QUALCOMM's Adoption of FAS 123R:
A Summary of the Resulting Changes to the Company's Financial Reporting

Key Points:

<u>Accounting for Share-Based Compensation Beginning in Q1 FY 2006:</u>

- The Financial Accounting Standards Board (FASB) issued FAS 123R, *Share-Based Payment*, which we will adopt beginning in the first quarter of fiscal 2006.

- In general terms, FAS 123R requires equity-based compensation to be measured at the estimated "fair value" on the grant date and reported in our financial results as compensation expense ratably over the vesting period.

<u>What You Should Know:</u>

- Total QUALCOMM (GAAP) results will be reduced for estimated share-based compensation expense on a prospective basis beginning in Q1 FY2006.

- Estimated share-based compensation expense will be allocated to the income statement and capitalized on the balance sheet consistent with the income statement recognition and capitalization of direct and indirect labor costs.

- In prior years, the impact of estimated share-based compensation expense was presented in a footnote disclosure, not in our financial results. Beginning in Q1 FY 2006, we will record the expense in our financial results in accordance with FAS 123R.

- Estimated share-based compensation expense will be excluded from pro forma results in the earnings release because we view it as a non-cash item that is unrelated to operating performance. As such, pro forma results year-over-year will be presented on a consistent and comparable basis.

Other Details:

Pro Forma Results

- Estimated share-based compensation will be excluded from pro forma results because share-based compensation is not an expense that requires or will require cash payment by the Company. Furthermore, this is consistent with our internal use of pro forma financial measures to evaluate, assess and benchmark our operating results, which exclude estimated share-based compensation expense.

- Pro forma measures excluding the estimated share-based compensation expense will also be useful in evaluating performance on a basis that is consistent and comparable with periods prior to the adoption of FAS 123R.

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GAAP Results

- Based on guidance provided on November 2 and December 8, 2005, we estimated that share-based compensation will reduce GAAP diluted earnings per share for the first quarter of fiscal 2006 and for fiscal 2006 by approximately $0.04 and $0.18, respectively.

- We are using the modified prospective method to adopt FAS 123R. As such, we will not be adjusting our prior period results.

- GAAP net income will increasingly diverge from cash provided by operations because stock-based compensation does not require the outlay of cash; however, certain tax benefits will be shown on the cash flow statement as a cash inflow from financing activities and as a cash outflow from operating activities.

Impact on GAAP Financial Measures

- Estimated share-based compensation expense will be allocated to the appropriate financial statement accounts on the income statement and balance sheet consistent with the accounting for other compensation costs based on employee categorization and work assignments. The portion allocated to the balance sheet is expected to be negligible.

- Estimated share-based compensation expense will not be allocated to the operating segments because we view the expense as unrelated to operating performance and will not consider it in assessing the performance of our business segments. As such, only GAAP results will be affected.

- Key GAAP financial measures that will be impacted are as follows:
  - Cost of Goods Sold ("COGS") and COGS as a percent of revenue
  - R&D expenses and R&D as a percent of revenue
  - SG&A expenses and SG&A as a percent of revenue
  - Gross margin dollars and percentage
  - Operating margin dollars and percentage
  - Income before income tax
  - Income tax expense and effective income tax rate
  - Net income
  - Basic and diluted EPS
  - Inventory and inventory turns
  - Earnings before taxes, depreciation, amortization and other adjustments

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Valuation Methods

- On a prospective basis we will use the lattice binomial model for valuing option grants instead of the Black-Scholes option valuation model used for prior grants. This change has been facilitated by new valuation tools based on the lattice binomial model recently made available.

- Share-based compensation estimates related to prior grants will be recognized over the remaining vesting period based on their original valuation (as calculated using the Black-Scholes model) at the time of grant.