

Qualcomm falls on worry of slowdown

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WASHINGTON (CBS.MW) - Shares of Qualcomm fell 8 percent on Thursday after the developer of technology used to operate wireless phones forecast lower growth in the 2005 than investors were expecting.

On Thursday, the stock sank \$3.29 to close at \$37.78.

Late Wednesday, Qualcomm said first-quarter net profit jumped nearly 50 percent, as wireless phone companies moved to upgrade their networks and offer handsets that take advantage of new services.

Based on the company's forecast, however, analyst Ed Snyder of Charter Equity Research said the market for chips and phones that incorporate Qualcomm's technology appears to be softening after a "red hot" 2004.

Qualcomm makes most of its money by licensing a popular wireless transmission standard used to run the networks of large carriers in Asia and the U.S., including Verizon and Sprint. It also sells most of the computer chips that power the phones offered by those network operators.

Those wireless carriers are trying to entice customers to spend more money on snazzy new phones that can send instant messages, take pictures, play games and perform other tasks aside from simple voice calls.

Rising profit

In the quarter ended Dec. 26, Qualcomm reported net income of \$513 million, or 30 cents a share, up from \$352 million, or 21 cents, a year earlier.

Revenue climbed 15 percent to \$1.4 billion from \$1.21 billion.

Excluding one-time items and results from its QSI investment arm, the company earned \$474 million, or 28 cents a share. On that basis, analysts expected the company to earn 27 cents a share, according to a Thomson First Call survey.

Looking to the second quarter, Qualcomm forecast profit from operations of 25 to 27 cents a share on sales of \$1.35 billion to \$1.45 billion.

Wall Street was projecting 30 cents a share and revenue of \$1.5 billion, though analysts caution that a major change in how Qualcomm accounts for its results could skew short-term comparisons.

The company also estimated that it will ship 35 million to 37 million MSM phone chips in the second quarter. Yet Snyder said investors were expecting shipments closer to 40 million.

Accounting change

Last quarter, Qualcomm said it would account for royalties when they are actually reported because of growing difficulties in estimating payments. Prior quarterly results have been adjusted to take that change into account.

Under the old method, Qualcomm estimated royalty payments for each quarter and made the necessary up-or-down adjustments in the following quarter.

The change doesn't affect the company's underlying business, Qualcomm said. The main effect is to push some current revenue into later periods.

Qualcomm, meanwhile, also raised its 2005 earnings forecast, though its revenue target was unchanged. The company said it expects to earn \$1.16 to \$1.20 a share, excluding QSI, on sales of \$5.8 billion to \$6.3 billion.

Wall Street had been forecasting \$1.18 a share and revenue of \$6.05 billion. ■

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