QUALCOMM INC/DE
Form 10-Q
July 25, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 29, 2008

OR

o **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 þ No o

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

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

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 July 21, 2008, were as follows:

Class	Number of Shares
Common Stock, $0.0001 per share par value	1,640,962,214

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	June 29, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,970	$ 2,411
Marketable securities	3,644	4,170
Accounts receivable, net	917	715
Inventories	618	469
Deferred tax assets	358	435
Collateral held under securities lending	326	421
Other current assets	228	200
Total current assets	9,061	8,821
Marketable securities	4,567	5,234
Property, plant and equipment, net	1,912	1,788
Goodwill	1,520	1,325
Deferred tax assets	870	318
Other assets	1,667	1,009
Total assets	$ 19,597	$ 18,495
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 653	$ 635
Payroll and other benefits related liabilities	356	311
Unearned revenues	186	218
Income taxes payable	15	119
Obligations under securities lending	326	421
Other current liabilities	575	554
Total current liabilities	2,111	2,258
Unearned revenues	124	142
Income taxes payable	222	
Other liabilities	314	260
Total liabilities	2,771	2,660

Commitments and contingencies (Note 6)

Stockholders equity:		
Preferred stock, $0.0001 par value; issuable in series; 8 shares authorized; none outstanding at June 29, 2008 and September 30, 2007		
Common stock, $0.0001 par value; 6,000 shares authorized; 1,640 and 1,646 shares issued and outstanding at June 29, 2008 and September 30, 2007, respectively		
Paid-in capital	6,783	7,057
Retained earnings	10,104	8,541
Accumulated other comprehensive (loss) income	(61)	237
Total stockholders equity	16,826	15,835
Total liabilities and stockholders equity	$ 19,597	$ 18,495

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)

	Three Months Ended June 29, 2008	Three Months Ended July 1, 2007	Nine Months Ended June 29, 2008	Nine Months Ended July 1, 2007
Revenues:				
Equipment and services	$ 1,867	$ 1,484	$ 5,295	$ 4,196
Licensing and royalty fees	895	841	2,513	2,369
Total revenues	2,762	2,325	7,808	6,565
Operating expenses:				
Cost of equipment and services revenues	889	688	2,493	1,956
Research and development	596	454	1,660	1,348
Selling, general and administrative	453	401	1,261	1,155
Total operating expenses	1,938	1,543	5,414	4,459
Operating income	824	782	2,394	2,106
Investment income, net (Note 3)	58	190	324	572
Income before income taxes	882	972	2,718	2,678
Income tax expense	(134)	(174)	(436)	(507)
Net income	$ 748	$ 798	$ 2,282	$ 2,171
Basic earnings per common share	$ 0.46	$ 0.48	$ 1.40	$ 1.31
Diluted earnings per common share	$ 0.45	$ 0.47	$ 1.38	$ 1.28
Shares used in per share calculations:				
Basic	1,626	1,670	1,626	1,661
Diluted	1,654	1,704	1,654	1,694
Dividends per share announced	$ 0.16	$ 0.14	$ 0.44	$ 0.38

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	June 29, 2008	July 1, 2007
Operating Activities:		
Net income	$ 2,282	$ 2,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	336	283
Non-cash income tax expense	148	365
Non-cash portion of share-based compensation expense	393	371
Incremental tax benefits from stock options exercised	(310)	(199)
Net realized gains on marketable securities and other investments	(158)	(173)
Other-than-temporary losses on marketable securities and other investments	202	11
Other items, net	1	5
Changes in assets and liabilities, net of effects of acquisitions (Note 8):		
Accounts receivable, net	(178)	(62)
Inventories	(142)	(147)
Other assets	35	(137)
Trade accounts payable	(4)	127
Payroll, benefits and other liabilities	12	69
Unearned revenues	(50)	84
Net cash provided by operating activities	2,567	2,768
Investing Activities:		
Capital expenditures	(983)	(571)
Purchases of available-for-sale securities	(4,944)	(5,921)
Proceeds from sale of available-for-sale securities	5,548	6,254
Other investments and acquisitions, net of cash acquired	(283)	(230)
Change in collateral held under securities lending	95	(153)
Other items, net	30	13
Net cash used by investing activities	(537)	(608)
Financing Activities:		
Proceeds from issuance of common stock	700	474
Incremental tax benefits from stock options exercised	310	199
Dividends paid	(716)	(632)
Proceeds from put options		17
Repurchase and retirement of common stock	(1,670)	(264)
Change in obligations under securities lending	(95)	153
Net cash used by financing activities	(1,471)	(53)

Effect of exchange rate changes on cash		2
Net increase in cash and cash equivalents	559	2,109
Cash and cash equivalents at beginning of period	2,411	1,607
Cash and cash equivalents at end of period	$ 2,970	$ 3,716

See Notes to Condensed Consolidated Financial Statements.

