase of \$36 million related to the net effects of changes in product mix and the average sales prices of such products. Approximately 85 million MSM integrated circuits were sold during the second quarter of fiscal 2008, compared to approximately 61 million for the second quarter of fiscal 2007.

QCT's earnings before taxes for the second quarter of fiscal 2008 were \$427 million, compared to \$368 million for the second quarter of fiscal 2007. QCT's operating income as a percentage of its revenues (operating margin percentage) was 26% in the second quarter of fiscal 2008, compared to 29% in the second quarter of fiscal 2007. The decrease in operating margin percentage was primarily due to a decrease in gross margin percentage related to an increase in product support costs and increases in research and development and selling, general and administrative expenses.

QCT inventories increased by 35% since September 30, 2007 to \$522 million at March 30, 2008 due to the shift in our manufacturing business model from turnkey to IFM and related increased purchases of completed die directly from foundry suppliers for use in QCT's integrated circuit products.

QTL Segment. QTL revenues for the second quarter of fiscal 2008 were \$795 million, compared to \$759 million for the second quarter of fiscal 2007. QTL's earnings before taxes for the second quarter of fiscal 2008 were \$684 million, compared to \$636 million for the second quarter of fiscal 2007. QTL's operating margin percentage was 86% in the second quarter of fiscal 2008, compared to 83% in the second quarter of fiscal 2007. The increase in revenues primarily resulted from a \$38 million increase in royalties, which were \$784 million in the second quarter of fiscal 2008, compared to \$746 million in the second quarter of fiscal 2007. The increase in royalties resulted from an increase in sales of CDMA-based products by licensees driven by the continued adoption of WCDMA at higher ASPs than CDMA and settlement of the Sony Ericsson arbitration, partially offset by the effect of Nokia's failure to report royalties on its sales after April 9, 2007. Revenues from amortized license fees were \$11 million in the second quarter of fiscal 2008, compared to \$13 million in the second quarter of fiscal 2007. The increase in QTL's earnings before taxes for the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 was primarily attributable to the increase in revenues and a decrease in bad debt expense, which resulted in a corresponding increase in operating margin percentage.

QWI Segment. QWI revenues for the second quarter of fiscal 2008 were \$194 million, compared to \$198 million for the second quarter of fiscal 2007. Revenues decreased primarily due to a decrease in QES revenues of \$19 million, partially offset by an increase in QIS revenues of \$12 million. The decrease in QES revenues was primarily attributable to a decrease in revenues from product sales. The increase in QIS revenues was primarily attributable to increases in QChat revenues resulting from increased development efforts under the licensing agreement with Sprint and increases in fees related to our expanded BREW customer base and products.

QWI's earnings before taxes for the second quarter of fiscal 2008 were less than \$1 million, compared to \$20 million for the second quarter of fiscal 2007. QWI's operating margin percentage was less than 1% in the second quarter of fiscal 2008, compared to 10% in the second quarter of fiscal 2007. The decrease in earnings before taxes was primarily attributable to a \$10 million increase in operating expenses as a result of the acquisition of Firethorn during the first quarter of fiscal 2008 and an \$8 million increase in QIS research and development expenses related to our BREW products, both of which resulted in a corresponding decrease in operating margin percentage.

QSI Segment. QSI's loss before taxes for the second quarter of fiscal 2008 was \$63 million, compared to \$42 million for the second quarter of fiscal 2007. QSI's loss before taxes included a \$22 million increase in our MediaFLO USA subsidiary's loss before taxes comprised primarily of an increase of \$21 million in cost of equipment and services revenues related to the commencement of our MediaFLO services in March 2007.

Our Segment Results for the First Six Months of Fiscal 2008 Compared to the First Six Months of Fiscal 2007

The following should be read in conjunction with the first six months financial results of fiscal 2008 for each reporting segment. See "Notes to Condensed Consolidated Financial Statements — Note 7 — Segment Information."

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QCT Segment. QCT revenues for the first six months of fiscal 2008 were \$3.19 billion, compared to \$2.49 billion for the first six months of fiscal 2007. Equipment and services revenues, mostly consisting of MSM and accompanying RF and PM integrated circuits, were \$3.11 billion for the first six months of fiscal 2008, compared to \$2.41 billion for the first six months of fiscal 2007. The increase in equipment and services revenues resulted primarily from an increase of \$621 million related to higher unit shipments and an increase of \$100 million related to the net effects of changes in product mix and the average sales prices of such products. Approximately 163 million MSM integrated circuits were sold during the first six months of fiscal 2008, compared to approximately 120 million for the first six months of fiscal 2007.

QCT's earnings before taxes for the first six months of fiscal 2008 were \$897 million, compared to \$684 million for the first six months of fiscal 2007. QCT's operating income as a percentage of its revenues (operating margin percentage) was 28% in the first six months of fiscal 2008, compared to 27% in the first six months of fiscal 2007. The increase in operating margin percentage was primarily due to an increase in gross margin percentage related to the net effects of changes in product mix and reductions in average sales prices and unit costs of such products.

QTL Segment. QTL revenues for the first six months of fiscal 2008 were \$1.45 billion, compared to \$1.36 billion for the first six months of fiscal 2007. QTL's earnings before taxes for the first six months of fiscal 2008 were \$1.22 billion, compared to \$1.13 billion for the first six months of fiscal 2007. QTL's operating margin percentage was 85% in the first six months of fiscal 2008, compared to 83% in the first six months of fiscal 2007. The increase in revenues primarily resulted from a \$92 million increase in royalties, which were \$1.42 billion in the first six months of fiscal 2008, compared to \$1.33 billion in the first six months of fiscal 2007. The increase in royalties resulted from an increase in sales of CDMA-based products by licensees driven by the continued adoption of WCDMA at higher ASPs than CDMA and settlement of the Sony Ericsson arbitration, partially offset by the effect of Nokia's failure to report royalties on its sales after April 9, 2007. Revenues from amortized license fees were \$21 million in the first six months of fiscal 2008, compared to \$27 million in the first six months of fiscal 2007. The increase in QTL's earnings before taxes for the first six months of fiscal 2008 as compared to the first six months of fiscal 2007 was primarily attributable to the increase in revenues and a decrease in bad debt expense, which resulted in a corresponding increase in operating margin percentage.

QWI Segment. QWI revenues for the first six months of fiscal 2008 were \$405 million, compared to \$387 million for the first six months of fiscal 2007. Revenues increased primarily due to a \$27 million increase in QIS revenues, partially offset by a \$15 million decrease in QES revenues. The increase in QIS revenues was primarily attributable to increases in QChat revenues resulting from increased development efforts under a licensing agreement with Sprint and our expanded BREW customer base and products. The decrease in QES revenues was primarily attributable to a decrease in revenues from product sales, partially offset by an increase in messaging revenues. QES shipped approximately 54,600 terrestrial-based and satellite-based systems during the first six months of fiscal 2008, compared to approximately 97,600 terrestrial-based and satellite-based systems in the first six months of fiscal 2007.

QWI's earnings before taxes for the first six months of fiscal 2008 were \$24 million, compared to \$40 million for the first six months of fiscal 2007. QWI's operating margin percentage was 6% in the first six months of fiscal 2008, compared to 10% in the first six months of fiscal 2007. The decrease in QWI's earnings before taxes was primarily due to a \$16 million increase in operating expenses as a result of the acquisition of Firethorn during the first quarter of fiscal 2008 and a \$15 million increase in QIS research and development expenses related to our BREW products, partially offset by the increase in revenues, all of which contributed to a corresponding decrease in operating margin percentage.

QSI Segment. QSI's loss before taxes for the first six months of fiscal 2008 was \$117 million, compared to \$85 million for the first six months of fiscal 2007. QSI's loss before taxes included a \$43 million increase in our MediaFLO USA subsidiary's loss before taxes comprised primarily of an increase of \$43 million in cost of equipment and services revenues related to the commencement of our MediaFLO services in March 2007.

Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations and proceeds from the issuance of common stock under our stock option and employee stock purchase plans. Cash, cash equivalents and marketable securities were \$10.6 billion at March 30, 2008, a decrease of \$1.3 billion from September 30, 2007. Our cash, cash equivalents and marketable securities at March 30, 2008 consisted of \$6.3 billion held by foreign subsidiaries with the remaining balance of \$4.3 billion held domestically. Due to tax considerations, we derive liquidity for operations primarily from domestic cash flow and

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investments held domestically. Cash provided by operating activities was \$1.8 billion during the six months ended both March 30, 2008 and April 1, 2007. Net proceeds from the issuance of common stock under our stock option and employee stock purchase plans was \$236 million during the six months ended March 30, 2008, compared to \$255 million during the six months ended April 1, 2007.

On March 11, 2008, we announced we had been authorized to repurchase up to \$2.0 billion of our common stock. The \$2.0 billion stock repurchase program replaced a \$3.0 billion stock repurchase program, of which approximately \$2.0 billion remained authorized for repurchases. The stock repurchase program has no expiration date. During the six months ended March 30, 2008, we repurchased and retired 42,616,000 shares of our common stock for \$1.7 billion. While we have not repurchased any of our shares under the \$2.0 billion stock repurchase program, we continue to evaluate repurchases under this program.

In March 2008, we were the high bidder in the U.S. Federal Communications Commission's (FCC) 700 MHz spectrum auction for eight licenses at a total cost of \$558 million. Five of these licenses, at a cost of \$555 million, are for the E block spectrum for the Boston, Los Angeles, New York City, Philadelphia and San Francisco Economic Areas, and we expect to use this spectrum for our MediaFLO business. In April 2008, we paid the remaining \$363 million balance due on our eight winning bids.

We announced dividends totaling \$227 million, or \$0.14 per share, during the second quarter of fiscal 2008, which were paid on March 28, 2008. On April 10, 2008, we announced a cash dividend of \$0.16 per share on our common stock, payable on June 27, 2008 to stockholders of record as of May 30, 2008. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations that cash dividends are in the best interest of our stockholders.

At March 30, 2008, we classified our auction rate securities with recorded values of \$196 million as noncurrent assets due to a disruption in credit markets that caused the auction mechanism to fail to set market-clearing rates and provide liquidity for sellers. However, a failed auction does not represent a default by the issuer of the underlying security. All of our auction rate securities are rated AAA/Aaa, are collateralized by student loans substantially guaranteed by the U.S. government and continue to pay interest in accordance with their contractual terms. The cash values of our auction rate securities, which are held by a foreign subsidiary, may not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the securities are called by the issuer or the underlying securities have been prepaid or have matured. Due to the combined strength of our significant cash, short-term investments and operating cash flows, we do not anticipate the current illiquidity of auction rate securities to affect our operating plans.

As a result of recent adverse conditions in the financial markets, certain types of financial instruments, such as structured investment vehicles, sub-prime mortgage-backed securities and collateralized debt obligations, may present risks arising from liquidity and/or credit concerns. At March 30, 2008, our holdings in these categories of investments totaled approximately \$45 million and were predominantly AAA rated. In the event that these categories of investments that are experiencing credit concerns become illiquid, we do not believe this will materially affect our liquidity or results of operations.

Accounts receivable increased by 4% during the second quarter of fiscal 2008. Days sales outstanding, on a consolidated basis, were 24 days at both March 30, 2008 and December 30, 2007.

We believe our current cash and cash equivalents, marketable securities and our expected cash generated from operations will provide us with flexibility and satisfy our working and other capital requirements over the next fiscal year and beyond based on our current business plans. Our total research and development expenditures were \$1.06 billion in the first six months of fiscal 2008 and \$1.83 billion in fiscal 2007, and we expect to continue to invest heavily in research and development for new technologies, applications and services for the wireless industry. Our purchase obligations for the remainder of fiscal 2008 and for fiscal 2009, some of which relate to research and development activities, totaled \$896 million and \$141 million, respectively, at March 30, 2008. Cash used for strategic investments and acquisitions, net of cash acquired, was \$275 million in the first six months of fiscal 2008 and \$249 million in fiscal 2007, and we expect to continue making strategic investments and acquisitions to open new markets for our technology, expand our technology, obtain development resources, grow our patent portfolio or pursue new business opportunities.

Contractual Obligations/Off-Balance Sheet Arrangements

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

Our consolidated balance sheet at March 30, 2008 includes a \$212 million noncurrent liability for uncertain tax positions, of which \$152 million may result in cash payment. We are not updating the disclosures in our long-term contractual obligations table presented in our 2007 Form 10-K because of the difficulty in making reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities.

Additional information regarding our financial commitments at March 30, 2008 is provided in the notes to our condensed consolidated financial statements. See “Notes to Condensed Consolidated Financial Statements, Note 4 — Income Taxes” and “Note 6 — Commitments and Contingencies.”

Future Accounting Requirements

In September 2006, the FASB issued Statement No. 157 (FAS 157), “Fair Value Measurements,” which defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value in the financial statements. FAS 157 does not require any new fair value measurements, but applies to other accounting pronouncements that require or permit fair value measurements. In February 2007, the FASB issued Statement No. 159 (FAS 159), “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115,” which provides companies the irrevocable option to measure many financial assets and liabilities at fair value with the changes in fair value recognized in earnings resulting in an opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provision. The accounting provisions of FAS 157 and FAS 159 will be effective for our fiscal 2009 beginning September 29, 2008. We are in the process of determining the effects, if any, the adoption of FAS 157 and FAS 159 will have on our consolidated financial statements.

