

QUALCOMM INC/DE  
Form 10-Q  
January 27, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark one)

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

**For the quarterly period ended December 27, 2009**

**OR**

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

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

**Commission File Number 0-19528**

**QUALCOMM Incorporated**

**(Exact name of registrant as specified in its charter)**

**Delaware  
(State or other jurisdiction of  
incorporation or organization)**

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

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

**92121-1714  
(Zip Code)**

**(858) 587-1121**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on January 25, 2010, were as follows:

Class	Number of Shares
Common Stock, \$0.0001 per share par value	1,680,600,735

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

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

	<b>December 27, 2009</b>	<b>September 27, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,660	\$ 2,717
Marketable securities	8,504	8,352
Accounts receivable, net	616	700
Inventories	350	453
Deferred tax assets	199	149
Other current assets	245	199
Total current assets	13,574	12,570
Marketable securities	6,764	6,673
Deferred tax assets	1,118	843
Property, plant and equipment, net	2,384	2,387
Goodwill	1,490	1,492
Other intangible assets, net	3,142	3,065
Other assets	431	415
Total assets	\$ 28,903	\$ 27,445

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Trade accounts payable	\$ 415	\$ 636
Payroll and other benefits related liabilities	385	480
Unearned revenues	567	441
Income taxes payable	458	29
Other current liabilities	1,123	1,227
Total current liabilities	2,948	2,813
Unearned revenues	3,775	3,464
Other liabilities	827	852
Total liabilities	7,550	7,129

Commitments and contingencies (Note 8)

Stockholders equity:

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Preferred stock, \$0.0001 par value; issuable in series; 8 shares authorized;  
none outstanding at December 27, 2009 and September 27, 2009

Common stock, \$0.0001 par value; 6,000 shares authorized; 1,674 and 1,669  
shares issued and outstanding at December 27, 2009 and September 27, 2009,  
respectively

Paid-in capital	8,817	8,493
Retained earnings	11,792	11,235
Accumulated other comprehensive income	744	588
Total stockholders' equity	21,353	20,316
Total liabilities and stockholders' equity	\$ 28,903	\$ 27,445

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>December</b>	<b>December</b>
	<b>27,</b>	<b>28,</b>
	<b>2009</b>	<b>2008</b>
Revenues:		
Equipment and services	\$ 1,663	\$ 1,423
Licensing and royalty fees	1,007	1,094
Total revenues	2,670	2,517
Operating expenses:		
Cost of equipment and services revenues	816	755
Research and development	596	604
Selling, general and administrative	379	413
Total operating expenses	1,791	1,772
Operating income	879	745
Investment income (loss), net (Note 5)	173	(294)
Income before income taxes	1,052	451
Income tax expense	(211)	(110)
Net income	\$ 841	\$ 341
Basic earnings per common share	\$ 0.50	\$ 0.21
Diluted earnings per common share	\$ 0.50	\$ 0.20
Shares used in per share calculations:		
Basic	1,672	1,653
Diluted	1,691	1,667
Dividends per share announced	\$ 0.17	\$ 0.16

See Notes to Condensed Consolidated Financial Statements.





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

	<b>Three Months Ended</b>	
	<b>December</b>	<b>December</b>
	<b>27,</b>	<b>28,</b>
	<b>2009</b>	<b>2008</b>
<b>Operating Activities:</b>		
Net income	\$ 841	\$ 341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	162	152
Revenues related to non-monetary exchanges	(37)	(29)
Non-cash portion of income tax expense	32	45
Non-cash portion of share-based compensation expense	151	145
Incremental tax benefit from stock options exercised	(13)	(16)
Net realized (gains) losses on marketable securities and other investments	(102)	33
Net impairment losses on marketable securities and other investments	57	392
Other items, net	4	(14)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	87	2,716
Inventories	101	65
Other assets	(32)	(19)
Trade accounts payable	(226)	(192)
Payroll, benefits and other liabilities	(124)	(54)
Unearned revenues	338	(64)
Net cash provided by operating activities	1,239	3,501
<b>Investing Activities:</b>		
Capital expenditures	(88)	(234)
Purchases of available-for-sale securities	(2,098)	(2,586)
Proceeds from sale of available-for-sale securities	2,013	1,373
Cash received for partial settlement of investment receivables	8	202
Other investments and acquisitions, net of cash acquired	(6)	(14)
Change in collateral held under securities lending		162
Other items, net	(1)	(4)
Net cash used by investing activities	(172)	(1,101)
<b>Financing Activities:</b>		
Proceeds from issuance of common stock	152	26
Incremental tax benefit from stock options exercised	13	16
Repurchase and retirement of common stock		(285)
Dividends paid	(284)	
Change in obligation under securities lending		(162)
Other items, net	(1)	(1)

Net cash used by financing activities	(120)	(406)
Effect of exchange rate changes on cash	(4)	(8)
<b>Net increase in cash and cash equivalents</b>	943	1,986
<b>Cash and cash equivalents at beginning of year</b>	2,717	1,840
<b>Cash and cash equivalents at end of year</b>	\$ 3,660	\$ 3,826

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****Note 1 Basis of Presentation**

**Financial Statement Preparation.** The accompanying interim condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (the Company), 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 27, 2009 was derived from the audited financial statements at that date but may not include all disclosures required by accounting principles generally accepted in the United States. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month periods ended December 27, 2009 and December 28, 2008 both included 13 weeks.

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 27, 2009. 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.

The Company has evaluated subsequent events through the date that the financial statements were issued on January 27, 2010.

**Revenue Recognition.** Beginning in the first quarter of fiscal 2010, the Company elected to early adopt the Financial Accounting Standards Board's (FASB) amended accounting guidance for revenue recognition that (a) removes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of software revenue recognition guidance; and (b) eliminates the use of the residual method for arrangements with multiple deliverables and requires entities to allocate revenue using the relative selling price method. This new guidance applies to applicable transactions originating or materially modified after September 27, 2009. In the past, the Company's revenues resulting from tangible products that had been subject to software revenue recognition guidance or the application of the residual method have not been significant. The impact on equipment and services revenues that would have been reported during the three months ended December 27, 2009 if the previous accounting guidance had been applied was negligible. If the new accounting standards for revenue recognition had been applied in the same manner to the fiscal year ended September 27, 2009, there would not have been a material impact on revenues for that fiscal year. The new accounting guidance for revenue recognition is not expected to have a significant effect on the timing and pattern of revenue recognition.

**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 the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of 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. Share-based awards with market conditions are included in the computation of earnings per share if they are dilutive and if the established conditions have been satisfied or would have been satisfied at the reporting date. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months ended December 27, 2009 and December 28, 2008 were 19,642,000 and 13,502,000, respectively.



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Employee stock options to purchase approximately 121,849,000 and 154,192,000 shares of common stock during the three months ended December 27, 2009 and December 28, 2008, 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. The computation of diluted earnings per share for the three months ended December 27, 2009 excluded 364,000 market stock units issued during fiscal 2010 because the effect on diluted earnings per share would be anti-dilutive. The computation of diluted earnings per share for the three months ended December 28, 2008 excluded 55,000 restricted stock units issued during fiscal 2008 because the effect on diluted earnings per share would be anti-dilutive.

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

	<b>Three Months Ended</b>	
	<b>December 27, 2009</b>	<b>December 28, 2008</b>
Net income	\$ 841	\$ 341
Other comprehensive income (loss):		
Foreign currency translation	8	(58)
Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain marketable debt securities, net of income taxes	8	
Net unrealized gains (losses) on other marketable securities and derivative instruments, net of income taxes	169	(1,068)
Reclassification of net realized (gains) losses on marketable securities and derivative instruments included in net income, net of income taxes	(61)	22
Reclassification of other-than-temporary losses on marketable securities included in net income, net of income taxes	32	318
Total other comprehensive income (loss)	156	(786)
Total comprehensive income (loss)	\$ 997	\$ (445)

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

	<b>December 27, 2009</b>	<b>September 27, 2009</b>
Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain marketable debt securities, net of income taxes	\$ 72	\$ 71
Net unrealized gains on marketable securities, net of income taxes	702	574
Net unrealized gains (losses) on derivative instruments, net of income taxes	2	(17)
Foreign currency translation	(32)	(40)
	\$ 744	\$ 588

At December 27, 2009, accumulated other comprehensive income includes \$44 million of other-than-temporary losses on marketable debt securities related to factors other than credit, net of income taxes.

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**Share-Based Payments.** Total share-based compensation expense was as follows (in millions):

	<b>Three Months Ended</b>	
	<b>December 27, 2009</b>	<b>December 28, 2008</b>
Cost of equipment and services revenues	\$ 11	\$ 10
Research and development	72	69
Selling, general and administrative	68	66
Share-based compensation expense before income taxes	151	145
Related income tax benefit	(37)	(46)
Share-based compensation expense, net of income taxes	\$ 114	\$ 99

The Company recorded \$14 million and \$10 million in share-based compensation expense during the three months ended December 27, 2009 and December 28, 2008, respectively, related to share-based awards granted during those periods. In addition, for the three months ended December 27, 2009 and December 28, 2008, \$13 million and \$16 million, respectively, were 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 benefit from stock options exercised in those periods. At December 27, 2009, total unrecognized 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 3.3 years. Net stock options, after forfeitures and cancellations, granted during both of the three months ended December 27, 2009 and December 28, 2008 represented 1.2% of outstanding shares as of the beginning of each fiscal period. Total stock options granted during the three months ended December 27, 2009 and December 28, 2008 represented 1.3% and 1.2%, respectively, of outstanding shares as of the end of each fiscal period.

In the first quarter of fiscal 2010, the Company granted 703,000 market stock units (representing a maximum share payout of 879,000 common shares) to certain employees, all of which remain unvested at December 27, 2009. The market stock units vest three years from the date of grant based on the attainment of certain total shareholder return performance measures and the employee's continued service through the vest date. The aggregate fair value of the market stock units of \$32 million, which was estimated using a Monte Carlo simulation, will be recorded over the three-year vesting period.

