

Legal Fight Stings Qualcomm

Scott Moritz

12/22/06 - 11:18 AM EST

Qualcomm's (QCOM) expensive legal battles with **Nokia** (NOK) and others have earned the wireless tech star a rare sell rating from one analyst.

JPMorgan's Ehud Gelblum slashed his Qualcomm rating to sell from neutral Friday citing "the sheer magnitude of the unexpected increase in legal expenses." Qualcomm paid about \$53.2 million in litigation costs in the fiscal first quarter, by Gelblum estimates.

The San Diego mobile-phone chipmaker and wireless standard bearer warned late Thursday that despite better-than-expected sales, its courtroom outlays would cut about a penny off earnings for the fiscal first quarter ending Dec. 31.

Qualcomm has been in an intensifying fight with No.1 phonemaker Nokia over the royalties it collects from mobile phone sales and licensing fees. The standoff has gotten even more serious as the two companies face an April 9 contract expiration.

The debate centers on patents and how much Qualcomm can hope to collect from the other industry players. Nokia would clearly like to reduce, even eliminate, the amount of money it pays to Qualcomm.

Solving the conflict is particularly important as the industry moves to a new generation of wideband code division multiple access, or WCDMA, phones. For Qualcomm, which lives or dies on the royalty revenue, the prospects seem dire, say analysts.

"Higher sales of handsets and chips weren't enough to offset mounting legal costs in what is turning out to be a fight to the death with Nokia over WCDMA royalties," Charter Equity Research analyst Ed Snyder wrote in a research note. Snyder has a neutral rating on Qualcomm.

And it's only the beginning, says JPMorgan's Gelblum. Only two other analysts of the 38 that cover Qualcomm have a sell rating on the stock.

"Not only do these legal costs appear here to stay for some time, we suspect it is quite possible they could increase even further in the coming months as we near the April 9 expiration of the Nokia contract," Gelblum writes.

Qualcomm has an impressive history of defending its wireless patent claims. In 1999, for example, after a three-year legal skirmish, Qualcomm won a crucial settlement with wireless giant **Ericsson** (ERIC), helping to pave the way to a fortune in royalties and a phenomenally high-flying stock price.

But that victory was in the second generation of wireless technology upgrades. Analysts say a lot has changed as the industry moves into third-generation, or 3G, networks. For its part, Nokia has vowed to stand tough on intellectual property disputes.

"At more than six times Qualcomm's size," writes Charter's Snyder, "Nokia can better endure an expensive, protracted legal battle without much impact to its earnings."

Qualcomm shares fell 43 cents to \$38.11, and Nokia was up 4 cents to \$20.41 in late morning trading Friday.

Visit TheStreet for more great features

THESTREET PREMIUM SERVICES

From the action-oriented investing ideas of *Action Alerts PLUS* by Jim Cramer to the expert technical trading strategies of Helene Meisler's *Top Stocks*, TheStreet offers a range of premium services to help boost your portfolio's performance. [View now.](#)

EXPERT ADVISORS ALERTS DELIVERED TO YOUR INBOX

Action Alerts PLUS: Cramer's personal portfolio, emails before he acts.
Real Money: 70+ experts share their top investing ideas and analysis.
Stocks Under \$10: Alerts identify undervalued stocks with profit potential.

FREE NEWSLETTERS

Get an edge on the market with the help of free email newsletters like Jim Cramer's *Daily Booyah!*. Learn about the day's major market events, companies that sizzled or fizzled and lots more that can help you make more profitable investing decisions. [Sign up.](#)

TheStreet

© 2014 TheStreet, Inc. All rights reserved.