In December 2007, the FASB revised Statement No. 141 (FAS 141R), “Business Combinations,” which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R will be effective for our fiscal 2010 beginning September 28, 2009. We are in the process of determining the effects, if any, the adoption of FAS 141R will have on our consolidated financial statements.

Risk Factors

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, including our financial statements and the related notes.

If deployment of our technologies does not expand as expected, 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 adoption and use of CDMA-based wireless communications standards do not continue in the countries where our products and those of our customers and licensees are sold, our business and financial results could suffer. If GSM wireless operators do not select CDMA for their networks or update their current networks to any CDMA-based third generation (3G) technology, our business and financial results could suffer since we have not generated significant revenues from GSM product sales. In addition to CDMA technology, we continue to invest in developing, patenting and commercializing OFDMA technology, which has not yet been widely adopted and commercially deployed. If OFDMA is not widely adopted and commercially deployed, our investments in OFDMA technology may not provide us an adequate return.

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Our business and the deployment of our technologies, products and services are dependent on the success of our customers, licensees and CDMA-based wireless operators, as well as the timing of their deployment of new services. Our licensees and CDMA-based wireless operators may incur lower operating margins on products or services based on our technologies than on products using alternative technologies as a result of greater competition or other factors. If CDMA-based wireless operators, wireless device and/or infrastructure manufacturers cease providing CDMA-based products and/or services, the deployment of CDMA technology could be negatively affected, and our business could suffer.

We are dependent on the commercial deployment of 3G wireless communications equipment, products and services to increase our revenues, and our business may be harmed if wireless networks deploy other technologies.

To increase our revenues in future periods, we are dependent upon the commercial deployment of 3G wireless communications equipment, products and services based on our CDMA technology. Although wireless network operators have commercially deployed CDMA2000 and WCDMA, we cannot predict the timing or success of further commercial deployments or expansions of CDMA2000, WCDMA or other CDMA systems. If existing deployments are not commercially successful or do not continue to grow their subscriber base, or if new commercial deployments of CDMA2000, WCDMA or other CDMA-based systems are delayed or unsuccessful, our business and financial results may be harmed. In addition, our business could be harmed if wireless network operators deploy other technologies or switch existing networks from CDMA to GSM without upgrading to WCDMA or if wireless network operators introduce new technologies. A limited number of operators have started testing OFDMA technology, but OFDMA might not be adopted or commercially deployed and we might not be successful in developing and marketing OFDMA products.

Our patent portfolio may not be as successful in generating licensing income with respect to other technologies as it has been for CDMA-based technologies.

Although we own a very strong portfolio of issued and pending patents related to GPRS, EDGE, OFDM, OFDMA and/or MIMO technologies, our patent portfolio licensing program in these areas is less established and might not be as successful in generating licensing income as our CDMA portfolio licensing program. Sprint Nextel has indicated that it is planning to deploy WiMax (an OFDMA-based technology) in its 2.5 GHz spectrum, also known as the Broadband Radio Services band. Other operators are investigating deployment of WiMax or considering LTE, being standardized by 3GPP, or UMB, being standardized by 3GPP2, as next-generation technologies for deployment in existing or future spectrum bands. Verizon has announced its intention to begin developing its chosen fourth generation (4G) technology, LTE, during 2008 and to prepare for the time when its customers start demanding such 4G capabilities, while continuing the expansion and operation of its existing CDMA-based technologies for many years to come. Although we believe that our patented technology is essential and useful to implementation of the WiMax, LTE or UMB standards, we might not achieve the same royalty revenues on such WiMax, LTE or UMB deployments as on CDMA/WCDMA, and we might not achieve the same level of success in WiMax, LTE or UMB products as we have in CDMA/WCDMA products.

Our two largest customers accounted for 30% and 26% of consolidated revenues in the first six months of fiscal 2008 and 2007, respectively, and 27% and 26% of total consolidated revenues in fiscal 2007 and 2006, 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 desired levels of operating results.

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 harm our ability to achieve or sustain expected levels of operating results. We derive a significant portion of our QCT segment revenues from two major customers. 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 any future purchase orders from these customers. Factors that may impact the size and timing of orders from customers of our QCT segment include, among others, the following:

- the product requirements of our customers and the network operators;

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- the financial and operational success of our customers;
- the success of our customers' products that incorporate our products;
- changes in wireless penetration growth rates;
- value added features which drive replacement rates;
- shortages of key products and components;
- fluctuations in channel inventory levels;
- the success of products sold to our customers by competitors;
- the rate of deployment of new technology by the wireless network operators and the rate of adoption of new technology by the end consumers;
- the extent to which certain customers successfully develop and produce CDMA-based integrated circuits and system software to meet their own needs or source such products from other suppliers;
- general economic conditions;
- changes in governmental regulations in countries where we or our customers currently operate or plan to operate; and
- widespread illness.

We derive a significant portion of our royalty revenues in our QTL segment from a limited number of licensees and our future success depends on the ability of our licensees to obtain market acceptance for their products.

Our QTL segment today derives royalty revenues primarily from sales of CDMA products by our licensees. Although we have more than 150 licensees, we derive a significant portion of our royalty revenues 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 our licensees might not be successful. Reductions in the average selling price of wireless communications devices utilizing our CDMA technology, without a comparable increase in the volumes of such devices sold, could have a material adverse effect on our business.

We may not be able to modify some of our license agreements to license later patents without modifying some of the other material terms and conditions of such license agreements, and such modifications may impact our revenues.

The licenses granted to and from us under a number of our license agreements include only patents that are either filed or issued prior to a certain date, and, in a small number of agreements, royalties are payable on those patents for a specified time period. As a result, there are agreements with some licensees where later patents are not licensed by or to us under our license agreements. In order to license any such later patents, we will need to extend or modify our license agreements or enter into new license agreements with such licensees. We might not be able to modify such license agreements in the future to license any such later patents or extend such date(s) to incorporate later patents without affecting the material terms and conditions of our license agreements with such licensees. In particular, we are party to litigation with Nokia Corp. relating to Nokia's continued sales after April 9, 2007 of products that incorporate certain Qualcomm patents. One of our contentions in that proceeding (which Nokia disputes) is that such use of our patents resulted in an extension of the license agreement, which also extends our rights to sell integrated circuits under Nokia's patents. We might not prevail on such claims. If we do not prevail, Nokia's right to sell certain subscriber products (such as cellular phones, wireless personal digital assistants and other devices) under most of our patents (including many that we have declared as potentially essential to the CDMA, WCDMA and other standards), and therefore Nokia's obligation to pay royalties to us under the terms of the current agreement, may both cease, and our rights under certain of Nokia's patents to sell integrated circuits under the terms of the current agreement may likewise cease. If we do not prevail, and the court does not find Nokia to have extended the license agreement, the above rights could be extended if Nokia expressly elects to extend the agreement beyond April 9, 2007, a right that is exercisable through December 31, 2008 unless earlier terminated.

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

A small number of companies have initiated various strategies in an attempt to renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property in order to negatively affect our business model and that of our other licensees. These strategies have included (i) litigation, often alleging infringement of patents held by such companies or unfair competition of some variety, (ii) taking questionable positions on the interpretation of contracts with us, with royalty reduction as the likely true motive, (iii) appeals to governmental authorities, such as the complaints filed with the European Commission (EC) during the fourth calendar quarter of 2005 and with the Korea Fair Trade Commission (KFTC) and the Japan Fair Trade Commission (JFTC) during 2006, (iv) collective action intended to depress license fees, including working with carriers, standards bodies and other organizations, formal and informal, to adopt intellectual property policies which could have the effect of limiting returns on intellectual property innovations, and (v) lobbying with governmental regulators and elected officials for the purpose of seeking the imposition of some form of compulsory licensing and/or to weaken a patent holder's ability to enforce its rights or obtain a fair return for such rights. A number of these strategies are purportedly based on interpretations of the policies of certain standards development organizations concerning the licensing of patents that are or may be essential to industry standards and our alleged failure to abide by these policies.

Six companies (Nokia, Ericsson, Panasonic, Texas Instruments, Broadcom and NEC) submitted separate formal complaints to the Competition Directorate of the EC accusing our business practices, with respect to licensing of patents and sales of chipsets, to be in violation of Article 82 of the EC treaty. We received the complaints, have submitted a response and have cooperated with the EC in its investigation. On October 1, 2007, the EC announced that it has initiated a proceeding though it has not decided to issue a Statement of Objections, and it has not made any conclusions as to the merits of the complaints. While this action does not indicate that the EC has found any evidence of a violation by us and we believe that none of our business practices violate the legal requirements of Article 82 of the EC treaty, if the EC determines liability as to any of the alleged violations, it could impose fines and/or require us to modify our practices. Further, the continuation of this investigation could be expensive and time consuming to address, divert management attention from our business and harm our reputation. Although such potential adverse findings may be appealed within the EC legal system, an adverse final determination could have a significant negative impact on our revenues and/or earnings. We also understand that 1) two U.S. companies (Texas Instruments and Broadcom) and two South Korean companies (Nextreaming Corp. and Thin Multimedia, Inc.) have filed complaints with the KFTC alleging that our business practices are, in some way, a violation of South Korean competition laws and 2) unnamed parties filed a complaint with the JFTC allegedly claiming that our business practices are, in some way a violation of the Japanese competition laws. While we have not seen any of these complaints in South Korea or Japan, we believe that none of our business practices violate the legal requirements of South Korean competition law or Japanese competition law. However, we have cooperated with the investigations of these complaints in South Korea and Japan, and any continuation or expansion of these investigations could be expensive and time consuming to address, divert management attention from our business and harm our reputation. An adverse final determination on these charges could have a significant negative impact on our business, including our revenues and/or earnings.

Although we believe that these challenges are without merit, and we will continue to vigorously defend our intellectual property rights and our right to continue to receive a fair return for our innovations, the distractions caused by challenges to our business model and licensing program are undesirable and the legal and other costs associated with defending our position have been and continue to be significant. We assume, as should investors, that such challenges will continue into the foreseeable future and may require the investment of substantial management time and financial resources to explain and defend our position.

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

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary information, technologies and processes, including our patent portfolio. Policing unauthorized use of our products and technologies is difficult and time consuming. We cannot be certain that the steps we have taken will prevent the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our

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proprietary intellectual property rights as fully or as readily as United States laws. We cannot be certain that the laws and policies of any country, including the United States, or the practices of any of the standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing, issuance of wireless licenses or the adoption of standards, will not be changed in a way detrimental to our licensing program or to the sale or use of our products or technology. Recent decisions from the United States courts relating to patents may affect the ability to enforce patent rights. In addition, a recent case argued before the United States Supreme Court has sought to extend the concept of “patent exhaustion” in a manner which could have an adverse impact on our licensing business. Within the United States Senate and House of Representatives, committee work has progressed to draft a “patent reform law,” with the House and Senate committees each having reported a different draft bill to the full House and Senate, respectively. The full House has adopted its committee’s draft bill. The end product of such work could be new patent legislation detrimental to our licensing program or to the sale or use of our products or technology. Any efforts we make to inform and educate policymakers about the effects of such potential changes may absorb significant management time and attention, which, in turn, could negatively impact our operating results.

The vast majority of our patents and patent applications relate to our wireless communications technology and much of the remainder of our patents and patent applications relate to our other technologies and products. We may need to litigate 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 ability to enforce one or more patents or incur substantial unexpected operating costs. Any action we take to enforce our intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results. In addition, failure to protect our trademark rights could impair our brand identity.

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

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

We expect that we will continue to be involved in litigation and may have to appear in front of administrative bodies (such as the U.S. International Trade Commission) to defend against patent assertions against our products by companies, some of whom are attempting to gain competitive advantage or negotiating leverage in licensing negotiations. We may not be successful and, if we are not, the range of possible outcomes includes everything from a royalty payment to an injunction on the sale of certain of our chipsets (and on the sale of our customers’ devices using our chipsets) and the imposition of royalty payments that might make sales of our chipsets uneconomic. A negative outcome in any such litigation could severely disrupt the business of our chipset customers and their wireless customers, which in turn could hurt our relationships with our chipset customers and wireless operators and could result in a decline in our chipset market share and/or a reduction in our licensees’ sales to wireless operators, causing a corresponding decline in our chipset and/or licensing revenues.

While we have had many settlement discussions with Broadcom, they have not been fruitful to date, and the prospects for a reasonable settlement appear to be remote at this time. To date, Broadcom has insisted that any comprehensive settlement include the right to pass through to its customers our intellectual property rights licensed by us to Broadcom. Any such arrangement could have a material impact on our licensing and royalty business model.