**Note 2 Fair Value Measurements**

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. There is an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability. There are three levels of inputs that may be used to measure fair value:

Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets. Level 1 assets consist of money market funds, equity mutual and exchange-traded funds, equity securities and U.S. Treasury securities as they are traded in an active market with sufficient volume and frequency of transactions. Level 1 liabilities are associated with the Company's deferred incentive compensation plans.

Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument. Level 2 assets and liabilities consist of certain marketable debt

instruments and derivative contracts whose values are determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Marketable debt instruments in this category include government-related securities, corporate bonds and notes, preferred securities, certain mortgage- and asset-backed securities and certain non-investment-grade debt securities.

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Level 3 includes financial instruments for which fair value is derived from valuation techniques. Level 3 assets primarily consist of certain marketable debt instruments whose values are determined using inputs that are both unobservable and significant to the values of the instruments being measured, including marketable debt instruments that are priced using indicative prices that the Company is unable to corroborate with observable market quotes. Marketable debt instruments in this category include auction rate securities, certain subordinated mortgage- and asset-backed securities and certain non-investment-grade debt securities.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of December 27, 2009 (in millions):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 2,893	\$ 504	\$	\$ 3,397
Marketable securities	2,118	12,943	207	15,268
Derivative instruments		34		34
Other investments (1)	130			130
Total assets measured at fair value	\$ 5,141	\$ 13,481	\$ 207	\$ 18,829
<b>Liabilities</b>				
Derivative instruments	\$	\$ 35	\$	\$ 35
Other liabilities (1)	130			130
Total liabilities measured at fair value	\$ 130	\$ 35	\$	\$ 165

(1) Comprised of the Company's deferred compensation plan liability and related assets, which are invested in mutual funds.

When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The following table includes the activity for marketable securities classified within Level 3 of the valuation hierarchy for the three months ended December 27, 2009 (in millions):

Level 3 marketable securities at September 27, 2009	\$ 205
Total realized and unrealized gains:	
Included in investment income, net	1
Included in other comprehensive income	5
Purchases, sales and settlements	(5)
Transfers into Level 3, net	1



Level 3 marketable securities at December 27, 2009

\$ 207

In the first quarter of fiscal 2010, the Company adopted authoritative guidance for fair value measurements issued by the FASB for nonfinancial assets and liabilities measured at fair value on a non-recurring basis. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements. The Company measures certain assets at fair value on a nonrecurring basis. These assets include cost and equity method investments when they are deemed to be other-than-temporarily impaired, assets acquired and liabilities assumed in an acquisition or in a nonmonetary exchange, and property, plant and equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the three months ended December 27, 2009, the Company recorded \$5 million in other-than-temporary impairments on cost and equity method investments, which were based on fair value measurements classified within Level 3 of the valuation hierarchy.

**Table of Contents****Note 3 Marketable Securities**

Marketable securities were comprised as follows (in millions):

	Current		Noncurrent	
	December 27, 2009	September 27, 2009	December 27, 2009	September 27, 2009
Available-for-sale:				
U.S. Treasury securities and government-related securities	\$ 1,143	\$ 1,407	\$	\$
Corporate bonds and notes	3,974	3,988	1,208	1,204
Mortgage- and asset-backed securities	734	821	39	36
Auction rate securities			177	174
Non-investment-grade debt securities	23	21	2,840	2,719
Equity securities	138	140	1,502	1,377
Equity mutual and exchange-traded funds			998	948
Debt mutual funds	2,492	1,975		215
	\$ 8,504	\$ 8,352	\$ 6,764	\$ 6,673

As of December 27, 2009, the contractual maturities of available-for-sale debt securities were as follows (in millions):

Less Than One Year	Years to Maturity			Greater Than Ten Years	No Single Maturity Date	Total
	One to Five Years	Five to Ten Years				
\$ 2,487	\$ 4,295	\$ 934	\$ 525	\$ 4,389	\$ 12,630	

Securities with no single maturity date included mortgage- and asset-backed securities, auction rate securities, non-investment-grade debt securities and debt mutual funds.

The Company recorded realized gains and losses on sales of available-for-sale marketable securities as follows (in millions):

For the three months ended	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
	December 27, 2009	\$ 107	\$ (5)
December 28, 2008	21	(54)	(33)

Available-for-sale securities were comprised as follows (in millions):

December 27, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	Equity securities	\$ 2,291	\$ 406	\$ (59)
Debt securities	12,118	545	(33)	12,630

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	\$ 14,409	\$ 951	\$ (92)	\$ 15,268
<b>September 27, 2009</b>				
Equity securities	\$ 2,282	\$ 340	\$ (157)	\$ 2,465
Debt securities	12,069	530	(39)	12,560
	\$ 14,351	\$ 870	\$ (196)	\$ 15,025

The following table shows the gross unrealized losses and fair values of the Company's investments in individual securities that have been in a continuous unrealized loss position deemed to be temporary for less than 12 months and for more than 12 months, aggregated by investment category (in millions):

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	<b>December 27, 2009</b>			
	<b>Less than 12 months</b>		<b>More than 12 months</b>	
	<b>Unrealized</b>		<b>Unrealized</b>	
	<b>Fair Value</b>	<b>Losses</b>	<b>Fair Value</b>	<b>Losses</b>
Corporate bonds and notes	\$ 425	\$ (2)	\$ 124	\$ (2)
Mortgage- and asset-backed securities	90	(1)	18	(1)
Auction rate securities			177	(6)
Non-investment-grade debt securities	150	(5)	196	(12)
Equity securities	103	(5)	100	(7)
Equity mutual and exchange-traded funds	29	(1)	629	(46)
Debt mutual funds	911	(4)	5	
	\$ 1,708	\$ (18)	\$ 1,249	\$ (74)

	<b>September 27, 2009</b>			
	<b>Less than 12 months</b>		<b>More than 12 months</b>	
	<b>Unrealized</b>		<b>Unrealized</b>	
	<b>Fair Value</b>	<b>Losses</b>	<b>Fair Value</b>	<b>Losses</b>
Corporate bonds and notes	\$ 462	\$ (1)	\$ 183	\$ (5)
Mortgage- and asset-backed securities	56	(1)	20	(1)
Auction rate securities	23	(1)	151	(10)
Non-investment-grade debt securities	127	(5)	263	(15)
Equity securities	155	(11)	155	(16)
Equity mutual and exchange-traded funds	44	(6)	730	(124)
	\$ 867	\$ (25)	\$ 1,502	\$ (171)

The unrealized losses on the Company's investments in marketable securities at December 27, 2009 and September 27, 2009 were caused primarily by a prolonged disruption in global financial markets that included a deterioration of confidence and a severe decline in the availability of capital and demand for debt and equity securities. At December 27, 2009, the Company concluded that the unrealized losses were temporary. Further, for equity securities, equity mutual and exchange-traded funds and debt mutual funds with unrealized losses, the Company has the ability and the intent to hold such securities until they recover, which is expected to be within a reasonable period of time. For debt securities with unrealized losses, the Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, such securities before recovery or maturity.

The following table shows the activity for the credit loss portion of other-than-temporary impairments on debt securities held by the Company for the three months ended December 27, 2009 (in millions):

Credit losses at September 27, 2009	\$ 170
Credit losses recognized on securities previously not impaired	1
Reductions in credit losses related to securities sold	(12)
Accretion of credit losses due to an increase in cash flows expected to be collected	(16)
Credit losses at December 27, 2009	\$ 143



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	<b>December 27, 2009</b>	<b>September 27, 2009</b>
	<b>(In millions)</b>	
Trade, net of allowances for doubtful accounts of \$3 and \$4, respectively	\$ 551	\$ 639
Long-term contracts	37	38
Other	28	23
	<b>\$ 616</b>	<b>\$ 700</b>

*Inventories.*

	<b>December 27, 2009</b>	<b>September 27, 2009</b>
	<b>(In millions)</b>	
Raw materials	\$ 14	\$ 15
Work-in-process	148	199
Finished goods	188	239
	<b>\$ 350</b>	<b>\$ 453</b>

*Property, Plant and Equipment.*

	<b>December 27, 2009</b>	<b>September 27, 2009</b>
	<b>(In millions)</b>	
Land	\$ 187	\$ 187
Buildings and improvements	1,389	1,364
Computer equipment and software	1,064	1,022
Machinery and equipment	1,560	1,535
Furniture and office equipment	66	65
Leasehold improvements	226	219
Construction in progress	81	76
	<b>4,573</b>	<b>4,468</b>
Less accumulated depreciation and amortization	<b>(2,189)</b>	<b>(2,081)</b>
	<b>\$ 2,384</b>	<b>\$ 2,387</b>

The gross book values of property under capital leases included in buildings and improvements totaled \$201 million and \$190 million at December 27, 2009 and September 27, 2009, respectively. Capital lease additions were \$11 million and \$16 million during the three months ended December 27, 2009 and December 28, 2008, respectively.

***Intangible Assets.*** Gross technology-based intangible assets increased by \$132 million during the first quarter of fiscal 2010. The increase was primarily due to certain patents assigned to the Company pursuant to a license agreement entered into in the first quarter of fiscal 2010. The estimated fair value of these patents was determined using an income approach based on projected cash flows, on a discounted basis, over the assigned patents' estimated useful life of approximately 16 years. The estimated fair value of such patents is being amortized on a straight-line basis over this useful life, beginning from the date the patents were assigned to the Company.

