

QUALCOMM INC/DE  
Form 10-Q  
January 29, 2014

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 29, 2013

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)

(858) 587-1121

(Registrant's telephone number, including area code)

92121-1714

(Zip 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 12 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 90 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 (§ 232.405 of this chapter) 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  (Do not check if a smaller reporting company) 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

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 27, 2014, was as follows:

Class \_\_\_\_\_ Number of Shares \_\_\_\_\_

Class \_\_\_\_\_ Number of Shares \_\_\_\_\_

Class \_\_\_\_\_ Number of Shares \_\_\_\_\_

Common Stock, \$0.0001 per share par value

1,691,079,925

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## INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u>
	<u>3</u>
	<u>Condensed Consolidated Balance Sheets</u>
	<u>4</u>
	<u>Condensed Consolidated Statements of Operations</u>
	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Income</u>
	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>
	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>
	<u>22</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>39</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>40</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	<u>40</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
	<u>40</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>40</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	<u>40</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	<u>41</u>
<u>Item 5.</u>	<u>Other Information</u>
	<u>41</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>42</u>
<u>SIGNATURES</u>	<u>43</u>

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	December 29, 2013	September 29, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$8,292	\$6,142
Marketable securities	8,988	8,824
Accounts receivable, net	1,327	2,142
Inventories	1,064	1,302
Deferred tax assets	404	573
Other current assets	510	572
Total current assets	20,585	19,555
Marketable securities	14,330	14,440
Deferred tax assets	1,346	1,059
Property, plant and equipment, net	2,562	2,995
Goodwill	4,212	3,976
Other intangible assets, net	2,490	2,553
Other assets	757	938
Total assets	\$46,282	\$45,516
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$1,375	\$1,554
Payroll and other benefits related liabilities	706	839
Unearned revenues	470	501
Other current liabilities	2,762	2,319
Total current liabilities	5,313	5,213
Unearned revenues	3,566	3,666
Other liabilities	376	550
Total liabilities	9,255	9,429
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Qualcomm stockholders' equity:		
Preferred stock, \$0.0001 par value; 8 shares authorized; none outstanding	—	—
Common stock, \$0.0001 par value; 6,000 shares authorized; 1,687 and 1,685 shares issued and outstanding, respectively	—	—
Paid-in capital	9,506	9,874
Retained earnings	26,737	25,461
Accumulated other comprehensive income	784	753
Total Qualcomm stockholders' equity	37,027	36,088
Noncontrolling interests	—	(1 )

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Total stockholders' equity	37,027	36,087
Total liabilities and stockholders' equity	\$46,282	\$45,516

See Accompanying Notes to Condensed Consolidated Financial Statements.

3

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

	Three Months Ended	
	December 29, 2013	December 30, 2012
Revenues:		
Equipment and services	\$4,653	\$4,199
Licensing	1,969	1,819
Total revenues	6,622	6,018
Costs and expenses:		
Cost of equipment and services revenues	2,706	2,237
Research and development	1,328	1,106
Selling, general and administrative	623	587
Other (Note 2)	472	—
Total costs and expenses	5,129	3,930
Operating income	1,493	2,088
Investment income, net (Note 3)	264	239
Income from continuing operations before income taxes	1,757	2,327
Income tax expense	(313)	(424)
Income from continuing operations	1,444	1,903
Discontinued operations, net of income taxes (Note 8)	430	—
Net income	1,874	1,903
Net loss attributable to noncontrolling interests	1	3
Net income attributable to Qualcomm	\$1,875	\$1,906
Basic earnings per share attributable to Qualcomm:		
Continuing operations	\$0.86	\$1.12
Discontinued operations	0.25	—
Net income	\$1.11	\$1.12
Diluted earnings per share attributable to Qualcomm:		
Continuing operations	\$0.84	\$1.09
Discontinued operations	0.25	—
Net income	\$1.09	\$1.09
Shares used in per share calculations:		
Basic	1,688	1,709
Diluted	1,722	1,751
Dividends per share announced	\$0.35	\$0.25

See Accompanying Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In millions)  
 (Unaudited)

	Three Months Ended	
	December 29, 2013	December 30, 2012
Net income	\$1,874	\$1,903
Other comprehensive income, net of income taxes:		
Foreign currency translation	6	2
Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain available-for-sale debt securities	—	(10 )
Reclassification of other-than-temporary losses on available-for-sale securities included in net income	19	9
Net unrealized gains on other available-for-sale securities and derivative instruments	84	50
Reclassification of net realized gains on available-for-sale securities and derivative instruments included in net income	(78	) (38 )
Total other comprehensive income	31	13
Total comprehensive income	1,905	1,916
Comprehensive loss attributable to noncontrolling interests	1	4
Comprehensive income attributable to Qualcomm	\$1,906	\$1,920