In addition, intellectual property rights claims in our industry are common, and, as the number of competitors in the market increases and the functionality of our products expands to include additional technologies and features, we may become subject to claims of infringement or misappropriation of the intellectual property rights of others. Any claims, regardless of their merit, could be time consuming to address, result in costly litigation, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have a material adverse effect upon our operating results. In any potential dispute involving other companies’ patents or other intellectual property, our chipset customers could also become the targets of litigation. Any such

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litigation could severely disrupt the business of our chipset customers and their wireless operator customers, which in turn could hurt our relationships with our chipset customers and wireless operators and could result in a decline in our chipset market share and/or a reduction in our licensees' sales to wireless operators, causing a corresponding decline in our chipset and/or licensing revenues.

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

Other companies or entities also have and may again 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(s) or determine that the patent(s) is not enforceable, which could harm our competitive position. If our key patents are invalidated, or if the scope of the claims in any of these patents is limited by court decision, we could be prevented from licensing the invalidated or limited portion of such patents. Such adverse decisions could negatively impact our revenues. Even if such a patent challenge is not successful, it could be expensive and time consuming to address, divert management attention from our business and harm our reputation.

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

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

- comprehensiveness of products and technologies;
- value added features which drive replacement rates;
- manufacturing capability;
- scalability and the ability of the system technology to meet customers' immediate and future network requirements;
- product performance and quality;
- design and engineering capabilities;
- compliance with industry standards;
- time-to-market;
- system cost; and
- customer support.

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

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

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

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

As a result of these and other factors, our competitors may be more successful than us. In addition, we anticipate additional competitors will begin to offer and sell products based on 3G standards. These competitors may have more established relationships and distribution channels in markets not currently deploying CDMA-based wireless communications technology. These competitors also may have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. These relationships may affect our customers' decisions to purchase products or license technology from us. Accordingly, new competitors or alliances among competitors could emerge and rapidly acquire significant market share of sales to our detriment. In addition to the foregoing, we have seen, and believe we will continue to see, an increase in customers requesting that we develop products, including chipsets, that will operate in an "open source" environment. Developing open source compliant products, without imperiling the intellectual property rights upon which our licensing business depends, may prove difficult under certain circumstances, thereby placing us at a competitive disadvantage for new product designs.

While we continue to believe our QMT Division's IMOD displays will offer compelling advantages to users of displays, there can be no assurance that other technologies will not continue to improve in ways that reduce the advantages we anticipate from our IMOD displays. Sales of flat panel displays are currently, and we believe will likely continue to be for some time, dominated by displays based on liquid crystal display (LCD) technology. Numerous companies are making substantial investments in, and conducting research to improve characteristics of LCDs. Additionally, several other flat panel display technologies have been, or are being, developed, including technologies for the production of organic light-emitting diode (OLED), field emission, inorganic electroluminescence, gas plasma and vacuum fluorescent displays. In each case, advances in LCD or other flat panel display technologies could result in technologies that are more cost effective, have fewer display limitations, or can be brought to market faster than our IMOD technology. These advances in competing technologies might cause display manufacturers to avoid entering into commercial relationships with us, or not renew planned or existing relationships with us. Our QMT Division had \$212 million in assets (including \$128 million in goodwill) at March 30, 2008. If we are not successful in bringing our IMOD display technology to market, our assets may become impaired, which could negatively impact our operating results.

Successful attempts by certain companies to amend or modify Standards Development Organizations' (SDOs) and other industry forums' intellectual property policies could impact our licensing business.

Some companies have proposed significant changes to existing intellectual property policies for implementation by SDOs and other industry organizations, some of which would require a maximum aggregate intellectual property royalty rate for the use of all essential patents owned by all of the member companies to be applied to the selling price of any product implementing the relevant standard. They have further proposed that such maximum aggregate royalty rate be apportioned to each member company with essential patents based upon the size of its essential patent portfolio. Seven companies (Nokia, Nokia-Siemens, NEC, Ericsson, SonyEricsson, Alcatel-Lucent, and Nextwave) recently issued a press release announcing their commitment to the principles described above with respect to the licensing of patents essential to LTE and inviting all other industry participants to join them in adopting such policies. Although the European Telecommunications Standards Institute (ETSI) ad hoc IPR group and the Next Generation Mobile Network industry group have thus far determined that such proposals should not be adopted as amendments to existing ETSI policies or new policies, and no other companies have joined these seven companies, such proposals as described above might be revisited within ETSI and might be adopted by other SDOs or industry groups, formal and/or informal, resulting in a potential disadvantage to our business model either by limiting our return on investment with respect to new technologies or forcing us to work outside of the SDOs or such other industry groups for promoting our new technologies.

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

Our ability to meet customer demand depends, in part, on available manufacturing capacity and our ability to obtain timely and adequate delivery of parts and components from our suppliers. A reduction or interruption in our product supply source, an inability of our suppliers to react to shifts in product demand or an increase in component prices could have a material adverse effect on our business or profitability. Component shortages could adversely affect our ability and that of our customers to ship products on a timely basis and, as a result, our customers' demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain desired levels of profitability. Additionally, failure to meet customer demand in a timely manner could damage our reputation and harm our customer relationships. Our operations may also be harmed by lengthy or recurring disruptions at any of our suppliers manufacturing facilities and by disruptions in the distribution channels from our suppliers and to our customers. Any such disruptions could cause significant delays in shipments until we are able to shift the products from an affected manufacturer to another manufacturer. If the affected supplier was a sole source supplier, we may not be able to obtain the product without significant cost and delay. The loss of a significant third-party supplier or the inability of a third-party supplier to meet performance and quality specifications or delivery schedules could harm our ability to meet our delivery obligations to our customers and negatively impact our revenues and business operations.

QCT Segment. A supplier's ability to meet our product manufacturing demand is limited mainly by their overall capacity and current capacity availability. Although we have entered into long-term contracts with our suppliers, most of these contracts do not provide for long-term capacity commitments. To the extent that we do not have firm commitments from our suppliers over a specific time period, or in any specific quantity, our suppliers may allocate, and in the past have allocated, capacity to the production and testing of products for their other customers while reducing capacity to manufacture our products. Accordingly, capacity for our products may not be available when we need it or available at reasonable prices. We have experienced capacity limitations from our suppliers, which resulted in supply constraints and our inability to meet certain customer demand. There can be no assurance that we will not experience these or other supply constraints in the future, which could result in our failure to meet customer demand.

While our goal is to establish alternate suppliers for technologies that we consider critical, some of our integrated circuits products are only available from single sources, with which we do not have long-term capacity commitments. Our reliance on sole or limited-source suppliers involves significant risks including possible shortages of manufacturing capacity, poor product performance and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs. In addition, the timely readiness of our foundry suppliers to support transitions to smaller geometry process technologies could impact our ability to meet customer demand, revenues and cost expectations. The timing of acceptance of the smaller technology designs by our customers may subject us to the risk of excess inventories of earlier designs.

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

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

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We have expanded our QCT segment's manufacturing model to include the purchase of completed die from semiconductor manufacturing foundries and to contract directly with third-party manufacturers for assembly and test services. This new production model may increase costs and lower our control over the manufacturing process.

To further enable flexibility of supply and access to potential new foundry suppliers, and in response to the complexity of our product roadmap, starting in fiscal 2005, we expanded our manufacturing model to include purchasing completed die directly from semiconductor manufacturing foundries. Under our Integrated Fabless Manufacturing (IFM) model, we contract directly with third-party manufacturers for back-end assembly and test services, and we ship the completed integrated circuits to our customers. We expect to increase the volume of our purchases of completed die directly from our foundry suppliers under our IFM model as we source new products and convert existing turnkey production to our IFM model. We are unable to directly control the services provided by our semiconductor assembly and test (SAT) suppliers, including the timely procurement of packaging materials for our products, availability of assembly and test capacity, quality assurance and product delivery schedules. We have a limited history of working with the SAT suppliers under this expanded manufacturing model, and cannot guarantee that this change and our lack of control will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers, reduce our revenues, or increase our cost of sales.

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

One or more of our suppliers may obtain licenses from us to manufacture CDMA-based integrated circuits that compete with our products. In this event, the supplier could elect to allocate raw materials and manufacturing capacity to their own products and reduce deliveries to us to our detriment. In addition, we may not receive reasonable pricing, manufacturing or delivery terms. We cannot guarantee that the actions of our suppliers will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers or increase our cost of sales.

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

A significant part of our strategy involves our continued pursuit of growth opportunities in a number of international market locations. 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 to sell products in additional countries and locations. This expansion will require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels, and we cannot assure you that we will be successful or that our expenditures in this effort will not exceed the amount of any resulting revenues. If we are not able to maintain or increase international market demand for our products and technologies, we may not be able to maintain a desired rate of growth in our business.

Our international customers sell their products to markets throughout the world, including China, India, Japan, South Korea, North America, South America and Europe. We distinguish revenues from external customers by geographic areas based on the location to which our products, software or services are delivered and, for QTL's licensing and royalty revenues, the invoiced address of our licensees. Consolidated revenues from international customers as a percentage of total revenues were 90% and 86% in the first six months of fiscal 2008 and 2007, respectively, and 87% in fiscal 2007 and 2006. 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, and our revenues may not grow as quickly as they otherwise might in response to worldwide growth in wireless products and services.

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

- difficulty in protecting or enforcing our intellectual property rights and/or contracts in a particular foreign jurisdiction, including challenges to our licensing practices under such jurisdictions' competition laws;
- challenges pending before foreign competition agencies to the pricing of and integration of additional features and functionality into our wireless chipset products;

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- our inability to succeed in significant foreign countries, such as China, India or Europe;
- cultural differences in the conduct of business;
- difficulty in attracting qualified personnel and managing foreign activities;
- longer payment cycles for and greater difficulties collecting accounts receivable;
- export controls, tariffs and other trade protection measures;
- nationalization, expropriation and limitations on repatriation of cash;
- social, economic and political instability;
- natural disasters, acts of terrorism, widespread illness and war;
- taxation;
- variability in the value of the dollar against foreign currency; and
- changes in laws and policies affecting trade, foreign investments, licensing practices, loans and employment.

We cannot be certain that the laws and policies of any country with respect to intellectual property enforcement or licensing, issuance of wireless licenses or the adoption of standards will not be changed or enforced in a way detrimental to our licensing program or to the sale or use of our products or technology.

The wireless markets in China and India, among others, represent growth opportunities for us. If wireless operators in China or India, 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, our business could be harmed.

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

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

Global economic conditions can have wide-ranging effects on demand and prices for our products and for the products of our customers, particularly wireless communications equipment manufacturers or other members of the wireless industry, such as wireless network operators. We cannot predict negative events, such as war, that may have adverse effects on the economy or on wireless device inventories at CDMA-based equipment manufacturers and operators. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause disruptions to the global economy and to the wireless communications industry and create uncertainties. Recent reports suggest that inflation could have adverse effects on the global economy and capital markets. Inflation and/or deflation and economic recessions could adversely affect our customers, including their ability to obtain financing, upgrade wireless networks and purchase our products and services, and our end consumers, by lowering their standards of living and diminishing their ability to purchase wireless devices based on our technology. Inflation could also increase our costs of raw materials and operating expenses and harm our business in other ways. During the first six months of fiscal 2008, 73% of our revenues were from customers and licensees based in South Korea, China and Japan, as compared to 69% during the first six months of fiscal 2007, respectively. During fiscal 2007, 69% of our revenues were from customers and licensees based in South Korea, Japan and China, as compared to 70% during fiscal 2006. These customers sell their products to markets worldwide, including in Japan, South Korea, China, India, North America, South America and Europe. A significant downturn in the economies of Asian countries where many of our customers and licensees are located, particularly the economies of South Korea, Japan and China, or the economies of the major markets they serve would materially harm our business. Should such negative events occur, subsequent economic recovery might not benefit us in the near term. If it does not, our ability to increase or maintain our revenues and operating results may be impaired. In addition, because we intend to continue to make significant investments in research and development and to maintain extensive ongoing customer service and support capability, any decline in the rate of growth of our revenues will have a significant adverse impact on our operating results.

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Currency fluctuations could negatively affect future product sales or royalty revenues, 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:

- 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 and chipset revenues.
- 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.
- Assets or liabilities of our consolidated subsidiaries and our foreign investees that are not denominated in the functional currency of those entities are subject to the effects of currency fluctuations, which may affect our reported earnings. Our exposure to foreign currencies may increase as we expand into new markets.
- Investments in our consolidated foreign subsidiaries and in other foreign entities that use the local currency as the functional currency may decline in value as a result of declines in local currency values.
- Certain of our revenues, such as royalty revenues, are derived from licensee or customer sales that are denominated in foreign currencies. If these revenues are not subject to foreign exchange hedging transactions, weakening of currency values in selected regions could adversely affect our near term revenues and cash flows. In addition, continued weakening of currency values in selected regions over an extended period of time could adversely affect our future revenues and cash flows.
- We may engage in foreign exchange hedging transactions that could affect our cash flows and earnings because they may require the payment of structuring fees, and they may limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies.
- Our trade receivables are generally U.S. dollar denominated. Any significant increase in the value of the dollar against our customers' or licensees' functional currencies could result in an increase in our customers' or licensees' cash flow requirements and could consequently affect our ability to sell products and collect receivables.
- Strengthening of currency values in selected regions may adversely affect our operating results because the activities of our foreign subsidiaries, and the costs of procuring component parts and chipsets from foreign vendors may become more expensive in U.S. dollars.
- Strengthening of currency values in selected regions may adversely affect our cash flows and investment results because strategic investment obligations denominated in foreign currencies may become more expensive, and the U.S. dollar cost of equity in losses of foreign investees may increase.