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QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Financial Statement Preparation. The accompanying interim condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (the Company or QUALCOMM), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet at September 30, 2007 was derived from the audited financial statements at that date but may not include all disclosures required by accounting principles generally accepted in the United States. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month and nine-month periods ended June 29, 2008 included 13 weeks and 39 weeks, respectively. The three-month and nine-month periods ended July 1, 2007 included 13 weeks and 40 weeks, respectively.

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

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

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

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

Earnings Per Common Share. Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, comprised of shares issuable under the Company s share-based compensation plans and shares subject to written put options, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an option, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the estimated tax benefits that would be recorded in paid-in capital, if any, when the option is exercised are assumed to be used to repurchase shares in the current period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and nine months ended June 29, 2008 were 28,061,000 and

27,656,000, respectively. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and nine months ended July 1, 2007 were 33,975,000 and 33,256,000, respectively.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Employee stock options to purchase approximately 89,552,000 and 110,702,000 shares of common stock during the three months and nine months ended June 29, 2008, respectively, and employee stock options to purchase approximately 87,158,000 and 94,589,000 shares of common stock during the three months and nine months ended July 1, 2007, respectively, were outstanding but not included in the computation of diluted earnings per common share because the effect on diluted earnings per share would be anti-dilutive.

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

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net income	$ 748	$ 798	$ 2,282	$ 2,171
Other comprehensive income (loss):				
Foreign currency translation	(1)	6	8	17
Net unrealized gains (losses) on securities and derivative instruments, net of income taxes	32	86	(336)	273
Reclassification adjustment for net realized gains on securities and derivative instruments included in net income, net of income taxes	(20)	(31)	(75)	(98)
Reclassification adjustment for other-than-temporary losses on marketable securities included in net income, net of income taxes	43		105	2
Total other comprehensive income (loss)	54	61	(298)	194
Total comprehensive income	$ 802	$ 859	$ 1,984	$ 2,365

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

	June 29, 2008	September 30, 2007
Net unrealized (losses) gains on marketable securities and derivative instruments, net of income taxes	$ (66)	$ 240
Foreign currency translation	5	(3)
	$ (61)	$ 237

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

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007

Cost of equipment and services revenues	$ 10	$ 10	$ 29	$ 29
Research and development	64	50	182	166
Selling, general and administrative	65	56	185	179
Share-based compensation expense before taxes	139	116	396	374
Related income tax benefits	(45)	(40)	(128)	(128)
Share-based compensation expense, net of taxes	$ 94	$ 76	$ 268	$ 246
Net share-based compensation expense, per common share:				
Basic	$ 0.06	$ 0.05	$ 0.16	$ 0.15
Diluted	$ 0.06	$ 0.04	$ 0.16	$ 0.15

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(Unaudited)

The Company recorded $83 million and $60 million in share-based compensation expense during the nine months ended June 29, 2008 and July 1, 2007, respectively, related to share-based awards granted during those periods. In addition, for the nine months ended June 29, 2008 and July 1, 2007, $310 million and $199 million, respectively, was reclassified to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities to reflect the incremental tax benefits from stock options exercised in those periods. At June 29, 2008, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $1.7 billion, which is expected to be recognized over a weighted-average period of 3.6 years. Net stock options, after forfeitures and cancellations, granted during the nine months ended June 29, 2008 and July 1, 2007 represented 2.7% and 1.9%, respectively, of outstanding shares as of the beginning of each fiscal period. Total stock options granted during the nine months ended June 29, 2008 and July 1, 2007 represented 3.0% and 2.2%, respectively, of outstanding shares as of the end of each fiscal period.

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

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

In March 2008, the FASB issued Statement No. 161 (FAS 161), Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of using derivative instruments, the method by which the derivative instruments and related hedged items are accounted for under FASB Statement No.133 and its related interpretations, and the effect of derivative instruments and related hedged items on financial position, financial performance and cash flows. FAS 161 also requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. FAS 161 will be effective for the Company s second quarter of fiscal 2009. The Company is currently assessing the impact that the adoption of FAS 161 will have on its financial statement disclosures.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 Composition of Certain Financial Statement Items

Marketable Securities.

	Current		Noncurrent	
	June 29, 2008	September 30, 2007	June 29, 2008	September 30, 2007
	(In millions)		(In millions)	
Available-for-sale:				
U.S. Treasury securities	$ 121	$ 58	$	$
Government-sponsored enterprise securities	260	219		
Foreign government bonds	18	8		
Corporate bonds and notes	2,454	2,939	166	21
Mortgage- and asset-backed securities	519	414		
Auction rate securities		159	193	
Non-investment-grade debt securities	20	19	2,115	1,812
Equity securities	164	203	879	1,316
Equity mutual funds and exchange traded funds			1,214	1,871
Debt mutual funds	88	151		214
	$ 3,644	$ 4,170	$ 4,567	$ 5,234

At June 29, 2008 and September 30, 2007, marketable securities included $318 million and $411 million, respectively, of securities that were loaned under the Company s securities lending program. At June 29, 2008 and September 30, 2007, unrealized gains on marketable securities were $134 million and $510 million, respectively, and unrealized losses were $253 million and $89 million, respectively. The unrealized losses on the Company s investments in marketable securities generally relate to liquidity, credit and economic concerns that have depressed security values over the past several months. The Company considers these unrealized losses to be temporary.