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 29, 2013	December 30, 2012
Operating Activities:		
Net income	\$1,874	\$1,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	272	241
Gain on sale of discontinued operations	(665)	)
Goodwill and long-lived asset impairment charges	460	5
Revenues related to non-monetary exchanges	(31)	) (31)
Income tax provision in excess of income tax payments	258	195
Non-cash portion of share-based compensation expense	282	283
Incremental tax benefits from share-based compensation	(99)	) (61)
Net realized gains on marketable securities and other investments	(145)	) (96)
Net impairment losses on marketable securities and other investments	37	10
Other items, net	33	24
Changes in assets and liabilities:		
Accounts receivable, net	788	(185)
Inventories	237	(247)
Other assets	69	(51)
Trade accounts payable	(148)	) 376
Payroll, benefits and other liabilities	(342)	) (387)
Unearned revenues	(99)	) (4)
Net cash provided by operating activities	2,781	1,975
Investing Activities:		
Capital expenditures	(210)	) (205)
Purchases of available-for-sale securities	(2,055)	) (3,289)
Proceeds from sales and maturities of available-for-sale securities	2,168	2,226
Purchases of trading securities	(785)	) (970)
Proceeds from sales and maturities of trading securities	773	1,024
Proceeds from sale of discontinued operations, net of cash sold	788	—
Acquisitions and other investments, net of cash acquired	(315)	) (39)
Other items, net	81	26
Net cash provided (used) by investing activities	445	(1,227)
Financing Activities:		
Proceeds from issuance of common stock	441	340
Incremental tax benefits from share-based compensation	99	61
Repurchases and retirements of common stock	(1,002)	) (250)
Dividends paid	(590)	) (428)
Other items, net	(21)	) 2
Net cash used by financing activities	(1,073)	) (275)
Changes in cash and cash equivalents held for sale	(4)	) 13
Effect of exchange rate changes on cash and cash equivalents	1	—
Net increase in cash and cash equivalents	2,150	486
Cash and cash equivalents at beginning of period	6,142	3,807
Cash and cash equivalents at end of period	\$8,292	\$4,293



See Accompanying Notes to Condensed Consolidated Financial Statements.

6

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QUALCOMM Incorporated  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Note 1 — Basis of Presentation

Financial Statement Preparation. These condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (collectively with its subsidiaries, the Company or Qualcomm) in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim data includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2013. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. 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 29, 2013 and December 30, 2012 both included 13 weeks.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's condensed consolidated 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.

Earnings Per Common Share. Basic earnings per common share are computed by dividing net income attributable to Qualcomm by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed by dividing net income attributable to Qualcomm 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 are 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 award, if any, the amount of compensation cost for future service that the Company has not yet recognized, if any, and the estimated tax benefits that would be recorded in paid-in capital when an award is settled, if any, are assumed to be used to repurchase shares in the current period. The dilutive common share equivalents, calculated using the treasury stock method, for the three months ended December 29, 2013 and December 30, 2012 were 34,322,000 and 41,463,000, respectively.

Shares of common stock equivalents outstanding that were not included in the computation of diluted earnings per common share because the effect would be anti-dilutive or certain performance conditions were not satisfied at the end of the period, were 814,000 and 646,000 during the three months ended December 29, 2013 and December 30, 2012, respectively.

Share-Based Compensation. Total estimated share-based compensation expense, related to all of the Company's share-based awards, was comprised as follows (in millions):

	Three Months Ended	
	December 29, 2013	December 30, 2012
Cost of equipment and services revenues	\$12	\$20
Research and development	173	157
Selling, general and administrative	96	105
Share-based compensation expense before income taxes	281	282
Related income tax benefit	(55	) (62
	\$226	\$220

The Company recorded \$31 million and \$29 million in share-based compensation expense during the three months ended December 29, 2013 and December 30, 2012, respectively, related to share-based awards granted during those periods.

At December 29, 2013, total unrecognized compensation costs related to non-vested restricted stock units granted prior to that date were \$1.5 billion, which are expected to be recognized over a weighted-average period of 2.0 years.

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

During the three months ended December 29, 2013 and December 30, 2012, net share-based awards granted, after forfeitures and cancellations, each represented 0.4% of outstanding shares as of the beginning of each fiscal period, and total share-based awards granted represented 0.5% and 0.4%, respectively, of outstanding shares as of the end of each fiscal period.