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

From time to time, we engage in acquisitions or strategic transactions or make investments with the goal of maximizing stockholder value. We acquire businesses, enter into joint ventures or other strategic transactions and purchase equity and debt securities, including minority interests in publicly-traded and private companies, non-investment-grade debt securities, equity and debt mutual funds, corporate bonds/notes and mortgage/asset-backed securities. Many of our strategic investments are in CDMA wireless operators, early-stage companies, or venture funds to support our business, including the global adoption of CDMA-based technologies and related services. Most of our strategic investments entail a high degree of risk and will not become liquid until more than one year

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from the date of investment, if at all. Our acquisitions or strategic investments (either those we have completed or may undertake in the future) may not generate financial returns or result in increased adoption or continued use of our technologies. In addition, our other investments may not generate financial returns or may result in losses due to market volatility, the general level of interest rates and inflation expectations.

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

- retaining key employees;
- maintenance of important relationships of Qualcomm and the acquired business;
- minimizing the diversion of management's attention from ongoing business matters;
- coordinating geographically separate organizations;
- consolidating research and development operations; and
- consolidating corporate and administrative infrastructures.

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

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

Our products are inherently complex and may contain defects and errors that are detected only when the products are in use. For example, as our chipset product complexities increase, we are required to migrate to integrated circuit technologies with smaller geometric feature sizes. The design process interface issues are more complex as we enter into these new domains of technology, which adds risk to yields and reliability. Because our products and services are responsible for critical functions in our customers' products and/or networks, such defects or errors could have a serious impact on our customers, which could damage our reputation, harm our customer relationships and expose us to liability. Defects or impurities in our components, materials or software or those used by our customers or licensees, equipment failures or other difficulties could adversely affect our ability and that of our customers and licensees to ship products on a timely basis as well as customer or licensee demand for our products. Any such shipment delays or declines in demand could reduce our revenues and harm our ability to achieve or sustain desired levels of profitability. We and our customers or licensees may also experience component or software failures or defects that could require significant product recalls, reworks and/or repairs that are not covered by warranty reserves and which could consume a substantial portion of the capacity of our third-party manufacturers or those of our customers or licensees. Resolving any defect or failure related issues could consume financial and/or engineering resources that could affect future product release schedules. Additionally, a defect or failure in our products or the products of our customers or licensees could harm our reputation and/or adversely affect the growth of 3G wireless markets.

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

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failure are insurable. Our inability to maintain insurance at an acceptable cost or to protect ourselves in other ways against potential product liability claims could prevent or inhibit the commercialization of our products and those of our licensees and customers and harm our future operating results. In addition, a product liability claim or recall, whether against our licensees, customers, or us could harm our reputation and result in decreased demand for our products.

MediaFLO does not fully control promotional activities necessary to stimulate demand for our services.

Our MediaFLO business is a wholesale provider of mobile entertainment and information services to our operator partners. As such, we do not set the retail price of our service to the consumer, nor do we directly control the marketing and promotion of the service to the operator's subscriber base. Therefore, we are dependent upon our operator partners to price, market and otherwise promote our services to the end users. If our operator partners do not effectively price, market and otherwise promote the service to their subscriber base, our ability to achieve the subscriber and revenue targets contemplated in our business plan will be negatively impacted.

Consumer acceptance and adoption of our MediaFLO technology and mobile commerce applications will have a considerable impact on the success of our MediaFLO and Firethorn businesses, respectively.

Customer acceptance of the services our MediaFLO and Firethorn businesses offer is, and will continue to be, affected by technology-based differences and by the operational performance, quality, reliability and coverage of our wireless network and services platforms. Consumer demand could be impacted by differences in technology, coverage and service areas, network quality, consumer perceptions, program and service offerings and rate plans. Our operator and financial services partners may have difficulty retaining subscribers if we are unable to meet subscriber expectations for network quality and coverage, customer care, content or security. Obtaining content that is appealing to subscribers on economically rational terms may be limited by our content provider partners' inability to obtain the mobile rights to such programming. An inability to address these issues could limit our ability to expand our subscriber base and place us at a competitive disadvantage. Additionally, adoption and deployment of our MediaFLO technology could be adversely impacted by government regulatory practices that support a single standard other than our technology, operator selection of competing technologies or consumer preferences.

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

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

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

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

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

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

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

Our stock price may be volatile.

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

- announcements concerning us or our competitors, including the selection of wireless communications technology by wireless operators and the timing of the roll-out of those systems;
- court or regulatory body decisions or settlements regarding intellectual property licensing and patent litigation and arbitration;
- 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;
- general stock market volatility;
- government regulations, including share-based compensation accounting and tax regulations;
- energy blackouts;
- acts of terrorism and war;
- inflation and deflation;
- widespread illness;
- proprietary rights or product or patent litigation against us or against our customers or licensees;
- strategic transactions, such as spin-offs, acquisitions and divestitures; or
- rumors or allegations regarding our financial disclosures or practices.

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

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

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Our industry is subject to rapid technological change, and we must make substantial investments in new products and technologies to compete successfully.

New technological innovations generally require a substantial investment before they are commercially viable. We intend to continue to make substantial investments in developing new products and technologies, and it is possible that our development efforts will not be successful and that our new technologies will not result in meaningful revenues. In particular, we intend to continue to invest significant resources in developing integrated circuit products to support high-speed wireless internet access and multimode, multiband, multinet network operation and multimedia applications, which encompass development of graphical display, camera and video capabilities, as well as higher computational capability and lower power on-chip computers and signal processors. We also continue to invest in the development of our BREW applications development platform, our MediaFLO MDS and FLO technology and our IMOD display technology. All of these new products and technologies face significant competition, and we cannot assure you that the revenues generated from these products or the timing of the deployment of these products or technologies, which may be dependent on the actions of others, will meet our expectations. We cannot be certain that we will make the additional advances in development that may be essential to commercialize our IMOD technology successfully.

The market for our wireless products and technology is characterized by many factors, including:

- rapid technological advances and evolving industry standards;
- changes in customer requirements and consumer expectations;
- frequent introductions of new products and enhancements;
- evolving methods for transmission of wireless voice and data communications; and
- intense competition from companies with greater resources, customer relationships and distribution capabilities.

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

Changes in assumptions used to estimate the values of share-based compensation have a significant effect on our reported results.

We are required to estimate and record compensation expense in the statement of operations for share-based payments, such as employee stock options, using the fair value method. This method has a significant effect on our reported earnings, although it will not affect our cash flows, and could adversely impact our ability to provide accurate guidance on our future reported financial results due to the variability of the factors used to estimate the values of share-based payments. If factors change and/or we employ different assumptions or different valuation methods in future periods, the compensation expense that we record may differ significantly from amounts recorded previously, which could negatively affect our stock price and our stock price volatility.

The accounting guidance for share-based compensation is relatively new, and best practices are not well established. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of share-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

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Theoretical valuation models and market-based methods are evolving and may result in lower or higher fair value estimates for share-based compensation. The timing, readiness, adoption, general acceptance, reliability and testing of these methods is uncertain. Sophisticated mathematical models may require voluminous historical information, modeling expertise, financial analyses, correlation analyses, integrated software and databases, consulting fees, customization and testing for adequacy of internal controls. Market-based methods are emerging that, if employed by us, may dilute our earnings per share and involve significant transaction fees and ongoing administrative expenses. The uncertainties and costs of these extensive valuation efforts may outweigh the benefits to our investors.

Potential tax liabilities could adversely affect our results.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. In such case, a material effect on our income tax provision and net income in the period or periods in which that determination is made could result. In addition, tax rules may change that may adversely affect our future reported financial results or the way we conduct our business. For example, we consider the operating earnings of certain non-United States subsidiaries to be invested indefinitely outside the United States based on estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. No provision has been made for United States federal and state or foreign taxes that may result from future remittances of undistributed earnings of foreign subsidiaries. Our future reported financial results may be adversely affected if tax or accounting rules regarding unrepatriated earnings change or if domestic cash needs require us to repatriate foreign earnings.

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

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

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

Our QES and MediaFLO businesses depend on the availability of satellite and other networks.

Our OmniTRACS and OmniVision systems operate on leased Ku-band satellite transponders in the United States, Mexico and Europe. Our primary data satellite transponder and position reporting satellite transponder lease for the system in the United States runs through October 2012 and includes transponder and satellite protection (back-up capacity in the event of a transponder or satellite failure). The transponder lease for the system in Mexico runs through April 2010 and does not currently have back-up capability. Our agreement with a third-party to

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provide network and satellite services (including procuring satellite space) in Europe expires in September 2012. We believe our agreements will provide sufficient transponder capacity for our OmniTRACS and OmniVision operations through the expiration dates. A failure to maintain adequate satellite capacity could harm our business, operating results, liquidity and financial position. QES terrestrial-based products rely on wireless terrestrial communication networks operated by third parties. The unavailability or nonperformance of these network systems could harm our business. The products and services that we sell for use on Globalstar Inc.'s (Globalstar) low-Earth-orbit satellite network are dependent on the availability and performance of the Globalstar satellite system. On February 6, 2007, Globalstar announced that many Globalstar satellites are experiencing an anomaly resulting in degraded performance of the amplifiers for the S-band satellite communications antenna. Globalstar stated that unless remedied, by some time in 2008, this degradation or degraded performance will have a significant adverse impact on Globalstar's ability to provide uninterrupted two-way voice and data services on a continuous basis in any given location. On May 30, 2007, Globalstar announced that four Globalstar satellites were successfully launched, and on October 22, 2007, Globalstar announced the successful launch of four additional satellites. Globalstar stated that it believes the additional satellites will augment the current operating constellation and improve two-way voice and data services until the launch of the second-generation satellite constellation, which is scheduled to begin in the summer of 2009. If the recent launch of the satellites does not remedy the problem or if Globalstar is unable to launch a second-generation satellite constellation, this degraded performance will have an adverse impact on sales of our products and services that rely on the Globalstar network.

Our MediaFLO network and systems currently operate in the United States market on a leased Ku-band satellite transponder. Our primary program content and data distribution satellite transponder lease runs through December 31, 2012 and includes transponder and satellite protection (back-up capacity in the event of a transponder or satellite failure), which we believe will provide sufficient transponder capacity for our domestic United States MediaFLO services through fiscal 2012. Additionally, our MediaFLO Transmitter Sites are monitored and controlled by a variety of terrestrial-based data circuits relying on various terrestrial and satellite communication networks operated by third parties. A failure to maintain adequate satellite capacity or the unavailability or nonperformance of the terrestrial-based network systems could have an adverse effect on our business and operating results.

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 QES operations are formatted and processed at the Network Management Center in San Diego, California, with a fully redundant backup Network Management Center located in Las Vegas, Nevada. Content from third parties for MediaFLO operations is received, processed and retransmitted at the Broadcast Operations Center in San Diego, California. The centers, operated by us, are subject to system failures, which could interrupt the services and have an adverse effect on our operating results.

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

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

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

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Our stock repurchase program may not result in a positive return of capital to stockholders.

At March 30, 2008, we had authority to repurchase up to \$2 billion. Our stock repurchases may not return value to stockholders because the market price of the stock may decline significantly below the levels at which we repurchased shares of stock. Our stock purchase program is intended to deliver stockholder value over the long-term, but stock price fluctuations can reduce the program's effectiveness.

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

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

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

Government regulation and policies of industry standards bodies may adversely affect our business.

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

We hold licenses in the United States from the FCC for the spectrum referred to as Block D in the Lower 700 MHz Band (also known as TV Channel 55), covering the entire nation for use in our MediaFLO business. As a result, we are regulated by the FCC pursuant to Part 27 of the FCC's rules, which are subject to a variety of ongoing FCC proceedings. It is impossible to predict with certainty the outcome of pending FCC or other federal or state regulatory proceedings relating to our MediaFLO service or our use of the spectrum for which we hold licenses. Unless we are able to obtain relief, existing laws and regulations may inhibit our ability to expand our business and to introduce new products and services. In addition, the adoption of new laws or regulations or changes to the existing regulatory framework could adversely affect our business plans.

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

Our future success depends largely upon the continued service of our board members, executive officers and other key management and technical personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified personnel. In addition, implementing our product and business strategy requires specialized engineering and other talent, and our revenues are highly dependent on technological and product innovations. The market for such specialized engineering and other talented employees in our industry is extremely competitive. In addition, existing immigration laws make it more difficult for us to recruit and retain highly skilled foreign national graduates of U.S. universities, making the pool of available talent even smaller. Key employees represent a significant asset, and the competition for these employees is intense in the wireless communications industry. In the event of a labor shortage, or in the event of an unfavorable change in prevailing labor and/or immigration laws, we could experience difficulty attracting and retaining qualified employees. We continue to anticipate increases in human resources, particularly in engineering, through fiscal 2008. 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. To the extent that new regulations make it less attractive to grant options to employees or if stockholders do not authorize shares for the continuation of equity compensation programs in the future, 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.