**Table of Contents*****Other Current Liabilities.***

	<b>December 27, 2009</b>	<b>September 27, 2009</b>
	<b>(In millions)</b>	
Customer-related liabilities, including incentives, rebates and other reserves	\$ 479	\$ 461
Current portion of payable to Broadcom for litigation settlement	170	170
Accrued liability to KFTC (Note 8)	232	230
Payable for unsettled securities trades	16	101
Other	226	265
	<b>\$ 1,123</b>	<b>\$ 1,227</b>

**Note 5 Investment Income (Loss), Net**

	<b>Three Months Ended</b>	
	<b>December 27, 2009</b>	<b>December 28, 2008</b>
	<b>(In millions)</b>	
Interest and dividend income	\$ 145	\$ 135
Interest expense	(9)	(3)
Net realized gains (losses) on marketable securities	102	(33)
Impairment losses on marketable securities	(52)	(388)
Impairment losses on other investments	(5)	(4)
Losses on derivative instruments	(4)	
Equity in losses of investees	(4)	(1)
	<b>\$ 173</b>	<b>\$ (294)</b>

**Note 6 Income Taxes**

The Company currently estimates its annual effective income tax rate to be approximately 21% for fiscal 2010, compared to the 23% effective income tax rate in fiscal 2009. The United States federal research and development credit expired on December 31, 2009. Therefore, the annual effective tax rate for fiscal 2010 only reflects federal research and development credits generated through December 31, 2009. The annual effective tax rate also includes tax expense of approximately \$130 million that arises because deferred revenue related to the Company's 2008 license and settlement agreements with Nokia is taxable in fiscal 2010, but the resulting deferred tax asset will reverse in future years when the Company's state tax rate will be lower as a result of California tax legislation enacted in 2009.

The estimated annual effective tax rate for fiscal 2010 of 21% is less than the United States federal statutory rate primarily due to benefits of approximately 22% related to foreign earnings taxed at less than the United States federal rate, partially offset by state taxes of approximately 5% and approximately 4% related to deferred revenue that is taxable in fiscal 2010, but for which the resulting deferred tax asset will reverse in future years when the Company's state tax rate will be lower. 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, adjustments to prior year estimates of uncertain tax positions as a result of tax audits during the year and the generation of research and development credits, partially offset by an increase in the valuation allowance related to capital losses, the revaluation of deferred items and state taxes.



The Company files income tax returns in the United States and various state and foreign jurisdictions. The United States income tax return for fiscal 2008 is being examined by the Internal Revenue Service (IRS). This examination is expected to be completed during the third quarter of fiscal 2010. The Company is participating in the IRS Compliance Assurance Program, whereby the IRS and the Company endeavor to agree on the treatment of all issues in the fiscal 2009 tax return prior to the return being filed. The Company will also participate in the IRS Compliance Assurance Program for fiscal 2010. Due to the anticipated resolution of the United States federal examinations within the next twelve months, it is reasonably possible that the Company's unrecognized tax benefits will decrease significantly as a result of their resolution via an adjustment by the taxing authority or recognition in the income tax provision.

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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, the cumulative amount of which is approximately \$9.0 billion as of December 27, 2009. The deferred tax liability that has not been recorded on these earnings because they are invested indefinitely outside the United States is over \$3.0 billion. Should we repatriate foreign earnings, we would have to adjust the income tax provision in the period in which the decision to repatriate earnings of foreign subsidiaries is made.

The Company can only use realized capital losses to offset realized capital gains. Based upon the Company's assessment of when capital gains and losses will be realized, the Company estimates that its future capital gains will not be sufficient to utilize all of the realized and unrealized capital losses that were recorded through December 27, 2009. During the first quarter of fiscal 2010, the valuation allowance for the portion of capital losses that the Company does not expect to utilize decreased by \$21 million, of which \$11 million was recorded as other comprehensive income. Significant judgment is required to forecast the timing and amount of future capital gains and the timing of realization of capital losses. Adjustments to the Company's valuation allowance based on changes to its forecast of capital gains in future years are reflected in the period the change is made.

**Note 7 Stockholders' Equity**

Changes in stockholders' equity for the three months ended December 27, 2009 were as follows (in millions):

Balance at September 27, 2009	\$ 20,316
Net income	841
Other comprehensive income	156
Net proceeds from the issuance of common stock	166
Share-based compensation	152
Tax benefit from exercise of stock options	4
Dividends	(284)
Other	2
Balance at December 27, 2009	\$ 21,353

**Stock Repurchase Program.** The Company did not repurchase any shares during the three months ended December 27, 2009. During the three months ended December 28, 2008, the Company repurchased and retired 8,920,000 shares of the Company's common stock for \$284 million, before commissions. At December 27, 2009, approximately \$1.7 billion remained authorized for repurchase under the Company's stock repurchase program. The stock repurchase program has no expiration date.

**Dividends.** Cash dividends announced in the three months ended December 27, 2009 and December 28, 2008 were \$0.17 and \$0.16 per share, respectively. During the three months ended December 27, 2009 and December 28, 2008, dividends charged to retained earnings were \$284 million and \$264 million, respectively. On January 7, 2010, the Company announced a cash dividend of \$0.17 per share on the Company's common stock, payable on March 26, 2010 to stockholders of record as of February 26, 2010, which will be recorded in the second fiscal quarter.

**Note 8 Commitments and Contingencies**

**Litigation. 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 (EC), alleging that the Company violated European Union competition law in its WCDMA licensing practices. On December 22, 2009, the EC officially informed the Company that all complainants had withdrawn their complaints and the EC had closed its proceedings against the Company.

**Tessera, Inc. v. QUALCOMM Incorporated:** On April 17, 2007, Tessera filed a patent infringement lawsuit in the United States District Court for the Eastern Division of Texas and a complaint with the United States International Trade Commission (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. The District Court action is stayed pending resolution of the ITC

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proceeding, including appeals. The U.S. Patent and Trademark Office's (USPTO) 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 and has made these rejections final. Tessera has appealed the rejections to the Board of Appeals and Interferences. On December 1, 2008, the Administrative Law Judge (ALJ) ruled that the patents are valid but not infringed. On May 20, 2009, however, the ITC reversed the ALJ's determination that the patents were not infringed, and it issued the following remedial orders: (1) a limited exclusion order that bans the Company and the other named respondents from importing into the United States the accused chip packages (except to the extent those products are licensed) and (2) a cease and desist order that prohibits the Company from engaging in certain domestic activities respecting those products. The President declined to review the decision. The Company and other respondents have appealed. The ITC and the appeals court declined to stay the ITC's decision pending appeal. The Company has shifted supply of accused chips for the United States market to a licensed supplier, Amkor. A licensed source of supply permits the Company to continue to supply the United States market without interruption. The subject patents expire on September 24, 2010, at which time the ITC orders will cease to be operative.

*Korea Fair Trade Commission Complaint:* Two U.S. companies (Texas Instruments and Broadcom) and two South Korean companies (Nextreaming and Thin Multimedia) filed complaints with the Korea Fair Trade Commission (KFTC) alleging that certain of the Company's business practices violate South Korean antitrust regulations. As a result of its agreement with the Company, Broadcom withdrew its complaint to the KFTC in May 2009. After a hearing, the KFTC announced its ruling via press release in July 2009. On January 4, 2010, the KFTC issued its written decision, explaining its ruling that the Company violated South Korean law by offering certain discounts and rebates for purchases of its CDMA chips and for including in certain agreements language requiring the continued payment of royalties after all licensed patents have expired. The KFTC levied a fine of 273.2 billion Korean won, which was accrued in fiscal 2009 (Note 4), and ordered the Company to cease the practices at issue. The Company intends to appeal the decision to the South Korean courts. The Company does not anticipate that the cease and desist remedies ordered will have a material effect on the results of its operations. In July 2009, the KFTC also announced that it would continue its review of the Company's integration of multimedia functions into its chips, but it has not announced any decisions in that regard. The Company believes that its practices do not violate South Korean competition law, are grounded in sound business practice and are consistent with its customers' desires.

*Japan Fair Trade Commission Complaint:* The Japan Fair Trade Commission (JFTC) received unspecified complaints alleging that the Company's business practices are, in some way, a violation of Japanese law. On September 29, 2009, the JFTC issued a cease and desist order (CDO) concluding that the Company's Japanese licensees were forced to cross-license patents to the Company on a royalty-free basis and were forced to accept a provision under which they agreed not to assert their essential patents against the Company's other licensees who made a similar commitment in their license agreements with the Company. The CDO seeks to require the Company to modify its existing license agreements with Japanese companies to eliminate these provisions while preserving the license of the Company's patents to those companies. The Company disagrees with the conclusions that it forced its Japanese licensees to agree to any provision in the parties' agreements and that those provisions violate Japan's Anti-Monopoly Act. The Company has invoked its right under Japanese law to an administrative hearing before the JFTC. The JFTC has scheduled the first day of the hearing for February 17, 2010. The Company understands that the JFTC has denied the Company's request that it suspend the CDO pending the appeal. However, the Company has also requested a Japanese court to stay the CDO, and that request is pending.

*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 actions pending in federal court in Pennsylvania and Washington D.C. superior court, seeking monetary damages arising out of its sale of cellular phones.

On August 5, 2009, Panasonic filed an arbitration demand alleging that it does not owe royalties, or owes less royalties, on its WCDMA subscriber units sold after December 21, 2008, and that the Company breached the license agreement between the parties as well as certain commitments to standards setting organizations. The arbitration demand seeks declaratory relief regarding the amount of royalties due and payable by Panasonic, as well as the return of certain royalties it had previously paid. Panasonic has also indicated that it will pursue antitrust claims in the

arbitration proceedings. The Company has responded to the arbitration demand, denying the allegations and requesting judgment in its favor on all claims. Although the Company believes Panasonic's claims are without merit, it has deferred the recognition of revenue related to WCDMA subscriber unit royalties reported and paid by Panasonic in the fourth quarter of fiscal 2009 and the first quarter of fiscal 2010.

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While there can be no assurance of favorable outcomes, the Company believes the claims made by other parties in the foregoing matters are without merit and will vigorously defend the actions. Other than the amount relating to the *Korea Fair Trade Commission Complaint*, the Company has not recorded any accrual for contingent liabilities associated with the 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 reasonably estimated at this time. The Company is engaged in numerous other legal actions arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these actions will not have a material adverse effect on its operating results, liquidity or financial position.