Note 2 — Composition of Certain Financial Statement Items

Accounts Receivable (in millions)

	December 29, 2013	September 29, 2013
Trade, net of allowances for doubtful accounts of \$2 and \$2, respectively	\$1,288	\$2,066
Long-term contracts	19	27
Other	20	49
	\$1,327	\$2,142

The decrease in accounts receivable was primarily due to the timing of integrated circuit shipments in the first quarter of fiscal 2014.

Inventories (in millions)

	December 29, 2013	September 29, 2013
Raw materials	\$4	\$2
Work-in-process	434	631
Finished goods	626	669
	\$1,064	\$1,302

Property, Plant and Equipment (in millions)

	December 29, 2013	September 29, 2013
Land	\$213	\$212
Buildings and improvements	1,598	1,733
Computer equipment and software	1,455	1,425
Machinery and equipment	2,087	2,013
Furniture and office equipment	87	87
Leasehold improvements	229	218
Construction in progress	193	480
	5,862	6,168
Less accumulated depreciation and amortization	(3,300)	(3,173)
	\$2,562	\$2,995

During the third quarter of fiscal 2012, the Company's QMT division updated its business plan to focus on licensing its next generation interferometric modulator (IMOD) display technology while directly commercializing only certain IMOD products. In the course of pursuing its licensing model, the Company considered various alternatives for one of its manufacturing facilities in Taiwan. During the first quarter of fiscal 2014, as a result of further discussions with potential buyers and consideration of alternative uses for the separate asset groups that comprise the manufacturing facility, the Company decreased its estimates of expected cash flows from those assets and recorded an impairment charge of \$444 million in other operating expenses. The Company also considered whether a triggering event had occurred in the first quarter of fiscal 2014 that would require impairment testing for its remaining QMT assets, including goodwill, and concluded that no such event had occurred as QMT's licensing business plan does not utilize

this manufacturing facility. At December 29, 2013, the carrying values of the QMT division's goodwill and property, plant and equipment were \$133 million and \$255 million, respectively.

QUALCOMM Incorporated  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Other Current Liabilities (in millions)

	December 29, 2013	September 29, 2013
Customer incentives and other customer-related liabilities	\$1,808	\$1,706
Other	954	613
	\$2,762	\$2,319

Note 3 — Investment Income, Net (in millions)

	Three Months Ended	
	December 29, 2013	December 30, 2012
Interest and dividend income	\$156	\$165
Interest expense	(3	) (8
Net realized gains on marketable securities	128	94
Net realized gains on other investments	17	2
Impairment losses on marketable securities	(30	) (5
Impairment losses on other investments	(7	) (5
Net gains (losses) on derivative instruments	4	(1
Equity in net losses of investees	(1	) (3
	\$264	\$239

Note 4 — Income Taxes

The Company estimates its annual effective income tax rate for continuing operations to be approximately 18% for fiscal 2014, which is higher than the 16% effective income tax rate for fiscal 2013. The estimated annual effective tax rate for fiscal 2014 reflects the United States federal research and development tax credit expected to be generated through December 31, 2013, the date on which the credit expired. The annual effective tax rate for fiscal 2013 included a tax benefit of \$64 million related to fiscal 2012 due to the retroactive extension of the United States federal research and development tax credit in fiscal 2013. Tax benefits from foreign earnings taxed at rates that are less than the United States federal tax rate are expected to be approximately 17% in fiscal 2014 and were 17% in fiscal 2013. The Company believes that it is reasonably possible that several tax audits will be resolved within the next 12 months, thereby decreasing some or all of its \$233 million unrecognized tax benefit liability at December 29, 2013. Such decrease will result in a reduction of the effective tax rate to the extent tax benefits are sustained or in the settlement of the liability with the tax authorities to the extent not sustained.

Note 5 — Stockholders' Equity

Changes in stockholders' equity for the three months ended December 29, 2013 were as follows (in millions):

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

	Qualcomm Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at September 29, 2013	\$36,088	\$(1 )	\$36,087
Net income (loss) <sup>(1)</sup>	1,875	(1 )	1,874
Other comprehensive income	31	—	31
Common stock issued under employee benefit plans and related tax benefits, net of shares withheld for taxes	342	—	342
Share-based compensation	291	—	291
Dividends	(599 )	—	(599 )
Stock repurchases	(1,002 )	—	(1,002 )
Other	1	2	3
Balance at December 29, 2013	\$37,027	\$—	\$37,027

(1) Discontinued operations, net of income taxes (Note 8) was attributable to Qualcomm.