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

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

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

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

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

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 2007 Annual Report on Form 10-K. At March 30, 2008, there have been no other material changes to the market risks described at September 30, 2007 except as described below. Additionally, we do not anticipate any other near-term changes in the nature of our market risk exposures or in management's objectives and strategies with respect to managing such exposures.

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

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

	2008	2009	2010	2011	2012	Thereafter	No Single Maturity	Total
Fixed interest-bearing securities:								
Cash equivalents	\$ 203	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 203
Interest rate	2.5%							
Available-for-sale securities:								
Investment grade	\$ 691	\$264	\$277	\$136	\$ 61	\$ 48	\$ 187	\$1,664
Interest rate	4.7%	5.3%	3.7%	4.6%	4.8%	7.5%	5.7%	
Non-investment grade	\$ 2	\$ 24	\$ 25	\$ 53	\$ 67	\$ 602	\$ —	\$ 773
Interest rate	8.5%	8.2%	7.2%	9.3%	7.8%	9.1%		
Floating interest-bearing securities:								
Cash equivalents	\$2,472	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$2,472
Interest rate	3.5%							
Available-for-sale securities:								
Investment grade	\$ 157	\$346	\$303	\$ 50	\$ 71	\$ 90	\$ 708	\$1,725
Interest rate	3.0%	3.5%	3.4%	3.3%	3.5%	4.3%	4.6%	
Non-investment grade	\$ 9	\$ 9	\$ 27	\$ 61	\$100	\$ 384	\$ 681	\$1,271
Interest rate	5.5%	6.2%	7.1%	7.4%	7.4%	7.4%	7.1%	

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

Credit Market Risk. Since September 30, 2007, there has been a major disruption in U.S. credit markets due to rising concerns about the sub-prime mortgage market, its effects on consumers and the banking, finance and housing industries and the potential for an economic recession. The result has been depressed security values in most types of investment- and non-investment-grade bonds and debt obligations and mortgage- and asset-backed securities, as well as the failure of the auction mechanism for certain of those asset-backed securities resulting in our inability to sell those securities in the near term. At March 30, 2008, we held a significant portion of our corporate cash in diversified portfolios of fixed- and floating-rate, investment-grade marketable securities, mortgage- and asset-backed securities, non-investment-grade bank loans and bonds, preferred stocks, equities and other securities that have been affected by these credit market concerns and have temporary unrealized losses of \$350 million. Although we consider these unrealized losses to be temporary, there is a risk that we may incur other-than-temporary impairment charges on the values of these and other similarly affected securities if U.S. credit and equity markets do not stabilize and recover to previous levels in the coming quarters.

Equity Price Risk. We have a diversified marketable securities portfolio, including mutual fund and exchange traded fund shares, that is subject to equity price risk. The recorded values of marketable equity securities were \$1.09 billion at March 30, 2008. The recorded values of equity mutual fund and exchange traded fund shares were \$1.23 billion at March 30, 2008. We made equity investments in companies of varying size, style, industry and geography, and changes in investment allocations may affect the price volatility of our investments. A 10% decrease in the market price of our marketable equity securities and equity mutual fund and exchange traded fund shares at March 30, 2008 would cause a corresponding 10% decrease in the carrying amounts of these securities, or \$233 million.

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the second quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

Issuer purchases of equity securities during the second quarter of fiscal 2008 were (in millions, except per share data):

	Total Number of Shares Purchased	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
December 31, 2007 to January 27, 2008	17.7	\$ 37.68	17.7	\$ 96
January 28, 2008 to February 24, 2008	—	\$ —	—	\$ 96
February 25, 2008 to March 30, 2008	2.5	\$ 45.45	2.5	\$ 2,000
Total	<u>20.2</u>	\$ 39.07	<u>20.2</u>	\$ 2,000

- (1) Average Price Paid Per Share excludes cash paid for commissions. We repurchased 2.5 million shares in the second quarter of 2008 upon the exercise of an outstanding put option. A premium of \$8 million was excluded from the average price paid per share. If the premium had been included, the average price paid per share for the purchases of shares made during the second quarter would have been \$37.65.
- (2) On March 11, 2008, we announced that we had been authorized to repurchase up to \$2.0 billion of our common stock with no expiration date. The \$2.0 billion stock repurchase program replaced a \$3.0 billion stock repurchase program, of which approximately \$2.0 million remained authorized for repurchases.

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 11, 2008. On the record date, 1,616,285,181 shares of our common stock were entitled to vote. At the meeting, 1,435,642,319 shares were represented in person or by proxy. Three proposals were considered.

Proposal 1: Election of ten directors to hold office until the 2009 Annual Meeting:

	For	Withheld
Barbara T. Alexander	1,394,490,432	41,151,887
Donald G. Cruickshank	1,405,445,324	30,196,995
Raymond V. Dittamore	1,396,603,898	39,038,421
Irwin Mark Jacobs	1,396,802,983	38,839,336
Paul E. Jacobs	1,399,963,713	35,678,606
Robert E. Kahn	1,400,172,839	35,469,480
Sherry Lansing	1,405,278,419	30,363,900
Duane A. Nelles	952,967,821	482,674,498
Marc I. Stern	1,389,158,385	46,483,934
Brent Scowcroft	1,387,969,256	47,673,063

All of the foregoing candidates were elected, and each received affirmative votes from more than a majority of the outstanding shares.

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Proposal 2: Approve amendments to the 2006 Long-Term Incentive Plan and an increase in the share reserve by 115,000,000 shares. This proposal received the following votes:

For	Against	Abstain
959,405,212	203,303,821	14,145,565
Broker Non-Vote 258,787,721		

The foregoing proposal was approved.

Proposal 3: Ratify the selection of PricewaterhouseCoopers LLP as the Company's independent public accountants for the Company's fiscal year ending September 28, 2008. This proposal received the following votes:

For	Against	Abstain
1,400,066,317	22,053,190	13,522,812

The foregoing proposal was approved.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibits

- 3.1 Restated Certificate of Incorporation. (1)
- 3.2 Certificate of Amendment of Certificate of Designation. (2)
- 3.4 Amended and Restated Bylaws. (3)
- 10.78 2006 Long-Term Incentive Plan, as amended. (4)
- 10.79 2001 Employee Stock Purchase Plan, as amended. (4)
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Paul E. Jacobs.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for William E. Keitel.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Paul E. Jacobs.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for William E. Keitel.

-
- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 13, 2006.
 - (2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 30, 2005.
 - (3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 22, 2006.
 - (4) Indicates management or compensatory plan or arrangement required to be identified pursuant to Item 15(a).

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 23, 2008

QUALCOMM Incorporated
2006 Long-Term Incentive Plan

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QUALCOMM Incorporated
2006 Long-Term Incentive Plan

1. Establishment, Purpose and Term of Plan.

1.1 **Establishment.** The QUALCOMM Incorporated 2006 Long-Term Incentive Plan (the "**Plan**") is hereby adopted December 5, 2005, subject to approval by the stockholders of the Company (the date of such approval, the "**Effective Date**"). The Plan is a restatement of the Company's 2001 Stock Option Plan. The Plan is also a successor to the Company's 1991 Stock Option Plan and the Company's 2001 Non-Employee Directors' Stock Option Plan and its predecessor plan (the "**Prior Plans**") and the source of shares for the Company's Executive Retirement Matching Contribution Plan ("**ERMCP**"). The Plan is amended through September 11, 2007.

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 the best qualified personnel to perform services for the Participating Company Group, by motivating such persons to contribute to the growth and profitability of the Participating Company Group, by aligning their interests with interests of the Company's stockholders, and by rewarding such persons for their services by tying a significant portion of their total compensation package to the success of the Company. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Shares, Performance Units, Restricted Stock Units, Deferred Compensation Awards and other Stock-Based Awards as described below. The Plan is also a source for the issuance of shares pursuant to the ERMCP.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, Awards shall not be granted later than ten (10) years from the Effective Date. The Company intends that the Plan comply with Section 409A of the Code (including any amendments to or replacements of such section), and the Plan shall be so construed.

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. 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) “**Award**” means any Option, SAR, Restricted Stock Award, Performance Share, Performance Unit, Restricted Stock Unit or Deferred Compensation Award or other Stock-Based Award granted under the Plan or an award of shares pursuant to the ERMCP.

(c) “**Award Agreement**” means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant.

(d) “**Board**” means the Board of Directors of the Company.

(e) 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(z)(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.

(f) “**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(g) “**Committee**” means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. If no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers. The Committee shall have the exclusive 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.

(h) “**Company**” means QUALCOMM Incorporated, a Delaware corporation, or any Successor.

(i) “**Consultant**” means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company.

(j) “**Deferred Compensation Award**” means an award of Stock Units granted to a Participant pursuant to Section 11 of the Plan.

(k) “**Director**” means a member of the Board or of the board of directors of any Participating Company.

(l) “**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; provided, however that with respect to Nonemployee Director Awards, “Disability” means the Participant has been determined eligible for supplemental Security Income benefits by the Social Security Administration of the United States of America and also means the inability of the Participant, in the opinion of a qualified physician acceptable to the Company, to perform the duties of the Participant’s position with the Participating Company Group because of sickness or other physical or mental incapacity.

(m) “**Dividend Equivalent**” means a credit, made at the discretion of the Committee or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(n) “**Employee**” means any person treated as an employee (including an Officer or a member of the Board 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 member of the Board 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. For purposes of an individual’s rights, if any, under the Plan as of the time of the Company’s determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(o) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(p) “**Fair Market Value**” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock as quoted on such national or regional securities exchange or market system constituting the primary market for the Stock on the last trading day prior to the day of determination (effective March 13, 2007, such closing price on the day of determination), as reported in *The Wall Street Journal* or such other source as the Company deems reliable. Effective March 13, 2007, if there is no such closing price on the day of determination, the Fair Market Value of a share of Stock under this Section 2.1(p)(i) shall be the closing price of a share of Stock on the next trading day following the day of determination.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value on the basis of the closing, high, low or average sale price of a share of Stock or the actual sale price of a share of Stock received by a Participant, on such date, the preceding trading day, the next succeeding trading day or an average determined over a period of trading days; provided, however, that the Fair Market Value shall not be less than the Fair Market Value determined under Section 2.1(p)(i). The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan.

(iii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(q) "**Incentive Stock Option**" means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(r) "**Insider**" means an Officer, a Director or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(s) "**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.

(t) "**Nonemployee Director**" means a Director who is not an Employee.

(u) "**Nonstatutory Stock Option**" means an Option not intended to be (as set forth in the Award Agreement) an incentive stock option within the meaning of Section 422(b) of the Code.

(v) "**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; provided, however, that with respect to Nonemployee Director Awards, "Normal Retirement

Age” means the date on which a Participant has attained the age of seventy (70) years and has completed nine years of continuous Service.

(w) “**Officer**” means any person designated by the Board as an officer of the Company.

(x) “**Option**” means the right to purchase Stock at a stated price for a specified period of time granted to a Participant pursuant to Section 6 of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(y) “**Option Expiration Date**” means the date of expiration of the Option’s term as set forth in the Award Agreement.

(z) 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.

(aa) “**Parent Corporation**” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(bb) “**Participant**” means any eligible person who has been granted one or more Awards.

(cc) “**Participating Company**” means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(dd) “**Participating Company Group**” means, at any point in time, all entities collectively which are then Participating Companies.

(ee) “**Performance Award**” means an Award of Performance Shares or Performance Units.

(ff) “**Performance Award Formula**” means, for any Performance Award, a formula or table established by the Committee pursuant to Section 9.3 of the Plan which provides the basis for computing the value of a Performance Award at one or more threshold levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.

(gg) “**Performance Goal**” means a performance goal established by the Committee pursuant to Section 9.3 of the Plan.

(hh) "**Performance Period**" means a period established by the Committee pursuant to Section 9.3 of the Plan at the end of which one or more Performance Goals are to be measured.

(ii) "**Performance Share**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a payment equal to the value of a Performance Share, as determined by the Committee, based on performance.

(jj) "**Performance Unit**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 9 of the Plan to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon performance.

(kk) "**Restricted Stock Award**" means an Award of Restricted Stock.

(ll) "**Restricted Stock Unit**" or "**Stock Unit**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 or Section 11 of the Plan, respectively, to receive a share of Stock on a date determined in accordance with the provisions of Section 10 or Section 11, as applicable, and the Participant's Award Agreement.

(mm) "**Restriction Period**" means the period established in accordance with Section 8.4 of the Plan during which shares subject to a Restricted Stock Award are subject to Vesting Conditions.

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

(oo) "**SAR**" or "**Stock Appreciation Right**" means a bookkeeping entry representing, for each share of Stock subject to such SAR, a right granted to a Participant pursuant to Section 7 of the Plan to receive payment in any combination of shares of Stock or cash of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price.