Since March 30, 2008, the Company classified its auction rate securities as noncurrent assets due to a disruption in credit markets that caused the auction mechanism to fail to set market-clearing rates and provide liquidity for sellers. However, a failed auction does not represent a default by the issuer of the underlying security. All of the Company s auction rate securities are rated AAA/Aaa, are collateralized by student loans substantially guaranteed by the U.S. government and continue to pay interest in accordance with their contractual terms. At June 29, 2008, the recorded values of the auction rate securities approximate their par values.

Property, Plant and Equipment.

	June 29, 2008	September 30, 2007
	(In millions)	
Land	$ 124	$ 124
Buildings and improvements	1,058	954
Computer equipment	905	800
Machinery and equipment	1,132	999
Furniture and office equipment	55	48
Leasehold improvements	234	205

	3,508	3,130
Less accumulated depreciation and amortization	(1,596)	(1,342)
	$ 1,912	$ 1,788

The net book values of property under capital leases included in buildings and improvements totaled $116 million and $91 million at June 29, 2008 and September 30, 2007, respectively. Capital lease additions were $18 million and $32 million during the three months and nine months ended June 29, 2008, respectively, and $7 million and $21 million during the three months and nine months ended July 1, 2007, respectively.

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Intangible Assets. Net wireless licenses, which are included in other assets, increased to $818 million at June 29, 2008 from $232 million at September 30, 2007. The increase is primarily the result of the Company s acquisition, in the third quarter of fiscal 2008, of additional 700 MHz spectrum in the United States primarily for its MediaFLO USA business. At June 29, 2008, included in intangible assets are indefinite-lived wireless licenses in the amount of $752 million which are not subject to amortization.

Note 3 Investment Income, Net

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
	(In millions)		(In millions)	
Interest and dividend income	$ 108	$ 145	$ 378	$ 415
Interest expense	(4)	(1)	(17)	(5)
Net realized gains on marketable securities	39	53	131	169
Net realized gains on other investments			27	4
Other-than-temporary losses on marketable securities	(71)		(175)	(3)
Other-than-temporary losses on other investments	(12)	(8)	(27)	(8)
Gains on derivative instruments		1	6	
Equity in (losses) earnings of investees	(2)		1	
	$ 58	$ 190	$ 324	$ 572

Note 4 Income Taxes

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

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

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

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

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal examinations by taxing authorities for years prior to fiscal 2005. The Internal Revenue Service is currently conducting an examination of the Company s U.S. income tax returns for fiscal 2005, 2006 and 2007, which is anticipated to be completed by August 2009. The Company is subject to examination by the California Franchise Tax Board for fiscal 2004 through 2007 and is currently under examination for fiscal 2004 and 2005. The Company is also subject to income taxes in many state and local taxing jurisdictions in the U.S. and around the world, many of which are open to tax examinations for periods after fiscal 2002. Although the timing and ultimate resolution of audits is uncertain, the Company does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will materially change in the next 12 months.

The Company has not provided United States income taxes nor foreign withholding taxes on a cumulative total of approximately $6.3 billion of undistributed earnings of certain non-United States subsidiaries indefinitely invested outside the United States. Should the Company decide to repatriate foreign earnings, the Company would have to adjust the income tax provision in the period management determines that the earnings will no longer be indefinitely invested outside the United States.

The Company believes, more likely than not, that it will have sufficient taxable income after share-based related deductions to utilize the majority of its deferred tax assets. As of June 29, 2008, the Company has provided a valuation allowance of $13 million related to previously incurred capital losses. This valuation allowance reflects the uncertainty surrounding the Company s ability to generate sufficient capital gains to utilize all capital losses. In addition, the Company has provided a valuation allowance of $15 million related to foreign net operating loss carryforwards that are expected to expire unutilized. Deferred tax assets, net of valuation allowance, increased by approximately $474 million from September 30, 2007 to June 29, 2008, primarily due to the adoption of FIN 48, changes in unrealized marketable securities gains and losses and tax benefits from share-based compensation expense, partially offset by the use of tax credits as a result of continued profitable operations.