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in Qualcomm stockholders' equity during the three months ended December 29, 2013 were as follows (in millions):

	Foreign Currency Translation Adjustment	Noncredit Other-than-Temporary Impairment Losses and Subsequent Changes in Fair Value for Certain Available-for-Sale Debt Securities	Net Unrealized Gain (Loss) on Other Available-for-Sale Securities	Net Unrealized Gain (Loss) on Derivative Instruments	Total Accumulated Other Comprehensive Income
Balance at September 29, 2013	\$(115 )	\$ 25	\$ 825	\$ 18	\$ 753
Other comprehensive income before reclassifications	6	—	77	7	90
Reclassifications from accumulated other comprehensive income	—	—	(53 )	(a) (6 )	(b) (59 )
Other comprehensive income	6	—	24	1	31
Balance at December 29, 2013	\$(109 )	\$ 25	\$ 849	\$ 19	\$ 784

(a) Reclassifications from accumulated other comprehensive income were recorded in investment income, net (Note 3).

(b) Reclassifications from accumulated other comprehensive income were recorded in revenues, cost of equipment and services revenues, research and development expenses and selling, general and administrative expenses.

Stock Repurchase Program. During the three months ended December 29, 2013 and December 30, 2012, the Company repurchased and retired 14,196,000 and 4,295,000 shares, respectively, of the Company's common stock for \$1.0 billion and \$250 million, respectively, before commissions. On September 11, 2013, the Company announced a stock repurchase program authorizing it to repurchase up to \$5.0 billion of the Company's common stock. The stock repurchase program has no expiration date. At December 29, 2013, \$3.8 billion remained available for repurchase under the Company's stock repurchase program.

Dividends. Cash dividends announced in the three months ended December 29, 2013 and December 30, 2012 were \$0.35 and \$0.25 per share, respectively. During the three months ended December 29, 2013 and December 30, 2012,

dividends charged to retained earnings were \$599 million and \$435 million, respectively. On January 22, 2014, the Company announced a cash dividend of \$0.35 per share on the Company's common stock, payable on March 26, 2014 to stockholders of record as of the close of business on March 5, 2014.

Note 6 — Commitments and Contingencies

Legal Proceedings. Tessera, Inc. v. QUALCOMM Incorporated: On April 17, 2007, Tessera filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas and a complaint with the United



QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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. The district court action was stayed pending resolution of the ITC proceeding, including all appeals. On May 20, 2009, the ITC issued a limited exclusion order and a cease and desist order, both of which were terminated when the patents expired on September 24, 2010. During the period of the exclusion order, the Company shifted supply of accused chips for customers who manufacture products that may be imported to the United States to a licensed supplier of Tessera, and the Company continued to supply those customers without interruption. The ITC's orders were affirmed on appeal, and on November 28, 2011, the United States Supreme Court denied the Company's petition for review. On January 18, 2012, pursuant to the parties' stipulation, the District Court in the Eastern District of Texas lifted the stay and ordered that the case be moved to the United States District Court for the Northern District of California. On March 1, 2012, that court consolidated the case with an earlier-filed lawsuit filed by Tessera against multiple parties, including some of the Company's semiconductor chip package suppliers. The court has set May 29, 2014 as the hearing date for claims construction and any summary judgment motions that may be filed. Trial is scheduled for August 25, 2014. Tessera may continue to seek alleged past damages in the district court, but it cannot obtain injunctive relief due to the expiration of the patents.

ParkerVision, Inc. v. QUALCOMM Incorporated: On July 20, 2011, ParkerVision filed a complaint against the Company in the United States District Court for the Middle District of Florida alleging that certain of the Company's products infringe seven of its patents alleged to cover direct down-conversion receivers. ParkerVision's complaint sought damages and injunctive and other relief. On February 28, 2012, ParkerVision filed an amended complaint dropping two patents from the case and adding one new patent. Subsequently, ParkerVision narrowed its allegations to assert only four patents. The trial began on October 7, 2013. On October 17, 2013, the jury returned a verdict finding all asserted claims of the four at-issue patents to be infringed and finding that none of the asserted claims are invalid. On October 24, 2013, the jury returned a separate verdict assessing total past damages of approximately \$173 million and finding that the Company's infringement was not willful. The Company recorded the verdict amount in fiscal 2013 as a charge in other expenses. The court's briefing schedule for post-verdict motions, including the parties' respective motions for judgment as a matter of law and a new trial and ParkerVision's motions for injunctive relief and ongoing royalties concluded on January 24, 2014. The Company has requested a hearing on its motions.