(pp) "**Section 162(m)**" means Section 162(m) of the Code.

(qq) "**Securities Act**" means the Securities Act of 1933, as amended.

(rr) "**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, and only for purposes of this Plan, 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, and only for purposes of 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.

In the event that the Participating Company for which Participant renders service ceases to be a member of the Participating Company Group by reason of a Spinoff Transaction, the Company shall have the authority to impose any restrictions, including but not limited to, with respect to the method of payment of the exercise price of the Options held by such individuals, if the Company determines that such restrictions are necessary to comply with applicable local laws.

Further, notwithstanding the foregoing, if the Participant resides outside the United States and the Participating Company for which the individual renders service ceases to be a member of the Participating Company Group by reason of a Spinoff Transaction, the Company may consider such individual to have terminated his or her Service if it determines that there are material adverse tax, securities law or other regulatory consequences to the Participant, the Company or the former Participating Company as a result of the Spinoff Transaction. In this circumstance, the Company will, in its discretion, (i) equitably adjust the Participant's Option to ensure that he or she maintains equivalent Option rights over the shares of common stock of the Spinoff Company for which he or she is employed following the Spinoff Transaction, or (ii) determine that the Participant's Options shall fully vest and be fully exercisable and shall terminate if not exercised prior to such Spinoff transaction or (iii) take any other action that, in its discretion, does not impair the rights of such Participant with respect to the Option.

(ss) "*Spinoff Company*" means a Participating Company which ceases to be such as a result of a Spinoff Transaction.

(tt) "**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.

(uu) "**Stock**" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2 of the Plan.

(vv) "**Stock-Based Awards**" means any award that is valued in whole or in part by reference to, or is otherwise based on, the Stock, including dividends on the Stock, but not limited to those Awards described in Sections 6 through 11 of the Plan.

(ww) "**Subsidiary Corporation**" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(xx) "**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.

(yy) "**Ten Percent Owner**" means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(zz) "**Vesting Conditions**" mean those conditions established in accordance with Section 8.4 or Section 10.2 of the Plan prior to the satisfaction of which shares subject to a Restricted Stock Award or Restricted Stock Unit Award, respectively, remain subject to forfeiture or a repurchase option in favor of the Company upon the Participant's termination of Service.

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. All questions of interpretation of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

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

3.3 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.

3.4 Committee Complying with Section 162(m). While the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award 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).

3.5 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 full and final power and authority, in its discretion:

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

(b) to determine the type of Award granted and to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

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

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant’s termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to determine whether an Award will be settled in shares of Stock, cash, or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;

(i) without the consent of the affected Participant and notwithstanding the provisions of any Award Agreement to the contrary, to unilaterally substitute at any time a Stock Appreciation Right providing for settlement solely in shares of Stock in place of any outstanding Option, provided that such Stock Appreciation Right covers the same number of shares of Stock and provides for the same exercise price (subject in each case to adjustment in accordance with Section 4.2) as the replaced Option and otherwise provides substantially equivalent terms and conditions as the replaced Option, as determined by the Committee;

(j) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards;

(k) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law; and

(l) to delegate to any proper Officer the authority to grant one or more Awards, 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 Award shall be subject to the terms and conditions of the appropriate standard form of Award 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.

3.6 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, 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.

3.7 Arbitration. Any dispute or claim concerning any Awards 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 Award, Participants and the Company waive their respective rights to have any such disputes or claims tried by a judge or jury.

3.8 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 or SARs and the grant in substitution therefore of new Options or SARs having a lower exercise price or (b) the amendment of outstanding Options or SARs to reduce the exercise price thereof. This paragraph shall not be construed to apply to the issuance or assumption of an Award in a transaction to which Code section 424(a) applies, within the meaning of Section 424 of the Code.

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 **405,284,432** and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. The share reserve, determined at any time, shall be reduced by the number of shares subject to Prior Plan Options and shares issued under the ERMCP. Any shares of Stock subject to Prior Plan Option shall again be available for issuance under the Plan only if the Prior Plan Option is terminated or cancelled but not if it expires. Any shares of Stock that are subject to Awards of Options or SARs without a related Dividend Equivalent shall be counted against the limit as one (1) share for every one (1) share granted. Any shares of Stock that are subject to Awards (other than Options or SARs without a related Dividend Equivalent) shall be counted against this limit as three (3) shares for every one (1) share granted. If an outstanding Award, excluding Prior Plan Options, for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase, and shares issued under the ERMCP, are forfeited to the Company, the shares of Stock allocable to the terminated portion of such Award or such forfeited shares of Stock shall again be available for issuance under the Plan. Any shares of Stock that again become available for shares pursuant to this Section 4.1 shall be added back as one (1) share if such shares were subject to Options without a Dividend Equivalent or SARs granted under the Plan or under a Prior Plan and as three (3) shares if such shares were subject to Awards (other than Options without a Dividend Equivalent or SARs) granted under the Plan or a Prior Plan. Notwithstanding anything to the contrary contained herein: (i) shares of Stock tendered in payment of an Option shall not be added to the aggregate plan limit described above; (ii) shares of Stock withheld by the Company to satisfy any tax withholding obligation shall not be added to the aggregate plan limit described above; (iii) shares

of Stock that are repurchased by the Company with Option proceeds shall not be added to the aggregate plan limit described above; and (iv) all shares of Stock covered by an SAR, to the extent that it is exercised and settled in shares of Stock, and whether or not shares of Stock are actually issued to the Participant upon exercise of the SAR, shall be considered issued or transferred pursuant to the Plan.

4.2 Adjustments for Changes in Capital Structure. Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, in the Award limits set forth in Section 5.4, and in connection with the ERMCP, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) 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 Awards shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number. The Committee in its sole discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. The adjustments determined by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.

5. Eligibility and Award Limitations.

5.1 Persons Eligible for Awards. Awards may be granted only to Employees, Consultants and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are offered to be granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Stock subject to any such Award shall vest, become exercisable or be issued prior to the date on which such person commences Service.

5.2 **Participation.** Eligible persons may be granted more than one Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 **Incentive Stock Option Limitations.**

(a) **Persons Eligible.** 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. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee of an ISO-Qualifying Corporation shall be deemed granted effective on the date such person commences Service with an ISO-Qualifying Corporation, with an exercise price determined as of such date in accordance with Section 6.1.

(b) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, 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 portion of such options which exceeds 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 limitation different 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. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

5.4 **Award Limits.**

(a) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed 226,239,821 shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options shall be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Section 4.2 and further subject to the limitation set forth in Section 5.4(b) below.

(b) **Limits on Full Value Awards.** Except for shares granted under the Executive Retirement Matching Contribution Plan, any Restricted Stock Awards, Restricted

Stock Unit Awards, Performance Awards or Stock-Based Awards based on the full value of shares of Stock (“Full Value Awards”), which vest on the basis of the Participant’s continued Service, shall not provide for vesting which is any more rapid than annual pro rata vesting over a three (3) year period and any Full Value Awards which vest upon the Participant’s attainment of Performance Goals shall provide for a Performance Period of at least twelve (12) months. There shall be no acceleration of vesting of such Full Value Awards, except in connection with death, Disability or a Change in Control. Notwithstanding any contrary provision of the Plan, a maximum of two percent (2%) of the shares authorized for issuance under the Plan may be issued as Awards to Non-Employee Directors without regard to the limitations of this Section 5.4(b).

(c) **Section 162(m) Award Limits.** The following limits shall apply to the grant of any Award if, at the time of grant, the Company is a “publicly held corporation” within the meaning of Section 162(m).

(i) **Options and SARs.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Options or Freestanding SARs which in the aggregate are for more than 3,000,000 shares of Stock reserved for issuance under the Plan.

(ii) **Restricted Stock and Restricted Stock Unit Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Restricted Stock Awards or Restricted Stock Unit Awards, subject to Vesting Conditions based on the attainment of Performance Goals, for more than 1,000,000 shares of Stock reserved for issuance under the Plan.

(iii) **Performance Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted (1) Performance Shares which could result in such Employee receiving more than 1,000,000 shares of Stock reserved for issuance under the Plan for each full fiscal year of the Company contained in the Performance Period for such Award, or (2) Performance Units which could result in such Employee receiving more than \$8,000,000 for each full fiscal year of the Company contained in the Performance Period for such Award. No Participant may be granted more than one Performance Award for the same Performance Period.

6. Terms and Conditions of Options.

Options shall be evidenced by Award Agreements specifying 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 Award Agreement. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the

Option and (b) no Incentive Stock Option granted to a Ten Percent Owner 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 be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, (c) no Option shall become fully vested in a period of less than three (3) years from the date of grant, other than in connection with a termination of Service or a Change in Control or in the case of an Option granted to a Nonemployee Director, and (d) no Option offered or be granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service. 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 in 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) provided that the Participant is an Employee, and not an Officer or Director (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, (iv) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (v) by any combination thereof. The Committee may at any time or from time to time 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.

(ii) **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 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, an Option shall be exercisable after a Participant's termination of Service only during the applicable time periods provided in the Award Agreement.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, unless the Committee provides otherwise in the Award Agreement, if the exercise of an Option within the applicable time periods is prevented by the provisions of Section 14 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Committee, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods 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.

6.5 Transferability of Options. During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. Terms and Conditions of Stock Appreciation Rights.

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No SAR or purported SAR shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing SARs 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:

7.1 Types of SARs Authorized. SARs may be granted in tandem with all or any portion of a related Option (a "**Tandem SAR**") or may be granted independently of any Option (a "**Freestanding SAR**"). A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option.

7.2 Exercise Price. The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR.

7.3 Exercisability and Term of SARs.

(a) **Tandem SARs.** Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option.

(b) **Freestanding SARs.** Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the

Award Agreement evidencing such SAR; provided, however, that no Freestanding SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR.

No SAR shall become fully vested in a period of less than three (3) years from the date of grant, other than in connection with a termination of Service or a Change in Control or the case of an SAR granted to a Nonemployee Director.

7.4 Deemed Exercise of SARs. If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

7.5 Effect of Termination of Service. Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee in the grant of an SAR and set forth in the Award Agreement, an SAR shall be exercisable after a Participant's termination of Service only as provided in the Award Agreement.

7.6 Nontransferability of SARs. During the lifetime of the Participant, an SAR shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the exercise of an SAR, the SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution.

8. Terms and Conditions of Restricted Stock Awards.

Restricted Stock Awards shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Award or purported Restricted Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Awards 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:

8.1 Types of Restricted Stock Awards Authorized. Restricted Stock Awards may or may not require the payment of cash compensation for the stock. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 9.4. If either the grant of a Restricted Stock Award or the lapsing of the Restriction Period is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 9.3 through 9.5(a).

8.2 Purchase Price. The purchase price, if any, for shares of Stock issuable under each Restricted Stock Award and the means of payment shall be established by the Committee in its discretion.

8.3 Purchase Period. A Restricted Stock Award requiring the payment of cash consideration shall be exercisable within a period established by the Committee; provided, however, that no Restricted Stock Award granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service.

8.4 Vesting and Restrictions on Transfer. Shares issued pursuant to any Restricted Stock Award may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 9.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any Restriction Period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than as provided in the Award Agreement or as provided in Section 8.7. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder.

8.5 Voting Rights; Dividends and Distributions. Except as provided in this Section, Section 8.4 and any Award Agreement, during the Restriction Period applicable to shares subject to a Restricted Stock Award, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.6 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service in exchange for the payment of the purchase price, if any, paid by the Participant. 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.

8.7 Nontransferability of Restricted Stock Award Rights. Prior to the issuance of shares of Stock pursuant to a Restricted Stock Award, rights to acquire such shares shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be

exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

9. Terms and Conditions of Performance Awards.

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Award or purported Performance Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Awards 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:

9.1 Types of Performance Awards Authorized. Performance Awards may be in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

9.2 Initial Value of Performance Shares and Performance Units. Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.2, on the effective date of grant of the Performance Share. Each Performance Unit shall have an initial value determined by the Committee. The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

9.3 Establishment of Performance Period, Performance Goals and Performance Award Formula. In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. To the extent compliance with the requirements under Section 162(m) with respect to "performance-based compensation" is desired, the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

9.4 Measurement of Performance Goals. Performance Goals shall be established by the Committee on the basis of targets to be attained ("**Performance Targets**") with respect to one or more measures of business or financial performance (each, a "**Performance Measure**"), subject to the following:

(a) **Performance Measures.** Performance Measures may be one or more of the following, as determined by the Committee: (i) revenues; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) earnings before tax; (vi) earnings before interest, taxes and depreciation and amortization; (vii) net income; (viii) expenses; (ix) the market price of the Stock; (x) earnings per share; (xi) return on stockholder equity; (xii) return on capital; (xiii) return on net assets; (xiv) economic value added; (xv) market share; (xvi) customer service; (xvii) customer satisfaction; (xviii) safety; (xix) total stockholder return; (xx) free cash flow; or (xxi) such other measures as determined by the Committee consistent with this Section 9.4(a).