Note 5 Stockholders Equity

Changes in stockholders equity for the nine months ended June 29, 2008 were as follows (in millions):

Balance at September 30, 2007	$ 15,835
Net income	2,282
Other comprehensive loss	(298)
Repurchase of common stock	(1,666)
Net proceeds from the issuance of common stock	694
Share-based compensation	395
Tax benefits from exercise of stock options	296
Dividends	(716)
Other	4
Balance at June 29, 2008	$ 16,826

Stock Repurchase Program. On March 11, 2008, the Company announced that it had been authorized to repurchase up to $2.0 billion of the Company s common stock. The $2.0 billion stock repurchase program replaced a $3.0 billion stock repurchase program, of which approximately $2 million remained authorized for repurchases. The stock repurchase program has no expiration date. In connection with the Company s previous stock repurchase program, the Company sold put options on its own stock during fiscal 2007, which were exercised during the nine months ended June 29, 2008 requiring the Company to repurchase and retire 5,000,000 shares of its common stock for approximately $189 million (net of the put option premiums received). During the nine months ended June 29, 2008, the Company repurchased and retired 42,616,000 shares of the Company s common stock for $1.7 billion (net of the premiums received related to the put options that were exercised). While the Company has not made any repurchases under the $2.0 billion stock repurchase program, the Company continues to evaluate repurchases under this program.

Dividends. On March 11, 2008, the Company announced an increase in its quarterly dividend effective for dividends payable after March 28, 2008 from $0.14 to $0.16 per share of common stock. On July 16, 2008, the Company announced a cash dividend of $0.16 per share on the Company s common stock, payable on September

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

26, 2008 to stockholders of record as of August 29, 2008. Cash dividends announced in the nine months ended June 29, 2008 and July 1, 2007 were as follows (in millions, except per share data):

	2008		2007	
	Per Share	Total	Per Share	Total
First quarter	$ 0.14	$ 228	$ 0.12	$ 198
Second quarter	0.14	227	0.12	200
Third quarter	0.16	261	0.14	234
Total	$ 0.44	$ 716	$ 0.38	$ 632

Note 6 Commitments and Contingencies

Litigation. *Broadcom Corporation v. QUALCOMM Incorporated:* On May 18, 2005, Broadcom filed two actions (the 467 case and the 468 case) in the United States District Court for the Central District of California against the Company alleging infringement of ten patents and seeking monetary damages and injunctive relief based thereon. On the following day, Broadcom also filed a complaint in the United States International Trade Commission (ITC) alleging infringement of the five patents at issue in the 468 case seeking a determination and relief under Section 337 of the Tariff Act of 1930. Allegations relating to two of the Broadcom patent claims filed in the 468 case (which is stayed pending completion of the ITC action) have been dismissed by agreement of the parties. In the 467 case, one patent is stayed due to a pending reexamination of the claims by the U.S. Patent and Trademark Office, and another was dismissed by agreement of the parties. A trial relating to the three remaining Broadcom patents in the 467 case was held in May 2007, and on May 29, 2007, the jury rendered a verdict finding willful infringement of the three patents and awarding past damages in the approximate amount of $20 million (the court subsequently vacated the jury s finding of willfulness). The final judgment, including damages calculations through May 29, 2007 and pre-judgment interest, was approximately $25 million, which has been secured by an irrevocable letter of credit and expensed pending appeals. On December 31, 2007, the court issued an order, last amended by the court on March 11, 2008, enjoining the Company from making, using, selling, shipping, supporting or marketing products that were found to infringe the three Broadcom patents, subject to a specified limited license through January 2009 on two of the three patents and with respect to the third patent, a limited license as to one set of products. The immediately enjoined products are those WCDMA products that relate to patent number 6,847,686 (the 686 patent). With respect to EV-DO products involving the 686 patent (as well as products relating to the two remaining patents), the judge s order provides for a permanent injunction but stays the effect of that injunction until January 31, 2009 with respect to companies that purchased these enjoined products as of May 29, 2007. The stay is subject to certain conditions, including the Company s payment of ongoing royalties. The Company appealed the jury s verdicts and the court s remedy. Oral argument was heard in the Court of Appeals for the Federal Circuit on July 9, 2008, and a decision is pending. On May 13, 2008, the District Judge granted Broadcom s application for an order to the Company to show cause why it is not in contempt of the permanent injunction with respect to specific issues. A hearing on the order was held on July 21, 2008, and a final decision is pending.