**Indemnifications.** In general, the Company does not agree to indemnify third parties for losses sustained from intellectual property infringement. However, the Company is contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent infringement by products or services sold or provided by the Company. The Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by the Company. These indemnification arrangements are not initially measured and recognized at fair value because they are deemed to be similar to product warranties in that they relate to claims and/or other actions that could impair the ability of the Company's direct or indirect customers to use the Company's products or services. Accordingly, the Company records liabilities resulting from the arrangements when they are probable and can be reasonably estimated. Reimbursements under indemnification arrangements have not been material to the Company's consolidated financial statements. The Company has not recorded any accrual for contingent liabilities at December 27, 2009 associated with these indemnification arrangements, other than negligible amounts for reimbursement of legal costs, 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.

**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 at December 27, 2009 for the remainder of fiscal 2010 and for each of the subsequent four years from fiscal 2011 through 2014 were approximately \$856 million, \$179 million, \$96 million, \$43 million and \$14 million, respectively, and \$85 million thereafter. Of these amounts, for the remainder of fiscal 2010 and for fiscal 2011, commitments to purchase integrated circuit product inventories comprised \$662 million and \$24 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 35 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 2043. Capital lease obligations are included in other liabilities. The future minimum lease payments for all capital leases and operating leases at December 27, 2009 were as follows (in millions):

	<b>Capital Leases</b>	<b>Operating Leases</b>	<b>Total</b>
Remainder of fiscal 2010	\$ 11	\$ 58	\$ 69
2011	15	85	100
2012	14	52	66
2013	15	24	39
2014	15	21	36
Thereafter	400	233	633
Total minimum lease payments	\$ 470	\$ 473	\$ 943
Deduct: Amounts representing interest	271		
Present value of minimum lease payments	199		

Deduct: Current portion of capital lease obligations	2
Long-term portion of capital lease obligations	\$ 197

**Table of Contents****Note 9 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:

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 its 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 (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards and their derivatives, and collects license fees and royalties in partial consideration for such licenses;

Qualcomm Wireless & Internet (QWI) comprised of:

Qualcomm Internet Services (QIS) provides content enablement services for the wireless industry and push-to-talk and other products and services for wireless network operators;

Qualcomm Government Technologies (QGOV) provides development, hardware and analytical expertise to United States government agencies involving wireless communications technologies;

Qualcomm Enterprise Services (QES) provides satellite- and terrestrial-based two-way data messaging, position reporting, wireless application services and managed data services to transportation and logistics companies and other enterprise companies; and

Firethorn builds and manages software applications that enable financial institutions and wireless operators to offer mobile commerce services.

Qualcomm Strategic Initiatives (QSI) manages the Company's strategic investment activities, including FLO TV Incorporated (FLO TV), the Company's wholly-owned wireless multimedia operator subsidiary. QSI makes strategic investments in companies that the Company believes will open new markets for CDMA technology, support the design and introduction of new CDMA-based products or possess unique capabilities or technology.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT). EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Certain income and charges are not allocated to segments in the Company's management reports because they are not considered in evaluating the segments' operating performance. Unallocated income and charges include certain investment income (loss), certain share-based compensation and certain research and development expenses and marketing expenses that were not deemed to be directly related to the businesses of the segments. The table below presents revenues and EBT for reportable segments (in millions):

	QCT	QTL	QWI	QSI	Reconciling Items	Total
<b>For the three months ended:</b>						
<b>December 27, 2009</b>						
Revenues	\$1,608	\$ 917	\$142	\$ 2	\$ 1	\$2,670
EBT	425	772	9	(107)	(47)	1,052
<b>December 28, 2008</b>						
Revenues	\$1,334	\$1,006	\$170	\$ 6	\$ 1	\$2,517
EBT	168	874	3	(98)	(496)	451





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

	<b>Three Months Ended</b>	
	<b>December 27, 2009</b>	<b>December 28, 2008</b>
<b>Revenues</b>		
Elimination of intersegment revenues	\$ (3)	\$ (3)
Other nonreportable segments	4	4
Reconciling items	\$ 1	\$ 1
<b>Earnings (losses) before income taxes</b>		
Unallocated cost of equipment and services revenues	\$ (11)	\$ (10)
Unallocated research and development expenses	(88)	(83)
Unallocated selling, general and administrative expenses	(73)	(58)
Unallocated investment income (loss), net	179	(294)
Other nonreportable segments	(53)	(50)
Intracompany eliminations	(1)	(1)
Reconciling items	\$ (47)	\$ (496)

During the three months ended December 27, 2009 and December 28, 2008, unallocated research and development expenses included \$72 million and \$69 million, respectively, and unallocated selling, general and administrative expenses included \$68 million and \$66 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):

	<b>QCT</b>	<b>QTL</b>	<b>QWI</b>	<b>QSI</b>
<b>For the three months ended:</b>				
<b>December 27, 2009</b>				
Revenues from external customers	\$ 1,605	\$ 917	\$ 142	\$ 2
Intersegment revenues	3			
<b>December 28, 2008</b>				
Revenues from external customers	\$ 1,332	\$ 1,005	\$ 169	\$ 6
Intersegment revenues	2	1	1	

Intersegment revenues are based on prevailing market rates for substantially similar products and services or an approximation thereof, but the purchasing segment may record 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, finance receivables 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, FLO TV, including property, plant and equipment. QSI's assets related to the FLO TV business totaled \$1.3 billion at both December 27, 2009 and September 27, 2009. Reconciling items for total assets included \$397 million and \$389 million at December 27, 2009 and September 27, 2009, respectively, of property, plant and equipment, 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

certain cash, cash equivalents, marketable securities, property, plant and equipment, deferred tax assets, goodwill and other intangible assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

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	<b>December 27, 2009</b>	<b>September 27, 2009</b>
QCT	\$ 745	\$ 892
QTL	21	89
QWI	152	142
QSI	1,652	1,614
Reconciling items	26,333	24,708
Total consolidated assets	\$ 28,903	\$ 27,445

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**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 27, 2009 contained in our 2009 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 first quarter of fiscal 2010 were \$2.7 billion, with net income of \$841 million, which were impacted by the following key items:

We shipped approximately 92 million Mobile Station Modem (MSM) integrated circuits for CDMA-based wireless devices, an increase of 46%, compared to approximately 63 million MSM integrated circuits in the year ago quarter. The chipset volume in the first quarter of fiscal 2009 was impacted by the slowdown in the worldwide economy.

CDMA-based device shipments totaled approximately 133 million units, an increase of approximately 6% over the 125 million units shipped in the year ago quarter. <sup>(1)</sup>

The average selling price of CDMA-based devices was estimated to be approximately \$184, which decreased approximately 13% from the year ago quarter primarily due to a subdued economic recovery in developed regions, including Europe and Japan, combined with relative strength at the lower end of the overall market. <sup>(1)</sup>

Against this backdrop, the following recent developments occurred during the first quarter of fiscal 2010 with respect to key elements of our business or our industry:

Worldwide wireless subscribers grew by approximately 4% to reach approximately 4.6 billion. <sup>(2)</sup>

CDMA subscribers, including both 2G (cdmaOne) and 3G (CDMA2000 1X, 1xEV-DO, WCDMA, HSPA and TD-SCDMA), are approximately 21% of total worldwide wireless subscribers to date. <sup>(2)</sup>

3G subscribers (all CDMA-based) grew to approximately 945 million worldwide, including approximately 460 million CDMA2000 1X/1xEV-DO subscribers and approximately 485 million WCDMA/HSPA/TD-SCDMA subscribers. <sup>(2)</sup>

In the handset market, CDMA-based unit shipments grew an estimated 5% year-over-year, compared to an estimated decline of 4% year-over-year across all technologies. <sup>(3)</sup>

We entered into a license agreement with Samsung Electronics Co., Ltd. that covers sales of CDMA2000, WCDMA (including HSPA), TD-CDMA (including TD-SCDMA) and OFDMA (including LTE, UMB and WiMax) products through December 31, 2023. The consideration provided to us under such agreement included, among other things, non-refundable lump-sum payments of \$1.3 billion (due in installments during the first few years of the agreement), ongoing royalties and the assignment of patents that we recorded in intangible assets in the amount of \$136 million. During the first quarter of fiscal 2010, we recognized \$71 million in revenues attributable to fiscal 2009 related to this agreement.

In December 2009, the European Commission (EC) officially informed us that all complainants had withdrawn their complaints and the EC had closed its proceedings against us.

- (1) Derived from reports provided by our licensees/manufacturers during the year and our own estimates of unreported activity.
- (2) According to Wireless Intelligence estimates as of January 25, 2010, for the quarter ending December 31, 2009. Wireless Intelligence estimates for CDMA2000 1X/1xEV-DO subscribers do not include Wireless Local Loop.
- (3) Based on current reports by Strategy Analytics, a global research and consulting firm, in their Global Handset Market Share Updates.

**Table of Contents****Our Business and Operating Segments**

We design, manufacture, have manufactured on our behalf and market digital wireless telecommunications products and services based on our CDMA technology and other technologies. We derive revenues principally from sales of integrated circuit products, license fees and royalties for use of our intellectual property, messaging and other services and related hardware sales, software development and licensing and related services, software hosting services and services related to delivery of multimedia content. 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, laptops, data modules, handheld wireless computers, data cards and infrastructure equipment. The integrated circuits for wireless devices include the Mobile Station Modem (MSM), Mobile Data Modem (MDM), Qualcomm Single Chip (QSC), Qualcomm Snapdragon (QSD), Radio Frequency (RF), Power Management (PM) and Bluetooth 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 equipment 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. QCT revenues comprised 60% and 53% of total consolidated revenues in the first quarter of fiscal 2010 and 2009, respectively.

QCT utilizes a fabless production business model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. Integrated circuits are die cut from silicon wafers that have completed the assembly and final test manufacturing processes. 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 die from semiconductor manufacturing foundries and contract with separate 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 (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards and their derivatives. QTL receives license fees as well as ongoing royalties based on worldwide sales by licensees of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments. Ongoing royalties are generally based upon a percentage of the wholesale selling price of licensed products, net of certain permissible deductions (e.g., certain shipping costs, packing costs, VAT, etc.). QTL revenues comprised 34% and 40% of total consolidated revenues in the first quarter of fiscal 2010 and 2009, 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 information products and services and 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 and workforce. Through December 2009, QES has shipped approximately 1,355,000 terrestrial-based and satellite-based mobile information units. QIS provides content enablement services for the wireless industry, including

BREW (Binary Runtime Environment for Wireless), the Plaza suite and other services. QIS also provides QChat push-to-talk, QPoint and other products for wireless network operators. QGOV 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 services. QWI revenues comprised 5% and 7% of total consolidated revenues in the first quarter of fiscal 2010 and 2009, respectively.