(b) **Performance Targets.** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

9.5 Settlement of Performance Awards.

(a) **Determination of Final Value.** As soon as practicable following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award that is not intended to constitute "qualified performance based compensation" to a "covered employee" within the meaning of Section 162(m) (a "**Covered Employee**") to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. With respect to a Performance Award intended to constitute qualified performance-based compensation to a Covered Employee, the Committee shall have the discretion to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula.

(c) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 9.5(a) and (b), payment shall be made to each eligible Participant (or such Participant's legal representative or other person who acquired the right to receive such payment by reason of

the Participant's death) of the final value of the Participant's Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee.

9.6 Voting Rights; Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which the Performance Shares are settled or forfeited. Such Dividend Equivalents, if any, shall be credited to the Participant in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock. The number of additional Performance Shares to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalents may be paid currently or may be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee. Settlement of Dividend Equivalents may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 9.5, except that fractional shares shall be paid in cash within thirty (30) days following the date of settlement of the Performance Share Award. Dividend Equivalents shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

9.7 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Performance Award and set forth in the Award Agreement, the effect of a Participant's termination of Service on the Performance Award shall be as follows:

(a) **Death or Disability.** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant's Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 9.5.

(b) **Other Termination of Service.** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award shall be forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant's Service, the Committee, in its sole discretion, may waive the automatic forfeiture of all or any portion of any such Award.

9.8 Nontransferability of Performance Awards. Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. Terms and Conditions of Restricted Stock Unit Awards.

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Unit Award or purported Restricted Stock Unit Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Units 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:

10.1 Grant of Restricted Stock Unit Awards. Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 9.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 9.3 through 9.5(a).

10.2 Vesting. Restricted Stock Units may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 9.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award.

10.3 Voting Rights, Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which

Restricted Stock Units held by such Participant are settled. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Restricted Stock Units originally subject to the Restricted Stock Unit Award, except that fractional shares may be settled in cash within thirty (30) days following the date of settlement of the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

10.4 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Unit Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

10.5 Settlement of Restricted Stock Unit Awards. The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee, in its discretion, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 10.3) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes. Notwithstanding the foregoing, if permitted by the Committee and set forth in the Award Agreement, the Participant may elect in accordance with terms specified in the Award Agreement to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

10.6 Nontransferability of Restricted Stock Unit Awards. Prior to the issuance of shares of Stock in settlement of a Restricted Stock Unit Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. Deferred Compensation Awards.

11.1 **Establishment of Deferred Compensation Award Programs.** This Section 11 shall not be effective unless and until the Committee determines to establish a program pursuant to this Section. The Committee, in its discretion and upon such terms and conditions as it may determine, may establish one or more programs pursuant to the Plan under which:

(a) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to reduce such Participant's compensation otherwise payable in cash (subject to any minimum or maximum reductions imposed by the Committee) and to be granted automatically at such time or times as specified by the Committee one or more Awards of Stock Units with respect to such numbers of shares of Stock as determined in accordance with the rules of the program established by the Committee and having such other terms and conditions as established by the Committee.

(b) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to be granted automatically an Award of Stock Units with respect to such number of shares of Stock and upon such other terms and conditions as established by the Committee in lieu of:

- (i) shares of Stock otherwise issuable to such Participant upon the exercise of an Option;
- (ii) cash or shares of Stock otherwise issuable to such Participant upon the exercise of an SAR; or
- (iii) cash or shares of Stock otherwise issuable to such Participant upon the settlement of a Performance Award or Performance Unit.

11.2 **Terms and Conditions of Deferred Compensation Awards.** Deferred Compensation Awards granted pursuant to this Section 11 shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No such Deferred Compensation Award or purported Deferred Compensation Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Deferred Compensation Awards 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:

- (a) *Vesting Conditions.* Deferred Compensation Awards shall not be subject to any vesting conditions.

(b) *Terms and Conditions of Stock Units.*

(i) **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, a Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to date on which Stock Units held by such Participant are settled. Such Dividend Equivalents shall be paid by crediting the Participant with additional whole and/or fractional Stock Units as of the date of payment of such cash dividends on Stock. The method of determining the number of additional Stock Units to be so credited shall be specified by the Committee and set forth in the Award Agreement. Such additional Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Stock Units originally subject to the Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Stock Unit Award so that it represent the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award.

(ii) **Settlement of Stock Unit Awards.** A Participant electing to receive an Award of Stock Units pursuant to this Section 11 shall specify at the time of such election a settlement date with respect to such Award. The Company shall issue to the Participant as soon as practicable following the earlier of the settlement date elected by the Participant or the date of termination of the Participant's Service, a number of whole shares of Stock equal to the number of whole Stock Units subject to the Stock Unit Award. Such shares of Stock shall be fully vested, and the Participant shall not be required to pay any additional consideration (other than applicable tax withholding) to acquire such shares. Any fractional Stock Unit subject to the Stock Unit Award shall be settled by the Company by payment in cash of an amount equal to the Fair Market Value as of the payment date of such fractional share.

(iii) **Nontransferability of Stock Unit Awards.** Prior to their settlement in accordance with the provision of the Plan, no Stock Unit Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

12. **Other Stock-Based Awards.**

In addition to the Awards set forth in Sections 6 through 11 above, the Committee, in its sole discretion, may carry out the purpose of this Plan by awarding Stock-Based Awards as it

determines to be in the best interests of the Company and subject to such other terms and conditions as it deems necessary and appropriate.

13. Effect of Change in Control on Options and SARs

13.1 Accelerated Vesting. The Committee, in its sole discretion, may provide in any Award Agreement or, in the event of a Change in Control, may take such actions as it deems appropriate to provide for the acceleration of the exercisability and vesting in connection with such Change in Control of any or all outstanding Options and SARs and shares acquired upon the exercise of such Options and SARs upon such conditions and to such extent as the Committee shall determine. The previous sentence notwithstanding such acceleration shall not occur to the extent an Option or SAR is assumed or substituted with a substantially similar Award in connection with a Change in Control.

13.2 Assumption or Substitution. 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 the Participant, either assume the Company's rights and obligations under outstanding Options and SARs or substitute for outstanding Options and SARs substantially equivalent options or stock appreciation rights for the Acquiring Corporation's stock. Any Options or SARs 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 or SAR 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 Award Agreement evidencing such Award except as otherwise provided in such Award Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options or SARs immediately prior to an Ownership Change Event described in Section 2.1(z)(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 and SARs shall not terminate unless the Board otherwise provides in its discretion.

13.3 Effect of Change in Control on Awards Other Than Options and SARs. The Committee may, in its discretion, provide in any Award Agreement evidencing any Award other than an Option or SAR that, in the event of a Change in Control, the lapsing of any applicable Vesting Condition, vesting restriction, Restriction Period, Performance Goal or other limitation applicable to the Award or the Stock subject to such Award held by a Participant whose Service has not terminated prior to the Change in Control shall be accelerated and/or waived, effective immediately prior to the consummation of the Change in Control, to such extent as specified in such Award Agreement; provided, however, that such acceleration or waiver shall not occur to the extent an Award is assumed or substituted with a substantially equivalent Award in connection with the Change in Control. Any acceleration, waiver or the

lapsing of any restriction that was permissible solely by reason of this Section 13.3 and the provisions of such Award Agreement shall be conditioned upon the consummation of the Change in Control.

14. Compliance with Securities Law.

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award 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 issuance of any Stock, 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.

15. Tax Withholding.

15.1 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 payroll withholding, cash payment or otherwise, including by means of a cashless exercise or net 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 Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

15.2 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 or settlement of an Award, 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.

16. Amendment or Termination of Plan.

The Board or the Committee may amend, suspend or terminate the Plan at any time. However, 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 amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Board or the Committee. In any event, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant unless necessary to comply with any applicable law, regulation or rule.

17. Miscellaneous Provisions.

17.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award 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.

17.2 **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.

17.3 **Rights as Employee, Consultant or Director.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

17.4 **Rights as a Stockholder.** A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.2 or another provision of the Plan.

17.5 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

17.6 **Severability.** If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

17.7 **Beneficiary Designation.** Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

17.8 **Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan. Each Participating Company shall be responsible for making benefit payments pursuant to the Plan on behalf of its Participants or for reimbursing the Company for the cost of such payments, as determined by the Company in its sole discretion. In the event the respective Participating Company fails to make such payment or reimbursement, a Participant's (or other individual's) sole recourse shall be against the respective Participating Company, and not against the Company. A Participant's acceptance of an Award pursuant to the Plan shall constitute agreement with this provision.

**AMENDED AND RESTATED QUALCOMM INCORPORATED
2001 EMPLOYEE STOCK PURCHASE PLAN**

As amended by the Compensation Committee through November 12, 2007

SECTION 1 Establishment, Purpose and Term of Plan.

1.1 Establishment. The QUALCOMM Incorporated 2001 Employee Stock Purchase Plan, which was originally established as of February 27, 2001, is hereby amended and restated by the Committee as of November 12, 2007.

1.2 Purpose. The purpose of the Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward Eligible Employees of the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan provides such Eligible Employees with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed, although the Company makes no undertaking nor representation to maintain such qualification. In addition, this Plan document authorizes the grant of rights to purchase Stock under a Non-423(b) Plan which do not qualify under Section 423(b) of the Code, pursuant to rules, procedures or sub-plans adopted by the Board or Committee designed to achieve tax, securities law or other Company compliance objectives in particular locations outside the United States.

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

SECTION 2 Definitions and Construction.

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

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

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

(c) "Code Section 423(b) Plan" means an employee stock purchase plan which is designed to meet the requirements set forth in Section 423(b) of the Code, as amended. The provisions of the Code Section 423(b) Plan shall be construed, administered and enforced in accordance with Section 423(b).

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

(e) "Company" means QUALCOMM Incorporated, a Delaware corporation, or any Successor.

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

(g) "Eligible Employee" means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan. Eligible Employee shall also mean any other employee of a Participating Company to the extent that local law requires participation in the Plan to be extended to such employee.

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

(i) "Fair Market Value" means, as of any date:

(i) If the Stock is listed on any established stock exchange or traded on the Nasdaq Global Select Market or the Nasdaq Global 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 day of determination, in any case as reported in The Wall Street Journal or such other source

as the Board deems reliable. In the absence of such markets for the Stock, the Fair Market Value shall be determined in good faith by the Board.

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

(j) "Non-423(b) Plan" means an employee stock purchase plan which does not meet the requirements set forth in Section 423(b) of the Code, as amended.

(k) "Offering" means an offering of Stock as provided in Section 6.

(l) "Offering Date" means, for any Offering, the first day of the Offering Period.

(m) "Offering Period" means a period established in accordance with Section 6.

(n) "Parent Corporation" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

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

(p) "Participating Company" means the Company and any Parent Corporation or Subsidiary Corporation. The Board or Committee may determine that some or all employees of any Participating Company shall participate in the Non-423(b) Plan.

(q) "Participating Company Group" means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(r) "Plan" shall mean the Amended and Restated QUALCOMM Incorporated 2001 Employee Stock Purchase Plan, as amended from time to time, which includes a Code Section 423(b) Plan and a Non-423(b) Plan component.

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

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

(u) "Purchase Right" means an option granted to a Participant pursuant to the Plan to purchase such shares of Stock as provided in Section 8, which the Participant may or may not exercise during the Offering Period in which such option is outstanding. Such option

arises from the right of a Participant to withdraw any accumulated payroll deductions of the Participant not previously applied to the purchase of Stock under the Plan and to terminate participation in the Plan during an Offering Period, in accordance with such rules and procedures as may be established by Board.

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

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

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

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

(z) "Subsidiary Corporation" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

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

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

SECTION 3 Administration.

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

3.2 Authority of Officers. Any officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the officer has actual authority with respect to such matter, right, obligation, determination or

election. Any decision or determination of the Company made by an officer having actual authority with respect thereto, shall be final, binding and conclusive on the Participating Company Group, any Participant, and all persons having an interest in the Plan, or any Purchase Right granted hereunder, unless such officer's decision or determination is arbitrary or capricious, fraudulent, or made in bad faith.

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

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

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

SECTION 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 24,709,466; provided, however that no more than an aggregate of 24,309,466 shares of Stock may be issued under the Code section 423(b) Plan. The maximum aggregate number of shares of Stock available under the Code Section 423(b) Plan and the Non-423(b) Plan shall consist of authorized but unissued or reacquired shares of Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of that Purchase Right shall again be available for issuance under the Plan; provided, however, that any such shares of Stock allocable to a Purchase Right that has expired, terminated or been canceled under the Non-423(b) Plan shall only be available again for issuance under the Non-423(b) Plan.

4.2 Adjustments for Changes in Capital Structure. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other reorganization in which the Company is a party, appropriate adjustments shall be made in the number and class of shares subject to the Plan, each Purchase Right, and in the Purchase Price. If a majority of the shares of the same class as the shares subject to outstanding Purchase Rights are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "New Shares"), the Board may unilaterally amend the outstanding Purchase Rights to provide that such Purchase Rights are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the Purchase Price of, the outstanding Purchase Rights shall be adjusted in a fair and equitable manner, as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the Purchase Price be decreased to an amount less than the par value, if any, of the stock subject to the Purchase Right.