On February 14, 2006, an ITC hearing also commenced as to three patents alleged by Broadcom to be infringed by the Company. On October 10, 2006, the Administrative Law Judge (ALJ) issued an initial determination in which he recommended against any downstream remedies and found no infringement by the Company on two of the three remaining patents and most of the asserted claims of the third patent. The ALJ did find infringement on some claims of one patent. The ALJ did not recommend excluding chips accused by Broadcom but, instead, recommended a limited exclusion order directed only to chips that are already programmed with a specific software module and recommended a related cease and desist order. The Commission adopted the ALJ s initial determination on violation and, on June 7, 2007, issued a cease and desist order against the Company and an exclusion order directed at chips programmed with specific software and certain downstream products first imported after the date of the exclusion order. The Federal Circuit has issued stays of the exclusion order with respect to the downstream products of all of the Company s customers that requested the stay. The Company appealed the infringement finding, the cease and desist order and the exclusion order, and Broadcom appealed certain rulings of the ALJ. Oral arguments took place on July 8, 2008 in the United States Court of Appeal for the Federal Circuit, and the court s decision is pending. On November 9, 2007, Broadcom filed an enforcement complaint in the ITC, alleging violations of the ITC s cease and desist order by the Company. A hearing on the complaint took place on April 22 through 24, 2008. The target date for completion of the investigation is March 30, 2009, with an initial

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determination due on November 28, 2008. On April 13, 2007, Broadcom filed a new complaint in California state court against the Company alleging unfair competition, breach of contract and fraud, and seeking injunctive and monetary relief. On October 5, 2007, the court ordered the case stayed pending resolution of the New Jersey case, referenced above.

On July 1, 2005, Broadcom filed an action in the United States District Court for the District of New Jersey against the Company alleging violations of state and federal antitrust and unfair competition laws as well as common law claims, generally relating to licensing and chip sales activities, seeking monetary damages and injunctive relief based thereon. On September 1, 2006, the New Jersey District Court dismissed the complaint; Broadcom appealed. On September 4, 2007, the Court of Appeals for the Third Circuit reinstated two of the eight federal claims and five pendant state claims in Broadcom s complaint and affirmed the dismissal of the remaining counts. On November 2, 2007, Broadcom filed an amended complaint in the New Jersey case, adding the allegations from the state court case in California (filed on April 13, 2007) that had been stayed, as discussed above, and a federal antitrust claim based on the California allegations.

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

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

In 2006, the Company filed actions against Nokia in the District Court of Dusseldorf, Federal Republic of Germany, the High Court of Paris, France, the Milan Court, Italy and the People s Republic of China, alleging infringement of patents relating to GSM/GPRS/EDGE, seeking monetary damages and seeking injunctive relief. In response to the German action, Nokia filed actions in the German Federal Patent Court seeking to revoke the QUALCOMM patents at issue in Germany. A stay was either obtained or requested in the QUALCOMM-brought cases, along with the Texas case described below, pursuant to

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agreement of the parties and pending resolution of the first phase of issues in the Delaware case, also described below. However, no stay applied to the actions brought by Nokia in the German Federal Patent Court. On July 23, 2008, the German Federal Patent Court revoked one patent at issue in Germany, a counterpart to one of the patents at issue in the U.K. proceeding described above. On April 2, 2007, the Company filed suit against Nokia in the Eastern District of Texas, Marshall Division for infringement of three patents and in the Western District of Wisconsin for infringement of two patents. These cases are directed to Nokia GSM/GPRS/EDGE cellular phones. In response, Nokia filed counterclaims alleging infringement by the Company of six Nokia patents, two of which Nokia also asserted against the Company s subsidiary, MediaFLO USA, Inc. Petitions have been filed with the USPTO seeking reexamination of the three patents at issue in the Texas case. In response, the USPTO has initiated reexamination proceedings but to date has not issued any office actions. On July 11, 2007, the Wisconsin Court issued an order transferring that case to the United States District Court for the Southern District of California, and the parties have consolidated the matter with the San Diego matter referenced above and stipulated to a stay of the proceedings pending final resolution of the ITC matter referenced above. On April 5, 2007, the Company filed an arbitration demand with the American Arbitration Association requesting a ruling that, among other things, Nokia s continued use of the Company s patents in Nokia s CDMA cellular devices (including WCDMA) after April 9, 2007 constitutes an election by Nokia to extend its license under the parties existing agreement. On July 9, 2007, the Company filed an amended demand for arbitration, alleging that Nokia s institution of certain patent infringement proceedings against the Company was a material breach of the license agreement between the parties. The arbitration matter was transferred by agreement of the parties and consolidated with the case described below pending in Delaware Chancery Court.

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

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

Tessera, Inc. v. QUALCOMM Incorporated: On April 17, 2007, Tessera, Inc. filed a patent infringement lawsuit in the United States District Court for the Eastern Division of Texas and a complaint with the ITC pursuant to Section 337 of the Tariff Act of 1930 against the Company and other companies, alleging infringement of two patents relating to semiconductor packaging structures and seeking monetary damages and injunctive and other relief based hereon. The District Court suit for damages is stayed pending resolution of the ITC proceeding. The ITC instituted the investigation on May 15, 2007. The patents at issue are being reexamined by the USPTO based on petitions filed by a third-party. The USPTO s Central Reexamination Unit has issued office actions rejecting all of the asserted patent claims on the grounds that they are invalid in view of certain prior art. Tessera is contesting

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these rejections, and the USPTO has not made a final decision. On February 26, 2008, the ALJ stayed the ITC proceedings pending completion of the USPTO s reexamination proceedings. On March 27, 2008, the Commission reversed the ALJ s order and ordered the ITC proceeding to be reinstated. The evidentiary hearing occurred on July 14-18, 2008 and the investigation is targeted for completion by February 20, 2009.