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QSI manages the Company's strategic investment activities, including FLO TV Incorporated (FLO TV), our wholly-owned wireless multimedia operator subsidiary. QSI also makes strategic investments in early-stage and other companies, including licensed device manufacturers, 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 FLO TV subsidiary offers its service over our nationwide multicast network based on our MediaFLO Media Distribution System (MDS) and MediaFLO technology, which leverages the Forward Link Only (FLO) air interface standard. This network is utilized as a shared resource for wireless operators and their customers in the United States. The commercial availability of the FLO TV network and service on wireless operator devices will continue, in part, to be determined by our wireless operator partners. FLO TV's network uses the 700 MHz spectrum for which we hold licenses nationwide. Additionally, FLO TV has and will continue to procure, aggregate and distribute content in service packages, which we will continue to make available on a wholesale basis to our wireless operator customers (whether they operate on CDMA, WCDMA or GSM) in the United States. In November 2009, FLO TV began to offer the FLO TV service on a subscription basis directly to consumers in the United States. FLO TV currently provides the services for use in personal television devices and plans to make it available in automotive devices and other portable device accessories. These devices are sold through various retail and distribution channels. 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 FLO TV 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 femtocell chipset products and other OFDM/OFDMA technologies; the MediaFLO Technologies division, which is developing our MediaFLO MDS and MediaFLO technology and markets MediaFLO for deployment outside of the United States; and other product initiatives.

**Looking Forward**

The deployment of 3G networks enables increased voice capacity and higher data rates, thereby supporting more minutes of use and a range of mobile broadband data applications for handsets, 3G connected computing devices and other consumer electronics. Data applications include broadband connectivity, streaming video, location based services, mobile social networking and multimedia messaging. As a result, we expect continued growth in the coming years in consumer 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 network launches and further expansion of 3G in China, including CDMA2000 by China Telecom, WCDMA by China Unicom and TD-SCDMA by China Mobile, is expected to drive competition and growth of 3G products and services in that region. In addition, the auction of 3G spectrum in India, when completed, will enable further expansion of 3G networks and provide additional growth opportunity for 3G products and services into that market.

The transition to 3G CDMA-based networks is expected to continue:

More than 615 operators have commercially launched 3G networks, including 305 CDMA2000 networks and 310 WCDMA networks; <sup>(1)(2)</sup>

More than 110 CDMA2000 operators have commercially launched the higher data speeds of 1xEV-DO and more than 75 have launched EV-DO Revision A; <sup>(1)</sup> and

More than 300 WCDMA operators have commercially launched the higher data speeds of HSDPA, while more than 95 have launched HSUPA and 37 have launched HSPA+. <sup>(2)</sup>

We expect that CDMA-based device prices will continue to segment into high and low end due to high volumes and vibrant competition in marketplaces around the world. A subdued economic recovery in developed regions, including Europe and Japan, combined with relative strength at the lower end of the overall market is expected to continue to impact the average selling price of CDMA-based devices for the

remainder of fiscal 2010.

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As operators deploy the higher data speeds of HSPA, HSPA+, EV-DO Revision A and EV-DO Revision B and as manufacturers introduce additional highly-featured, converged devices, we expect consumer demand for advanced 3G devices to continue at a strong pace. In particular, the demand is expected to continue to grow for smartphones and new device types that utilize 3G connectivity, such as eBook readers and smartbook devices. We also expect 3G growth in low-end 3G devices, particularly as 3G service expands in emerging markets.

To meet growing demand for advanced 3G wireless devices and increased multimedia functionality, we intend to continue to invest significant resources toward the development of wireless baseband chips, converged computing/communication chips, multimedia products, software and services for the wireless industry. We expect that a portion of our research and development initiatives in fiscal 2010 will not reach commercialization until several years in the future.

We expect demand for cost-effective 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 a single chip or package, lowering component counts and enabling faster time-to-market for our customers. While we continue to invest 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 expect to 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, including the following products and technologies:

The continued evolution of CDMA-based technologies, including the long-term roadmaps of 1xEV-DO and High Speed Packet Access (HSPA);

OFDM and OFDMA-based technologies, including LTE;

Our service applications platform, content delivery services and user interfaces;

Our Snapdragon platform to help create new CDMA-based connected computing products and drive connectivity beyond traditional wireless devices;

Our Gobi mobile data modems to provide worldwide CDMA-based embedded connectivity for existing computing platforms;

Our convergence-based chips that include 3G modem and applications processor capabilities (including support for third-party operating systems);

Our FLO TV mobile television service, which includes product and distribution expansion beyond wireless operators through direct-to-consumer products, such as personal television devices, and automotive devices through retail channels; and

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 to continue to devote resources to working with and educating 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. For example, we expect that we will continue to be involved in litigation, and to appear in front of administrative and regulatory bodies, including the Korea Fair Trade Commission and the Japan Fair Trade Commission, to defend our business model and to rebuff efforts by companies seeking to gain competitive advantage or negotiating leverage.

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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 litigation in which we or our customers may become involved.

The potential instability in financial markets may continue to have an impact on the value of our marketable securities and net investment income (loss).

- (1) According to public reports made available at [www.cdg.org](http://www.cdg.org) as of January 25, 2010.
- (2) As reported by the Global mobile Suppliers Association, an international organization of WCDMA and GSM (Global System for Mobile Communications) suppliers, in their January 2010 reports.

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

**First Quarter of Fiscal 2010 Compared to First Quarter of Fiscal 2009**

**Revenues.** Total revenues for the first quarter of fiscal 2010 were \$2.67 billion, compared to \$2.52 billion for the first quarter of fiscal 2009.

Revenues from sales of equipment and services for the first quarter of fiscal 2010 were \$1.66 billion, compared to \$1.42 billion for the first quarter of fiscal 2009. The increase in revenues from sales of equipment and services was primarily due to a \$271 million increase in QCT revenues, partially offset by a \$28 million decrease in QWI revenues. Revenues from licensing and royalty fees for the first quarter of fiscal 2010 were \$1.01 billion, compared to \$1.09 billion for the first quarter of fiscal 2009. The decrease in revenues from licensing and royalty fees was primarily due to an \$88 million decrease in QTL revenues.

**Cost of Equipment and Services.** Cost of equipment and services revenues for the first quarter of fiscal 2010 was \$816 million, compared to \$755 million for the first quarter of fiscal 2009. Cost of equipment and services revenues as a percentage of equipment and services revenues was 49% for the first quarter of fiscal 2010, compared to 53% for the first quarter of fiscal 2009. The increase in margin percentage in the first quarter of fiscal 2010 compared to fiscal 2009 was primarily attributable to an increase in QCT gross margin. Cost of equipment and services revenues in the first quarter of fiscal 2010 included \$11 million in share-based compensation, compared to \$10 million in the first quarter of fiscal 2009. Cost of equipment and services revenues as a percentage of equipment and services revenues may fluctuate in future quarters depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

**Research and Development Expenses.** For the first quarter of fiscal 2010, research and development expenses were \$596 million or 22% of revenues, compared to \$604 million or 24% of revenues for the first quarter of fiscal 2009. The percentage decrease was primarily attributable to the increase in revenues. Research and development

expenses for the first quarter of fiscal 2010 included share-based compensation of \$72 million, compared to \$69 million in the first quarter of fiscal 2009.

**Selling, General and Administrative Expenses.** For the first quarter of fiscal 2010, selling, general and administrative expenses were \$379 million or 14% of revenues, compared to \$413 million or 16% of revenues for the first quarter of fiscal 2009. The dollar decrease was primarily attributable to a \$25 million decrease in costs related to litigation and other legal matters. The percentage decrease was attributable to the decrease in selling, general and administrative expenses combined with the increase in revenues. Selling, general and administrative expenses for the first quarter of fiscal 2010 included share-based compensation of \$68 million, compared to \$66 million in the first quarter of fiscal 2009.

**Net Investment Income (Loss).** Net investment income was \$173 million for the first quarter of fiscal 2010, compared to net investment loss of \$294 million for the first quarter of fiscal 2009. The net increase was comprised as follows (in millions):

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	<b>Three Months Ended</b>		
	<b>December</b>	<b>December</b>	
	<b>27,</b>	<b>28,</b>	
	<b>2009</b>	<b>2008</b>	<b>Change</b>
Interest and dividend income:			
Corporate and other segments	\$ 145	\$ 135	\$ 10
Interest expense	(9)	(3)	(6)
Net realized gains (losses) on investments:			
Corporate and other segments	91	(38)	129
QSI	11	5	6
Net impairment losses on investments:			
Corporate and other segments	(51)	(388)	337
QSI	(6)	(4)	(2)
Losses on derivative instruments	(4)		(4)
Equity in losses of investees	(4)	(1)	(3)
	<b>\$ 173</b>	<b>\$ (294)</b>	<b>\$ 467</b>

During the first quarter of fiscal 2010, we recorded lower impairment losses on marketable securities and net realized gains on corporate investments as compared to net realized losses during the first quarter of fiscal 2009. The depressed securities values caused by a major disruption in United States and foreign financial markets that impacted the first quarter results in fiscal 2009 continued to cause impairment losses in the first quarter of fiscal 2010, but to a lesser extent.