SECTION 5 Eligibility.

5.1 Employees Eligible to Participate. Except as otherwise provided in this Section 5, an Employee shall be eligible to participate in an Offering if such Employee, as of the Offering Date, is employed by the Company or any other Participating Company designated by the Board as a corporation whose Employees may participate in the Offering. However, unless otherwise required under applicable local law, an Employee may not be eligible to participate in an Offering if the Employee, as of the Offering Date, either: (a) is customarily employed by the Participating Company Group for twenty (20) hours or less per week, (b) is customarily employed by the Participating Company Group for not more than five (5) months in any calendar year or (c) has not completed thirty (30) days of service with a Participating Company, or such other service requirement, up to a maximum of 2 years, which the Board may require. Employees of a Participating Company designated to participate in the Non-423(b) Plan are eligible to participate in the Non-423(b) Plan only if they are selected to participate by the Board or Committee, which selection shall be in the sole discretion of the Board or Committee. Notwithstanding the foregoing, no employee of the Company or a Participating Company

designated to participate in the Non-423(b) Plan shall be eligible to participate in the Non-423(b) Plan if he or she is an officer or director of the Company subject to the requirements of Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") with respect to the Company's securities.

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

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

SECTION 6 Offerings.

The Plan shall be implemented by sequential Offerings of approximately six (6) months duration or such other duration as the Board shall determine (an "Offering Period"). Offering Periods shall be established by the Board, in its sole and absolute discretion, and such Offering Periods may have different durations or different commencing or ending dates; provided, however, that no Offering Period may have a duration exceeding twenty-seven (27) months.

SECTION 7 Participation in the Plan.

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

7.2 Continued Participation. A Participant shall automatically participate in the next Offering Period commencing immediately after the Purchase Date of each Offering Period in which the Participant participates provided that the Participant remains an Eligible Employee

on the Offering Date of the new Offering Period and has not either (a) withdrawn from the Plan pursuant to Section 12.1 or (b) terminated employment as provided in Section 13. A Participant who may automatically participate in a subsequent Offering Period, as provided in this Section, is not required to deliver any additional Subscription Agreement for the subsequent Offering Period in order to continue participation in the Plan. However, a Participant may deliver a new Subscription Agreement for a subsequent Offering Period in accordance with the procedures set forth in Section 7.1 if the Participant desires to change any of the elections contained in the Participant's then effective Subscription Agreement.

SECTION 8 Right to Purchase Shares.

8.1 Grant of Purchase Right.

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

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

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

8.2 Substitution of Rights. The grant of rights under an Offering may be done to carry out the substitution of rights under the Plan for pre-existing rights granted under another employee stock purchase plan, if such substitution is pursuant to a transaction described in Section 424(a) of the Code (or any successor provision thereto) and the characteristics of such substitute rights conform to the requirements of Section 424(a) of the Code (or any successor provision thereto) and will not cause the disqualification of the Code Section 423(b) Plan under

Section 423 of the Code. Notwithstanding the other terms of the Plan, such substitute rights shall have the same characteristics as the characteristics associated with such pre-existing rights, including, but not limited to, the following:

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

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

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

8.4 Calendar Year Purchase Limitation. Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted a Purchase Right which permits his or her right to purchase shares of Stock under the Plan to accrue at a rate which, when aggregated with such Participant's rights to purchase shares under all other employee stock purchase plans of a Participating Company intended to meet the requirements of Section 423 of the Code, exceeds Twenty-Five Thousand Dollars (\$25,000) in Fair Market Value (or such other limit, if any, as may be imposed by the Code) for each calendar year in which such Purchase Right is outstanding at any time. For purposes of the preceding sentence, the Fair Market Value of shares purchased during a given Offering Period shall be determined as of the Offering Date for such Offering Period. The limitation described in this Section shall be applied in conformance with applicable regulations under Section 423(b)(8) of the Code.

SECTION 9 Purchase Price.

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

SECTION 10 Accumulation of Purchase Price through Payroll Deduction.

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

jurisdiction, or is not administratively feasible, such other payments as may be approved by the Company, subject to the following:

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

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

10.3 Election to Change or Stop Payroll Deductions. During an Offering Period, to the extent provided for in the Offering, a Participant may elect to decrease the rate of, or to stop, deductions from his or her Compensation by delivering to the Company an amended Subscription Agreement, in such form and manner as specified by the Company, authorizing such change on or before the Change Notice Date, as defined below. A Participant who elects, effective following the first payday of an Offering Period, to decrease the rate of his or her payroll deductions to zero percent (0%) shall nevertheless remain a Participant in the current Offering Period unless such Participant withdraws from the Plan as provided in Section 12.1. The "Change Notice Date" shall be the day established in accordance with procedures established by the Company.

10.4 Company's Holding of Deductions. All payroll deductions from a Participant's Compensation shall be deposited with the general funds of the Company, and to the extent permitted by applicable law, may be used by the Company for any corporate purpose. No interest will accrue on the payroll deductions from a Participant under this Plan, except as otherwise required by applicable law. If such interest is required, all accrued interest will not be used to purchase additional shares of Stock on a Purchase Date, and such accrued interest shall be refunded to the Participant following such Purchase Date (or, if applicable, the Participant's withdrawal from the Plan pursuant to Section 12.1 or termination of employment or eligibility as described in Section 13).

10.5 Voluntary Withdrawal of Deductions. A Participant may withdraw payroll deductions credited to the Plan and not previously applied toward the purchase of Stock only as provided in Section 12.1.

10.6 Contributions under Non-423(b) Plan. In the sole discretion of the Board or Committee and if specified in the terms of the Offering, a Participant at a Participating Company designated to participate in the Non-423(b) Plan may make additional payments into his or her account, provided that such Participant has not had the maximum amount withheld during the Offering pursuant to subsection 10.1 above.

SECTION 11 Purchase of Shares.

11.1 Exercise of Purchase Right. On each Purchase Date, each Participant's accumulated payroll deductions and other additional payments specifically permitted by the Plan (without any increase for interest), will be applied to the purchase of whole shares of Stock, up to the maximum number of shares permitted pursuant to the terms of the Plan and the applicable Offering, at the Purchase Price for such Offering. No fractional shares shall be issued upon the exercise of Purchase Rights granted under the Plan. The amount, if any, of each Participant's accumulated payroll deductions remaining after the purchase of shares on the Purchase Date of an Offering shall be refunded in full to the Participant after such Purchase Date.

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

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

11.4 Tax Withholding. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the federal, state, local and foreign tax withholding obligations, if any, of the Participating Company Group which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

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

11.6 Provision of Reports and Stockholder Information to Participants. Each Participant who has exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's account setting forth the total payroll deductions accumulated prior to such exercise, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the cash balance, if any, remaining immediately after such purchase that is to be refunded. The report required by this Section may be delivered in such form and by such means, including by electronic transmission, as the Company may determine. In addition, each Participant shall be given access to information

concerning the Company equivalent to that information provided generally to the Company's common stockholders.

SECTION 12 Withdrawal from Plan.

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

12.2 Return of Payroll Deductions. Upon a Participant's voluntary withdrawal from the Plan pursuant to Section 12.1, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares shall be refunded to the Participant as soon as practicable after the withdrawal (and except as otherwise provided in Section 10.4, without the payment of any interest), and the Participant's participation in the Plan shall terminate. Such accumulated payroll deductions to be refunded in accordance with this Section may not be applied to any other Offering under the Plan.

SECTION 13 Termination of Employment.

13.1 General. Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, the Participant's participation in the Plan shall terminate immediately, except as otherwise provided in Section 2.1(g) and Section 13.3.

13.2 Return of Payroll Deductions. Upon termination of participation, the terminated Participant's accumulated payroll deductions which have not been applied toward the purchase of shares shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Except as otherwise provided in Section 10.4, interest shall not be paid on sums returned pursuant to this Section 13. A Participant whose participation has been so terminated may again become eligible to participate in future Offerings under the Plan by satisfying the requirements of Sections 5 and 7.1.

13.3 Continued Participation Upon Release of Claims. Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, the Participant's participation in the Plan shall continue, subject to the Participant's execution of a general release of claims satisfactory to the Company, for an additional three (3) months; provided, however, this Section shall not apply in the event of the Participant's death, a Spinoff Transaction, or to any Participant on a leave of absence governed by Section 2.1(g).

SECTION 14 Change in Control.

14.1 Definitions.

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

(b) A “Change in Control” shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a “Transaction”) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 14.1(a)(iii), the corporation or other business entity to which the assets of the Company were transferred (the “Transferee”), as the case may be. The Board shall determine in its sole discretion whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related. Notwithstanding the preceding sentence, a Change in Control shall not include any Transaction in which the voting stock of an entity in the Participating Company Group is distributed to the stockholders of a parent corporation, as defined in Section 424(e) of the Code, of such entity. Any Ownership Change Event resulting from an underwritten public offering of the Company’s Stock or the stock of any Participating Company shall not be deemed a Change in Control for any purpose hereunder.

14.2 Effect of Change in Control on Purchase Rights. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the “Acquiring Corporation”), may assume the Company’s rights and obligations under the Plan. If the Acquiring Corporation elects not to assume the Company’s rights and obligations under outstanding Purchase Rights, the Purchase Date of the then current Offering Period shall be accelerated to a date before the date of the Change in Control specified by the Board, but the number of shares of Stock subject to outstanding Purchase Rights shall not be adjusted, provided, however, that the Purchase Date with respect to Purchase Rights granted pursuant to a Non-423(b) Plan shall be accelerated as contemplated by the foregoing sentence only to the extent the event constituting the Change in Control qualifies as a “change in ownership” or “change in effective control” of the Company or a “change in ownership of a substantial portion of the assets” of the Company, as these concepts are defined in U.S. Treas. Reg. § 1.409A-3(i)(5) or successor provisions. All Purchase Rights which are neither assumed by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control.

SECTION 15 Nontransferability of Purchase Rights.

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

SECTION 16 Compliance with Securities Law and other Applicable Requirements

The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any securities exchange or market system upon which the Stock may then be listed. In addition, no Purchase Right may be exercised unless (a) a registration statement under the U.S. Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. Anything in the foregoing to the contrary notwithstanding, Purchase Rights granted under a Non-423(b) Plan may be suspended, delayed or otherwise deferred for any of the reasons contemplated in this Section 16 only to the extent such suspension, delay or deferral is permitted under U.S. Treas. Reg. §§ 1.409A-2(b)(7), 1.409A-1(b)(4)(ii) or successor provisions, or as otherwise permitted under Section 409A of the Code. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

SECTION 17 Rules for Foreign Jurisdictions.

17.1 Compliance with Foreign Law. The Board or Committee may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Board or Committee is specifically authorized to adopt rules and procedures regarding handling of payroll deductions, payment of interest, conversion of local currency, payroll tax, withholding procedures and handling of stock certificates which vary with local requirements.

17.2 Non-423(b) Plan Component. The Board or Committee may also adopt rules, procedures or sub-plans applicable to particular Participating Companies or locations,

which sub-plans may be designed to be outside the scope of Code Section 423. The rules of such sub-plans may take precedence over other provisions of this Plan, with the exception of Section 4.1, but unless otherwise superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan. To the extent inconsistent with the requirements of Section 423, such sub-plan shall be considered part of the Non-423(b) Plan, and rights granted thereunder shall not be considered to comply with Code Section 423.

SECTION 18 Rights As a Stockholder and Employee.

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

SECTION 19 Distribution on death.

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

SECTION 20 Notices.

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

SECTION 21 Amendment or Termination of the Plan.

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

22. Code Section 409A.

The Code Section 423(b) Plan is exempt from the application of Section 409A. The Non-423(b) Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent a Purchase Right or the vesting, payment, settlement or deferral thereof is subject to Section 409A of the Code, the Purchase Right shall be granted, paid, exercised, settled or deferred in a manner that will comply with Section 409A of the Code, including the final regulations and other guidance issued with respect thereto, except as otherwise determined by the Committee. Any provision of the Non-423(b) Plan that would cause the grant of a Purchase Right or the payment, settlement or deferral thereof to fail to satisfy Section 409A of the Code shall be amended to comply with Section 409A of the Code on a timely basis, which amendment may be made on a retroactive basis, in accordance with the final regulations and guidance issued under Section 409A of the Code. Notwithstanding the foregoing, the Company shall have no liability to a Participant or any other party if the Purchase Right that is intended to be exempt from, or compliant with Section 409A of the Code is not so exempt or compliant or for any action taken by the Committee with respect thereto.

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

I, Paul E. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 23, 2008

/s/ Paul E. Jacobs
Paul E. Jacobs,
Chief Executive Officer

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 23, 2008

/s/ William E. Keitel

William E. Keitel,

Executive Vice President and Chief Financial Officer

**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 30, 2008 (the Report), I, Paul E. Jacobs, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §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 23, 2008

/s/ Paul E. Jacobs
Paul E. Jacobs,
Chief Executive Officer

**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 30, 2008 (the Report), I, William E. Keitel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §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 23, 2008

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