In April 2008, two complaints were filed in San Diego Federal Court and San Diego Superior Court on behalf of purported classes of individuals who purchased UMTS devices or service, seeking damages and injunctive relief under federal and/or state antitrust and unfair competition laws as a result of the Company s licensing practices. The Superior Court action has been transferred to the San Diego Federal Court, and the plaintiff is seeking to have it transferred back to Superior Court. The Company is seeking to have both cases transferred to the Federal Court in New Jersey. The Company has not otherwise responded to the complaints.

Other: The Company has been named, along with many other manufacturers of wireless phones, wireless operators and industry-related organizations, as a defendant in purported class action lawsuits, and individually filed actions pending in Pennsylvania and Washington D.C., seeking monetary damages arising out of its sale of cellular phones. The courts that have reviewed similar claims against other companies to date have held that there was insufficient scientific basis for the plaintiffs claims in those cases.

The Company understands that two U.S. companies (Texas Instruments and Broadcom) and two South Korean companies (Nextreaming Corp. and Thin Multimedia, Inc.) have filed complaints with the Korea Fair Trade Commission alleging that the Company s business practices are, in some way, a violation of South Korean anti-trust regulations. To date, the Company has not received the complaints but has submitted certain requested information and documents to the Korea Fair Trade Commission regarding rebates on chipset sales, chipset design integration and royalties on devices containing a QUALCOMM chipset.

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

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

Purchase Obligations. The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Noncancelable obligations under these agreements as of June 29, 2008 for the remainder of fiscal 2008 and for each of the subsequent four years from fiscal 2009 through 2012 were approximately $736 million, $289 million, $108 million, $59 million and $67 million, respectively, and $73 million thereafter. Of these amounts, for the remainder of fiscal 2008 and for fiscal 2009 and fiscal 2010, commitments to purchase integrated circuit product inventories comprised $632 million, $123 million and $3 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 29 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 as of June 29, 2008 were as follows (in millions):

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	Capital Leases	Operating Leases	Total
Remainder of fiscal 2008	$ 2	$ 15	$ 17
2009	8	74	82
2010	8	61	69
2011	8	44	52
2012	8	37	45
Thereafter	244	210	454
Total minimum lease payments	$ 278	$ 441	$ 719
Deduct: Amounts representing interest	(155)		
Present value of minimum lease payments	123		
Deduct: Current portion of capital lease obligations			
Long-term portion of capital lease obligations	$ 123		

Note 7 Segment Information

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

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 and/or OFDMA standards and their derivatives, and collects license fees and royalties in partial consideration for such licenses;

Qualcomm Wireless & Internet (QWI) comprised of:

Qualcomm Internet Services (QIS) provides technology to support and accelerate the convergence of the wireless data market, including its BREW and QChat products and services;

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

Qualcomm Enterprise Services (QES) provides satellite- and terrestrial-based two-way data messaging, position reporting and wireless application services to transportation companies, private fleets, construction equipment fleets and other enterprise companies. QES also sells products that operate on the Globalstar low-Earth-orbit satellite-based telecommunications system and provides related services; and

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

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

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

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	QCT	QTL	QWI	QSI	Reconciling Items	Total
For the three months ended:						
June 29, 2008						
Revenues	$1,762	$ 803	$190	$ 4	$ 3	$2,762
EBT	487	670	(1)	(82)	(192)	882
July 1, 2007						
Revenues	$1,367	$ 766	$196	$	$ (4)	$2,325
EBT	439	668	18	(91)	(62)	972
For the nine months ended:						
June 29, 2008						
Revenues	$4,956	$2,248	$595	$ 7	$ 2	$7,808
EBT	1,383	1,895	23	(200)	(383)	2,718
July 1, 2007						
Revenues	$3,856	$2,125	$583	$	$ 1	$6,565
EBT	1,123	1,803	58	(176)	(130)	2,678

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

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Revenues				
Elimination of intersegment revenues	$ (6)	$ (15)	$ (14)	$ (27)
Other nonreportable segments	9	11	16	28
Reconciling items	$ 3	$ (4)	$ 2	$ 1
Earnings (loss) before income taxes				
Unallocated research and development expenses	$ (100)	$ (78)	$ (253)	$ (255)
Unallocated selling, general and administrative expenses	(87)	(106)	(251)	(268)
Unallocated cost of equipment and services revenues	(10)	(10)	(29)	(29)
Unallocated investment income, net	54	181	296	549
Other nonreportable segments	(46)	(39)	(141)	(112)
Intracompany eliminations	(3)	(10)	(5)	(15)
Reconciling items	$ (192)	$ (62)	$ (383)	$ (130)

During the three months and nine months ended June 29, 2008, unallocated research and development expenses included $64 million and $182 million, respectively, and unallocated selling, general and administrative expenses included $65 million and $183 million, respectively, of share-based compensation expense. During the three months and nine months ended July 1, 2007, unallocated research and development expenses included $50 million and $166 million, respectively, and unallocated selling, general and administrative expenses included $54 million and $175 million, respectively, of share-based compensation expense. Unallocated cost of equipment and services revenues was comprised entirely of share-based compensation expense.