**Income Tax Expense.** Income tax expense was \$211 million for the first quarter of fiscal 2010, compared to \$110 million for the first quarter of fiscal 2009. The effective tax rate for the first quarter of fiscal 2010 was 20%, as compared to 24% for the first quarter of fiscal 2009. The federal research and development credit expired on December 31, 2009. Therefore, the annual effective tax rate for fiscal 2010 only reflects federal research and development credits generated through December 31, 2009. The annual effective tax rate for fiscal 2010 also includes tax expense of approximately \$130 million that arises because deferred revenue related to the Company's 2008 license and settlement agreements with Nokia is taxable in fiscal 2010, but the resulting deferred tax asset will reverse in future years when the Company's state tax rate will be lower as a result of California tax legislation enacted in 2009.

The estimated annual effective tax rate for fiscal 2010 of 21% is less than the United States federal statutory rate primarily due to benefits of approximately 22% related to foreign earnings taxed at less than the United States federal rate, partially offset by state taxes of approximately 5% and approximately 4% related to deferred revenue that is taxable in fiscal 2010, but for which the resulting deferred tax asset will reverse in future years when the company's state tax rate will be lower.

#### **Our Segment Results for the First Quarter of Fiscal 2010 Compared to the First Quarter of Fiscal 2009**

The following should be read in conjunction with the first quarter financial results of fiscal 2010 for each reporting segment. See Notes to Condensed Consolidated Financial Statements, Note 9 Segment Information.

**QCT Segment.** QCT revenues for the first quarter of fiscal 2010 were \$1.61 billion, compared to \$1.33 billion for the first quarter of fiscal 2009. Equipment and services revenues, mostly related to sales of MSM and accompanying RF and PM integrated circuits, were \$1.55 billion for the first quarter of fiscal 2010, compared to \$1.28 billion for the first quarter of fiscal 2009. The increase in equipment and services revenues resulted primarily from a \$460 million increase related to higher unit shipments, partially offset by a decrease of \$193 million related to the net effects of changes in product mix and the average selling prices of such products. Approximately 92 million MSM integrated circuits were sold during the first quarter of fiscal 2010, compared to approximately 63 million for the first quarter of fiscal 2009. The chipset volume in the first quarter of fiscal 2009 was impacted by the slowdown in the worldwide economy that caused contraction in the CDMA-based channel inventory and resulted in lower demand for

CDMA-based MSM integrated chips.

QCT earnings before taxes for the first quarter of fiscal 2010 were \$425 million, compared to \$168 million for the first quarter of fiscal 2009. QCT operating income as a percentage of its revenues (operating margin percentage) was 26% in the first quarter of fiscal 2010, compared to 13% in the first quarter of fiscal 2009. The increase in QCT earnings before taxes was primarily attributable to the increase in QCT revenues. The increase in operating margin percentage was primarily due to an increase in gross margin percentage and decreases in research and development and selling, general and administrative expenses as a percentage of QCT revenues driven primarily by the increase in QCT revenues. QCT gross margin percentage increased as a result of the net effects of a decrease in average unit costs, favorable product mix and lower average selling prices.



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QCT inventories decreased by 27% to \$299 million in the first quarter of fiscal 2010 from \$408 million at September 27, 2009 primarily due to lower units on hand related to the timing of inventory receipts and changes in the stage of completion between finished goods and work-in-process.

**QTL Segment.** QTL revenues for the first quarter of fiscal 2010 were \$917 million, compared to \$1.01 billion for the first quarter of fiscal 2009. QTL revenues in the first quarter of fiscal 2010 included \$71 million attributable to fiscal 2009 that had previously not been recognized due to discussions regarding a license agreement that was signed in the first quarter of fiscal 2010. The \$160 million decrease in revenues without taking into account this amount was primarily due to lower average selling prices of CDMA-based products. QTL earnings before taxes for the first quarter of fiscal 2010 were \$772 million, compared to \$874 million for the first quarter of fiscal 2009. QTL operating margin percentage was 85% in the first quarter of fiscal 2010, compared to 87% in the first quarter of fiscal 2009. The decrease in operating margin percentage was primarily attributable to the decrease in QTL revenues and an increase in amortization related to acquired patents.

**QWI Segment.** QWI revenues for the first quarter of fiscal 2010 were \$142 million, compared to \$170 million for the first quarter of fiscal 2009. Revenues decreased primarily due to an \$18 million decrease in QIS revenues and a \$15 million decrease in QES revenues. The decrease in QIS revenues was primarily attributable to a \$13 million decrease in QChat revenues resulting primarily from decreased development efforts under the licensing agreement with Sprint and a \$5 million decrease in BREW revenues resulting from lower consumer demand and lower prices due to the slowdown in global economies and competitive pricing pressures. The decrease in QES revenues was primarily attributable to a \$10 million decrease in messaging revenue and a \$4 million decrease in revenues from hardware product sales, due to a 2,300, or 17%, reduction in the number of units shipped.

QWI earnings before taxes for the first quarter of fiscal 2010 was \$9 million, compared to \$3 million for the first quarter of fiscal 2009. QWI operating margin percentage was 6% in the first quarter of fiscal 2010, compared to 2% in the first quarter of fiscal 2009. The increase in QWI earnings before taxes was primarily attributable to a decrease in QES operating expenses, partially offset by the decrease in QWI revenues. The increase in QWI operating margin percentage was primarily attributable to a decrease in QES operating expenses, partially offset by a decline in QIS revenues as a percentage of the total QWI revenues.

**QSI Segment.** QSI revenues for the first quarter of fiscal 2010 were \$2 million, compared to \$6 million for the first quarter of fiscal 2009. QSI loss before taxes for the first quarter of fiscal 2010 was \$107 million, compared to \$98 million for the first quarter of fiscal 2009. QSI revenues are attributable to our FLO TV subsidiary. The decrease in FLO TV revenues was primarily due to an increase in customer-related incentives that were recorded as reductions in revenues. QSI loss before taxes increased by \$9 million due to a \$15 million increase in our FLO TV subsidiary's loss before taxes, partially offset by a \$6 million decrease in net investment losses (unrelated to FLO TV).

**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 \$18.9 billion at December 27, 2009, an increase of \$1.2 billion from September 27, 2009. Our cash, cash equivalents and marketable securities at December 27, 2009 consisted of \$8.6 billion held domestically and \$10.3 billion held by foreign subsidiaries. Due to tax considerations, we derive liquidity for operations primarily from domestic cash flow and investments held domestically. Total cash provided by operating activities decreased to \$1.2 billion during the first quarter of fiscal 2010, compared to \$3.5 billion during the first quarter of fiscal 2009. The decrease was primarily due to collection of the \$2.5 billion trade receivable in the first quarter of fiscal 2009 related to the license and settlement agreements completed with Nokia in September 2008.

At December 27, 2009, approximately \$1.7 billion remained authorized for repurchases under our stock repurchase program. The stock repurchase program has no expiration date. While we did not repurchase any of our shares during the first quarter of fiscal 2010, we intend to continue to repurchase shares of our common stock under this program subject to capital availability and periodic determinations that such repurchases are in the best interest of our stockholders.



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We announced dividends totaling \$284 million, or \$0.17 per share, during the first quarter of fiscal 2010, which were paid on December 23, 2009. On January 7, 2010, we announced a cash dividend of \$0.17 per share on our common stock, payable on March 26, 2010 to stockholders of record as of February 26, 2010. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations that cash dividends are in the best interest of our stockholders.

Accounts receivable decreased approximately 12% during the first quarter of fiscal 2010. Days sales outstanding, on a consolidated basis, were 20 days at December 27, 2009 compared to 23 days at September 27, 2009. The decreases in accounts receivable and the related days sales outstanding were primarily due to the effects of the timing of cash payments related to certain customers and the collection of amounts for which the Company had previously provided extended payment terms.

We believe our current cash and cash equivalents, marketable securities and our expected cash flow 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 \$596 million in the first quarter of fiscal 2010 and \$2.4 billion in fiscal 2009, and we expect to continue to invest heavily in research and development for new technologies, applications and services for the wireless industry. Capital expenditures were \$88 million in the first quarter of fiscal 2010 and \$761 million in fiscal 2009. Our purchase obligations for the remainder of fiscal 2010 and for fiscal 2011, some of which relate to research and development activities and capital expenditures, totaled \$856 million and \$179 million, respectively, at December 27, 2009. We are obligated to pay 273.2 billion Korean won, which was \$232 million at December 27, 2009, to the KFTC in the second quarter of fiscal 2010. In the first quarter of fiscal 2011, we are obligated to pay approximately \$1.4 billion to the tax authorities in the United States as a result of the assets received from Nokia related to the license and settlement agreements. Pursuant to the Settlement and Patent License and Non-Assert Agreement with Broadcom, we are obligated to pay a remaining \$605 million ratably through April 2013. Cash used for strategic investments and acquisitions, net of cash acquired, was \$6 million in the first quarter of fiscal 2010 and \$54 million in fiscal 2009, 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).

Additional information regarding our financial commitments at December 27, 2009 is provided in the notes to our condensed consolidated financial statements. See Notes to Condensed Consolidated Financial Statements, Note 6 Income Taxes and Note 8 Commitments and Contingencies.

**Risk Factors**

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case, the market 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 27, 2009, 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

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CDMA for their networks or upgrade their current networks to any CDMA-based third-generation (3G) technology, our business and financial results could suffer since we have not previously generated significant revenues from sales of single-mode GSM products. 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, and our MediaFLO technology, which was commercially deployed in the United States in fiscal 2007. If OFDMA is not widely adopted and commercially deployed and/or MediaFLO technology is not more widely adopted by consumers in the United States or commercially deployed internationally, our investments in OFDMA and MediaFLO technologies may not provide us an adequate return.

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 gross 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 and upgrades of 3G wireless communications equipment, products and services to increase our revenues, and our business may be harmed if wireless network operators delay or are unsuccessful in the commercial deployment or upgrade of 3G technology or if they deploy other technologies.*

To increase our revenues in future periods, we are dependent upon the commercial deployment and upgrades 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 or upgrades 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 wireless operators have started testing OFDMA technology, but the timing and extent of OFDMA deployments is uncertain, 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 GSM, GPRS, EDGE, OFDM, OFDMA and/or Multiple Input, Multiple Output (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. Many wireless operators are investigating or have selected LTE (or to a lesser extent WiMAX) as next-generation technologies for deployment in existing or future spectrum bands as complementary to their existing CDMA-based networks. Although we believe that our patented technology is essential and useful to implementation of the LTE and WiMAX standards and have granted royalty-bearing licenses to nine companies to make and sell products implementing those standards (including Nokia, LG Electronics and Samsung), we might not achieve the same royalty revenues on such LTE or WiMAX deployments as on CDMA-based deployments, and we might not achieve the same level of success in selling LTE or WiMAX products as we have in CDMA-based products.

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

Our revenues and earnings have fluctuated significantly in the past and may fluctuate significantly in the future. General economic or other conditions have caused a downturn in the market for our products or technology. Despite the recent improvements in market conditions, a future downturn in the market for our products or technology could adversely affect our operating results and increase the risk of substantial quarterly and annual fluctuations in our earnings. Any prolonged credit crisis may result in the insolvency of key suppliers resulting in product delays; delays in reporting and/or payments from our licensees; customer/licensee insolvencies that impact our customers /licensees ability to pay us which may delay or impede our ability to recognize revenue and/or result in



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bad debt expense; the inability of our customers to obtain credit to finance purchases of our products and/or cause our customers to change delivery schedules, cancel committed purchase orders or reduce purchase order commitment projections; uncertainty in global economies, which could impact demand for CDMA-based products in various regions; counterparty failures negatively impacting our treasury operations; and the inability to utilize federal and/or state capital loss carryovers.

Volatility in financial markets has impacted, and could continue to impact, the value and performance of our marketable securities. Net investment income could vary depending on the gains or losses realized on the sale or exchange of securities, gains or losses from equity method investments, impairment charges related to marketable securities and other investments, changes in interest rates and changes in fair values of derivative instruments. Our cash and marketable securities investments represent significant assets 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.

Our future operating results may 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; disputes with our customers and licensees; and other factors described elsewhere in this Quarterly Report and in these risk factors.

These factors affecting our future earnings are difficult to forecast and could harm our quarterly and/or annual operating results. If our earnings 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.

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

Despite the recent improvements in market conditions, a future decline in global economic conditions could have adverse, wide-ranging effects on demand 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 other negative events that may have adverse effects on the economy, on demand for wireless device products or on wireless device inventories at CDMA-based equipment manufacturers and wireless operators. Inflation and/or deflation and economic recessions that adversely affect the global economy and capital markets also adversely affect our customers and our end consumers. For example, our customers' ability to purchase or pay for our products and services, obtain financing and upgrade wireless networks could be adversely affected, leading to cancellation or delay of orders for our products. Also, our end consumers' standards of living could be lowered, and their ability to purchase wireless devices based on our technology could be diminished. Inflation could also increase our costs of raw materials and the cost of our products, our operating expenses and harm our business in other ways, and deflation could reduce our revenues if product prices fall. Any of these results from worsening global economic conditions could negatively affect our revenues and operating results.

A significant downturn in the economies of Asian countries where many of our customers and licensees are located or the economies of the other major markets (e.g., Europe and North America) they serve could materially harm our business. During the first quarter of fiscal 2010, 66% of our revenues were from customers and licensees based in South Korea, China and Taiwan as compared to 64% during the first quarter of fiscal 2009, respectively. During fiscal 2009, 66% of our revenues were from customers and licensees based in South Korea, China and Taiwan, as compared to 61% during fiscal 2008. These customers sell their products to markets worldwide, including in Japan, South Korea, China, India, North America, South America and Europe. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of war or terrorism, may cause disruptions to the global economy and to the wireless communications industry and create uncertainties. 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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*Our three largest customers accounted for 38% and 36% of consolidated revenues in the first quarter of fiscal 2010 and 2009, respectively, and 40% and 35% in fiscal 2009 and 2008, 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 three 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;

the level of component integration and interoperability required by customers;

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 that 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 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; and

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

*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 180 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.

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*Efforts by some telecommunications equipment manufacturers 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, patent misuse, patent exhaustion and patent and license unenforceability, or some form of unfair competition, (ii) taking questionable positions on the interpretation of contracts with us, (iii) appeals to governmental authorities, such as the complaints filed with the Korea Fair Trade Commission (KFTC) and the Japan Fair Trade Commission (JFTC) during 2006, (iv) collective action, including working with carriers, standards bodies, other like-minded technology companies and other organizations, formal and informal, to adopt intellectual property policies and practices 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. There is a risk that relevant courts or governmental agencies will interpret those policies in a manner adverse to our interests.

Although we believe that these challenges are without merit, and we will continue to vigorously defend our intellectual property and contract 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 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.

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 or that patents on which we rely are invalid could adversely affect our business.*

From time to time, companies have asserted, and may again assert, patent, copyright and other intellectual property 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, license such intellectual property rights used in our products or otherwise distribute our products through a licensed supplier, we could be prohibited from making and selling such products.

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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 purchases of our chipsets less economical for our customers. A negative outcome in any such 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 share of worldwide chipset sales and/or a reduction in our licensees' sales to wireless operators, causing a corresponding decline in our chipset and/or licensing revenues.

In addition, as the number of competitors or other patent holders 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 suppliers and customers could also become the targets of litigation. We are contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent infringement by products or services sold or provided by us. Reimbursements under indemnification arrangements could have a material adverse effect on our results of operations. Furthermore, any such litigation could severely disrupt the supply of our products and 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 sales 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 OFDMA standards or 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, GSM, OFDMA 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 that drive replacement rates and selling prices;

manufacturing capability;

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



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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 prices 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 as evidenced by the recent success of smartphones and other feature-rich, data-capable devices, there is no guarantee that such mitigation will continue to 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, WiMAX) and companies that design competing CDMA-based integrated circuits are generally included amongst our competitors or potential competitors in the United States and abroad. Examples (some of whom are strategic partners of ours in other areas) include Broadcom, Freescale, Fujitsu, Icera, Infineon, Intel, Mediatek, NEC, nVidia, Renesas, ST-Ericsson (a joint venture between Ericsson Mobile Platforms and ST-NXP Wireless), 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;

greater sales and marketing, manufacturing, distribution, technical and other resources;

government support of other technologies; and

more extensive relationships with indigenous distribution and original equipment manufacturer (OEM) companies in developing territories (e.g., China).

As a result of these and other factors, our competitors may be more successful than us. In addition, we anticipate new competitors, including companies not previously engaged in manufacturing telecommunications chipsets, to begin offering and selling products based on 3G standards, LTE and WiMAX. 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 or to use alternative technologies. 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, which offers practical accessibility to a portion of a product's source code. 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.

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We continue to believe our FLO TV service offering provides compelling advantages to consumers. However, we face indirect competition to our FLO TV products and services from wireless delivery of streaming and downloadable video content via wireless operators, OEMs and other providers of mobile video content, as well as from internet video content accessed through the mobile web browser.

While we continue to believe our QMT division's interferometric modulator (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 \$397 million in assets (including \$128 million in goodwill) at December 27, 2009. If we do not achieve adequate market penetration with our IMOD display technology, our assets may become impaired, which could negatively impact our operating results.

*Attempts by certain companies, if successful, 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 number of essential patents held by such company. In May 2007, seven companies (Nokia, Nokia-Siemens, NEC, Ericsson, SonyEricsson, Alcatel-Lucent and NextWave) 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) IPR Special Committee 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 artificially 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.

*We depend upon a limited number of third-party suppliers to manufacture and test component parts, subassemblies and finished goods for our products. If these third-party suppliers do not allocate adequate manufacturing and test capacity in their facilities to produce products on our behalf, or if there are any disruptions in the operations, 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.*

A supplier's ability to meet our product manufacturing and test demand is limited mainly by its overall capacity and current capacity availability. Our ability to meet customer demand depends, in part, on 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 or test 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.

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*QCT Segment.* Although we have entered into long-term contracts with our suppliers, most of these contracts do not provide for long-term capacity commitments, except as may be provided in a particular purchase order that has been accepted by our supplier. 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 or test 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. Our arrangements with our suppliers may oblige us to incur costs to manufacture and test our products that do not decrease at the same rate as decreases in pricing to our customers which may result in lowering our operating margins. 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 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.

Under our Integrated Fabless Manufacturing (IFM) model, we purchase die from semiconductor manufacturing foundries, contract with separate third-party manufacturers for back-end assembly and test services and ship the completed integrated circuits to our customers. 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, manufacturing yields, quality assurance and product delivery schedules. This lack of control could 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.

*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.

*FLO TV Business.* FLO TV depends on a limited number of third-party suppliers to manufacture and test component parts, subassemblies and finished goods for products related to our direct-to-consumer FLO TV service offering. If these third-party suppliers do not allocate adequate manufacturing and test capacity in their facilities to produce products on our behalf, or if there are any disruptions in the operations, or the loss, of any of these third parties, our ability to meet our delivery obligations to our customers could be harmed, which could negatively impact our operating results. Lack of devices could also delay subscriber adoption of our FLO TV service.

*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.

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*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 revenue, the invoiced address of our licensees. Consolidated revenues from international customers as a percentage of total revenues were greater than 90% in the first quarter of both fiscal 2010 and 2009. 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;

- adoption of mandatory licensing provisions by foreign jurisdictions (either with controlled/regulated royalties or royalty free);

- challenges pending before foreign competition agencies to the pricing and integration of additional features and functionality into our wireless chipset products;

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

- cultural differences in the conduct of business;

- difficulty in attracting qualified personnel and managing foreign activities;

- 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, energy blackouts, 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.



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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, implement limitations on intellectual property rights or make 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.

*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.

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.

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 increase our presence in existing markets or 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, they may limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies, and they expose us to counterparty risk if the counterparty fails to perform.

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.

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Strengthening 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 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.

Weakening currency values in selected regions may adversely affect the value of our marketable securities issued in foreign markets.