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

	QCT	QTL	QWI	QSI
For the three months ended:				
June 29, 2008				
Revenues from external customers	$1,759	$ 802	$188	$4
Intersegment revenues	3	1	2	
July 1, 2007				
Revenues from external customers	$1,353	$ 766	$195	$
Intersegment revenues	14		1	
For the nine months ended:				
June 29, 2008				
Revenues from external customers	$4,949	$2,246	$589	$7
Intersegment revenues	7	2	6	
July 1, 2007				
Revenues from external customers	$3,835	$2,124	$578	$
Intersegment revenues	21	1	5	

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

Segment assets are comprised of accounts receivable and inventories for QCT, QTL and QWI. The QSI segment assets include certain marketable securities, notes receivable, wireless licenses, other investments and all assets of QSI s consolidated subsidiary, MediaFLO USA, including property, plant and equipment. QSI s assets related to the MediaFLO USA business totaled $1.1 billion and $457 million at June 29, 2008 and September 30, 2007, respectively. Reconciling items for total assets included $227 million and $215 million at June 29, 2008 and September 30, 2007, respectively, of goodwill and other assets related to the Qualcomm MEMS Technologies division, a nonreportable segment developing display technology for mobile devices and other applications. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of cash, cash equivalents, certain marketable securities, property, plant and equipment, deferred tax assets, goodwill and certain intangible and other assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

	June 29, 2008	September 30, 2007
QCT	$ 1,266	$ 921
QTL	12	29
QWI	208	200
QSI	1,447	896
Reconciling items	16,664	16,449
Total consolidated assets	$ 19,597	$ 18,495

Note 8 Acquisitions

During the nine months ended June 29, 2008, the Company acquired five businesses for total cash consideration of $262 million. Approximately $3 million in consideration payable in cash through June 2009 was held back as security for certain indemnification obligations. The Company is in the process of finalizing the accounting for the acquisitions and does not anticipate material adjustments to the preliminary purchase price allocations. Goodwill recognized in these transactions amounted to $202 million, of which $25 million is expected to be deductible for tax purposes. Technology-based intangible assets recognized in the amount of $57 million are being amortized on a straight-line basis over a weighted-average amortization period of 6 years. The condensed consolidated financial statements include the operating results of these businesses from their respective dates of acquisition. Pro forma results of operations have not been presented because the effects of the acquisitions were not material.

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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 30, 2007 contained in our 2007 Annual Report on Form 10-K.

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

Overview

Recent Developments

Revenues for the third quarter of fiscal 2008 were $2.8 billion, with net income of $748 million. The following recent developments occurred with respect to key elements of our business or our industry:

Worldwide wireless subscribers grew by approximately 4% to reach approximately 3.6 billion.(1)

CDMA subscribers, including both 2G (cdmaOne) and 3G (CDMA2000 1X, 1xEV-DO, WCDMA and HSPA), are approximately 19% of total worldwide wireless subscribers to date. (1)

3G subscribers (all CDMA-based) grew to approximately 670 million worldwide by June 29, 2008, including approximately 410 million CDMA2000 1X/1xEV-DO subscribers and approximately 260 million WCDMA/HSPA subscribers. (1)

CDMA-based device shipments continue to grow at a strong pace. We estimate approximately 107 million units shipped during the first calendar quarter, an increase of 24% over the 86 million units shipped in the year ago quarter. (2) (4)

In the handset market, CDMA-based unit shipments grew 26% year-over-year, compared to 14% year-over-year growth across all technologies. (3)

The average selling price of CDMA-based devices was estimated to be approximately $226, up 5% from the year ago quarter. (2) (4)

We shipped approximately 86 million Mobile Station Modem (MSM) integrated circuits for CDMA-based wireless devices and data modules, an increase of 32%, compared to approximately 65 million MSM integrated circuits in the year ago quarter.

AT&T Inc. launched its AT&T Mobile TV with FLO service in over 50 U.S. markets using the MediaFLO USA service.

We purchased additional 700 MHz spectrum in the United States covering certain economic areas on the east and west coast, which doubles the network capacity available for use in such areas by our MediaFLO USA business.