*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 and exchange-traded funds, corporate bonds/notes, auction rate securities and mortgage/asset-backed securities. Many of our strategic investments are in early-stage companies to support our business, including the global adoption of CDMA-based technologies and related services. Most of our strategic investments entail a high degree of risk and will not become liquid until more than one year from the date of investment, if at all. 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. In some cases, we may be required to consolidate or record our share of the earnings or losses of those companies. Our share of any losses will adversely affect our financial results until we exit from or reduce our exposure to these investments.

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;

maintaining 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

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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, rework 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.

Manufacturing, testing, 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 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.

*FLO TV does not fully control promotional activities necessary to stimulate demand for our services that are offered on a wholesale basis through the wireless operator channel.*

As part of our FLO TV business, FLO TV provides mobile entertainment and information service to our wireless operator partner on a wholesale basis. Under wholesale arrangements, we do not set the retail price of our service, nor do we directly control all of the marketing and promotion of the service to the wireless operator's subscriber base. Therefore, we are dependent upon our wireless operator partners to price, market and otherwise promote our service to their end users. If our wireless operator partners do not effectively price, market and otherwise promote the service offered through the wireless operator channel 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 FLO TV and Firethorn businesses, respectively.*

Consumer acceptance of our FLO TV and Firethorn service offerings are, 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 wireless 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 for our FLO TV business that is appealing to subscribers on economically feasible 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 placing us at a competitive disadvantage, which could adversely affect our operating results. 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, wireless operator selection of competing technologies or consumer preferences. If MediaFLO technology is not more widely adopted by

consumers in the United States or commercially deployed internationally, our investment in MediaFLO technology may not provide us an adequate return.

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*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 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;
- disruption in the United States and foreign credit and financial markets affecting both the availability of credit and credit spreads on investment securities;
- government regulations, including tax regulations;
- natural disasters, energy blackouts, acts of terrorism, widespread illness and war;
- inflation and deflation;

concerns regarding global economic conditions that may impact one or more of the countries in which we, our customers or our licensees compete;

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.

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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 potential 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.

*Our industry is subject to rapid technological change, and we must make substantial investments in new products, services 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, multinetwork 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 Plaza and BREW applications development platform, our MediaFLO MDS, MediaFLO technology and FLO TV service offering and our IMOD display technology. Certain of these new products, services 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, services and technologies is characterized by many factors, including:  
rapid technological advances and evolving industry standards;

changes in customer requirements and consumer expectations and preferences;

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, services, technologies 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, meet consumer expectations, price our products and services 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 technologies, and products and technologies 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 technologies in commercial quantities, demand for our products and our customers' and licensees' products that use our technologies could decrease, and our competitive position could be damaged.

*Changes in assumptions used to estimate the values of certain 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 certain share-based payments, such as employee stock options and stock units, 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 such 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.

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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 certain share-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

Theoretical valuation models and market-based methods are evolving and may result in lower or higher fair value estimates for certain 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. 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 indefinitely invested 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 our foreign subsidiaries. Our future reported financial results may be adversely affected if accounting rules regarding unrepatriated earnings change, if domestic cash needs require us to repatriate foreign earnings, or if the United States international tax rules change as part of comprehensive tax reform or other tax legislation.

*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 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.



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*Our QES and FLO TV businesses depend on the availability of satellite and other networks.*

Our satellite-based mobile fleet management services are provided using leased Kurtz-under band (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 September 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 has transponder and satellite protection. We are currently negotiating to extend the lease in Mexico. Our agreement with a third party to provide network management and satellite space (including procuring satellite space) in Europe expires in February 2013. We believe our agreements will provide sufficient transponder capacity for our satellite-based 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.

Our FLO TV 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 2012 and includes transponder and satellite protection (back-up capacity in the event of a transponder or satellite failure), which we believe will provide sufficient transponder capacity for our United States FLO TV service through fiscal 2012. Additionally, our FLO TV 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 in our vendors', 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.

Data transmissions for QES operations are formatted and processed at the Network Management and Data Center in San Diego, California, with a redundant backup Network Management and Data Center located in Las Vegas, Nevada. Content from third parties for FLO TV operations is received, processed and retransmitted at the Broadcast Operations Center in San Diego, California. Certain Plaza and BREW products and services provided by our QIS operations are hosted at the Network Operations Center in San Diego, California with a fully redundant backup Network Operations Center located in Las Vegas, Nevada. 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 and commercialization of our IMOD display technology, we are operating both a development and a production fabrication facility. The development and commercialization 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 and production activities.

*Our stock repurchase program may not result in a positive return of capital to stockholders and may expose us to counterparty risk.*

At December 27, 2009, we had authority to repurchase up to \$1.7 billion of our common stock. 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 repurchase program is intended to deliver stockholder value over the long-term, but stock price fluctuations can reduce the program's effectiveness.

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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. In the event of financial insolvency or distress of a counterparty to our put options, structured derivative transactions or 10b5-1 stock repurchase plan, we may be unable to settle transactions.

*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 and state 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 and spectrum referred to as Block E in the Lower 700 MHz Band (also known as TV Channel 56) covering five economic areas on the east and west coasts for use in our FLO TV business. In addition, we hold licenses for the spectrum referred to as B Block in the Lower 700 MHz Band for use initially in our various research and development initiatives. In using the licensed spectrum, we are regulated by the FCC pursuant to the terms of our licenses and the Federal Communications Act of 1934, as amended, and 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 FLO TV 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 hold licenses in the United Kingdom from the Office of Communications (Ofcom) to use 40 MHz of spectrum in the so-called L-Band (1452 MHz to 1492 MHz). These licenses give us the right to use this spectrum throughout the entire United Kingdom. In using this spectrum, we are regulated by Ofcom pursuant to the terms of our license and the United Kingdom's Wireless Technology Act of 2006. 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 resource needs, particularly in engineering. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

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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 share-based awards 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. 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 2009 Annual Report on Form 10-K. At December 27, 2009, there have been no other material changes to the market risks described at September 27, 2009 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.** The following table provides information about our interest-bearing securities that are sensitive to changes in interest rates. The table presents principal cash flows, weighted-average yield at cost and contractual maturity dates. Additionally, we have assumed that these securities are similar enough within the specified categories to aggregate these securities for presentation purposes.

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

	2010	2011	2012	2013	2014	Thereafter	No Single Maturity	Total
Fixed interest-bearing securities:								
Cash and cash equivalents	\$ 504	\$	\$	\$	\$	\$	\$	\$ 504
Interest rate	0.3%							
Available-for-sale securities:								
Investment grade	\$ 1,118	\$ 1,066	\$ 681	\$ 316	\$ 674	\$ 320	\$ 2,835	\$ 7,010
Interest rate	1.8%	3.0%	3.5%	4.1%	4.5%	6.1%	2.0%	
Non-investment grade	\$ 12	\$ 26	\$ 31	\$ 83	\$ 123	\$ 811	\$ 34	\$ 1,120
Interest rate	9.2%	13.0%	10.6%	10.8%	10.2%	10.6%	0.6%	
Floating interest-bearing securities:								
Cash and cash equivalents	\$ 2,893	\$	\$	\$	\$	\$	\$	\$ 2,893
Interest rate	0.1%							
Available-for-sale securities:								
Investment grade	\$ 716	\$ 727	\$ 341	\$ 31	\$ 9	\$ 327	\$ 606	\$ 2,757
Interest rate	1.1%	1.0%	0.7%	0.7%	0.8%	8.3%	4.0%	
Non-investment grade	\$ 3	\$ 11	\$ 70	\$ 189	\$ 342	\$ 214	\$ 914	\$ 1,743
Interest rate	28.5%	7.7%	6.4%	6.8%	7.1%	8.2%	4.1%	

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

**Foreign Exchange Risk.** We manage our exposure to foreign exchange market risks, when deemed appropriate, through the use of derivative financial instruments, including foreign currency forward and option contracts with financial counterparties. Such derivative financial instruments are viewed as hedging or risk management tools and are not used for speculative or trading purposes. At December 27, 2009, we had a net asset of \$2 million related to foreign currency option contracts that were designated as hedges of foreign currency risk on royalties earned from certain international licensees on their sales of CDMA and WCDMA products and a net liability of \$3 million related to foreign currency option contracts that have been rendered ineffective as a result of changes in our forecast of royalty revenues. Counterparties to our derivative contracts are all major institutions. In the event of the financial insolvency or distress of a counterparty to our derivative financial instruments, we may be unable to settle transactions, which could materially impact our results. If our forecasted royalty revenues were to decline by 20% and foreign exchange rates were to change unfavorably by 20% in each of our hedged foreign currencies, we would incur a loss of approximately \$45 million resulting from a decrease in the fair value of the portion of our hedges that would be rendered ineffective. In addition, we are subject to market risk on foreign currency option contracts that have been deemed ineffective. If foreign exchange rates relevant to those contracts were to change unfavorably by 20%, we

would incur a loss of approximately \$56 million.

Our analysis methods used to assess and mitigate the risks discussed above should not be considered projections of future risks.

#### **ITEM 4. CONTROLS AND PROCEDURES**

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

***Changes in Internal Control over Financial Reporting.*** There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**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 8 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**

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. At December 27, 2009, approximately \$1.7 billion remained authorized for repurchase. While we did not repurchase any of our common stock during the first quarter of fiscal 2010, we continue to evaluate repurchases under this program subject to capital availability and periodic determinations that such repurchases are in the best interest of our stockholders.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

**Exhibits**

- 3.1 Restated Certificate of Incorporation.
- 3.2 Certificate of Amendment of Certificate of Designation. (1)
- 3.4 Amended and Restated Bylaws. (2)
- 10.86 Form of Grant Notice and Market Stock Unit Agreement under the 2006 Long-Term Incentive Plan.
- 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.
- 101.INS XBRL Instance Document. (3)
- 101.SCH XBRL Taxonomy Extension Schema. (3)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase. (3)



101.LAB XBRL Taxonomy Extension Labels Linkbase. (3)

101.PRE XBRL Taxonomy Extension Presentation Linkbase. (3)

(1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 30, 2005.

(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 25, 2009.

(3) Furnished, not filed.

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**SIGNATURES**

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

QUALCOMM Incorporated

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

Dated: January 27, 2010

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