On July 23, 2008, we entered into an agreement with Nokia Corporation/Nokia Inc. that will resolve all pending litigation disputes between the parties. We expect this development to result in immediate savings in previously anticipated litigation expenses for the fourth quarter of fiscal 2008. Additionally, beginning in the fourth quarter of fiscal 2008, we expect to recognize revenues from royalties on sales by Nokia for which we had not been recognizing since April 9, 2007 while the dispute with Nokia over its obligation to pay royalties was pending.

(1) According to Wireless Intelligence, an independent source of wireless operator data.

(2) Third quarter of fiscal 2008 information was derived from reports provided by our licensees/manufacturers during the quarter and our own estimates of unreported activity. Third quarter of fiscal 2007 information was derived from reports provided by our licensees/manufacturers during the quarter.

(3) Based on current reports by Strategy Analytics, a global research and consulting firm, for shipments in the first calendar quarter reported in their Global Handset Market Share Updates.

(4) We perform periodic audits of the royalties payable by our licensees. As a result of our audit process, we determined during the fourth quarter of fiscal 2007 that total CDMA-based device shipments and average selling prices (ASPs) should be adjusted for certain periods. Historical units and ASPs for the third quarter of fiscal 2007 have been revised to reflect these adjustments. The adjustments related only to device shipments and ASPs and did not impact the amount or timing of our revenues.

Our Business and Operating Segments

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

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

QCT is a leading developer and supplier of CDMA-based integrated circuits and system software for wireless voice and data communications, multimedia functions and global positioning system products. QCT s integrated circuit products and system software are used in wireless devices, particularly mobile phones, data cards and infrastructure equipment. The integrated circuits for wireless devices include the Mobile Station Modem (MSM), Radio Frequency (RF) and Power Management (PM) devices. These integrated circuits for wireless devices and system software perform voice and data communication, multimedia and global positioning functions, radio conversion between RF and baseband signals and power management. QCT s system software enables the other device components to interface with the integrated circuit products and is the foundation software enabling phone manufacturers to develop devices utilizing the functionality within the integrated circuits. The infrastructure equipment integrated circuits and system software perform the core baseband CDMA modem functionality in the wireless operator s base station equipment. QCT revenues comprised 64% and 59% of total consolidated revenues in the third quarter of fiscal 2008 and 2007, respectively, and 63% and 59% of total consolidated revenues for the first nine months of fiscal 2008 and 2007, respectively.

QCT utilizes a fabless production business model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. 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 directly from semiconductor manufacturing foundries and contract directly with third-party manufacturers for back-end assembly and test services. We refer to this two-stage manufacturing business model as Integrated Fabless Manufacturing (IFM).

QTL grants licenses to use portions of our intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing cdmaOne, CDMA2000, WCDMA, CDMA TDD, GPRS/EDGE and/or OFDMA standards and their derivatives. QTL receives license fees as well as ongoing royalties based on worldwide sales by licensees 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 29% and 33% of total consolidated revenues in the third quarter of fiscal 2008 and 2007, respectively, and 29% and 32% of total consolidated revenues for the first nine months of fiscal 2008 and 2007, respectively. The vast majority of such revenues have been generated through our licensees sales of cdmaOne, CDMA2000 and WCDMA products.

QWI, which includes Qualcomm Enterprise Services (QES), Qualcomm Internet Services (QIS), Qualcomm Government Technologies (QGOV) and Firethorn, generates revenues primarily through mobile communication products and services, software and software development aimed at support and delivery of wireless applications.

QES sells equipment, software and services used by transportation and other companies to connect wirelessly with their assets, products and workforce. QES also sells products that operate on the Globalstar low-Earth-orbit satellite-based telecommunications system and provides related services. Through June 2008, QES has shipped approximately 1,263,600 terrestrial-based and satellite-based communications systems. QIS provides BREW-based (Binary Runtime Environment for Wireless) products that include user interface and content delivery and management products and services for the wireless industry. QIS also provides QChat, which enables virtually instantaneous push-to-talk functionality on CDMA-based wireless devices. The QGOV division provides development, hardware and analytical expertise involving wireless communications technologies to United States government agencies. Firethorn builds and manages software applications that enable financial institutions and wireless operators to offer mobile commerce capabilities. QWI revenues comprised 7% and 8% of total consolidated revenues in the third quarter of fiscal 2008 and 2007, respectively, and 8% and 9% of total consolidated revenues for the first nine months of fiscal 2008 and 2007, respectively.

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

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

Looking Forward

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

- The deployment and upgrading of CDMA2000 networks is expected to continue.
  - More than 255 operators have launched CDMA2000 1X; (1)
  - More than 95 operators have deployed the higher data speeds of 1xEV-DO and more than 40 operators have deployed commercial EV-DO Revision A networks. (1)
- GSM operators are expected to continue transitioning to WCDMA networks.