Icera Complaint to the European Commission: On June 7, 2010, the European Commission (the Commission) notified and provided the Company with a redacted copy of a complaint filed with the Commission by Icera, Inc. alleging that the Company has engaged in anticompetitive activity. The Company was asked by the Commission to submit a preliminary response to the portions of the complaint disclosed to it, and the Company submitted its response in July 2010. Subsequently, the Company has provided and continues to provide additional documents and information as requested by the Commission. The Company continues to cooperate fully with the Commission's preliminary investigation.

Korea Fair Trade Commission (KFTC) Complaint: On January 4, 2010, the KFTC issued a written decision finding that the Company had 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, which the Company paid in the second quarter of fiscal 2010. The Company appealed to the Seoul High Court, and on June 19, 2013, the Seoul High Court affirmed the KFTC's decision. On July 4, 2013, the Company filed an appeal with the Korea Supreme Court.

Japan Fair Trade Commission (JFTC) Complaint: The 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 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 cease and desist order 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 the Japanese Antimonopoly Act. The Company has invoked its right under Japanese law to an administrative hearing before the JFTC. In February 2010, the Tokyo High Court granted the Company's motion and issued a stay of the cease and desist order pending the administrative hearing before the JFTC. The JFTC has held hearings on 20 different dates, with additional hearing dates yet to be scheduled.

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Securities and Exchange Commission (SEC) Formal Order of Private Investigation and Department of Justice Investigation: On September 8, 2010, the Company was notified by the SEC's Los Angeles Regional office of a formal order of private investigation. The Company understands that the investigation arose from a "whistleblower's" allegations made in December 2009 to the audit committee of the Company's Board of Directors and to the SEC. In 2010, the audit committee completed an internal review of the allegations with the assistance of independent counsel and independent forensic accountants. This internal review into the whistleblower's allegations and related accounting practices did not identify any errors in the Company's financial statements. On January 27, 2012, the Company learned that the U.S. Attorney's Office for the Southern District of California/Department of Justice (collectively, DOJ) had begun an investigation regarding the Company's compliance with the Foreign Corrupt Practices Act (FCPA). FCPA compliance is also a focus of the SEC investigation. The audit committee continues to conduct an internal review into the Company's compliance with the FCPA with the assistance of independent counsel and independent forensic accountants.

As previously disclosed, the Company has discovered, and as a part of its ongoing cooperation with these investigations has informed the SEC and the DOJ of, instances in which special hiring consideration, gifts or other benefits (collectively, benefits) were provided to several individuals associated with Chinese state-owned companies or agencies. Based on the facts currently known, the Company believes the aggregate monetary value of the benefits in question to be less than \$250,000, excluding employment compensation. The Company is continuing to cooperate with the SEC and the DOJ, but is unable to predict the outcome of their investigations.

China National Development and Reform Commission (NDRC) Investigation: In November 2013, the NDRC notified the Company that it had commenced an investigation of the Company relating to the Chinese Anti-Monopoly Law. The NDRC has advised the Company that the substance of the investigation is confidential. The Company continues to cooperate with the NDRC as it conducts its investigation.

The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain. Accordingly, the Company cannot predict the outcome of these matters. Other than amounts accrued for the ParkerVision matter, which have not been paid, the Company has not recorded any accrual at December 29, 2013 for contingent losses associated with these matters based on its belief that losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time.

Nonetheless, the unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. The Company is engaged in numerous other legal actions not described above arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition or cash flows.

Indemnifications. The Company generally does not indemnify its customers and licensees for losses sustained from infringement of third-party intellectual property rights. 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, copyright, trademark or trade secret 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. Through December 29, 2013, the Company has received a number of claims from its direct and indirect customers and other third parties for indemnification under such agreements with respect to alleged infringement of third-party intellectual property rights by its products.

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 29, 2013 associated with these indemnification arrangements, other than insignificant amounts, 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.

Purchase Obligations. The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Obligations, which generally have a remaining term of less than one year, under these agreements at December 29, 2013 for the remainder of fiscal 2014 and for each of the subsequent four years from fiscal 2015 through fiscal 2018 were approximately \$3.1 billion, \$209 million, \$65 million, \$6 million and \$2

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

million, respectively, and \$6 million thereafter. Of these amounts, for the remainder of fiscal 2014 through fiscal 2015, commitments to purchase integrated circuit product inventories comprised \$2.6 billion and \$81 million, respectively. Integrated circuit product inventory obligations represent purchase commitments for silicon wafers and assembly and test services. Under the Company's manufacturing relationships with its foundry suppliers and assembly and test service providers, cancelation of outstanding purchase orders is generally allowed but requires payment of costs incurred through the date of cancelation.

Leases. The future minimum lease payments for all capital leases and operating leases at December 29, 2013 by fiscal year were as follows (in millions):

	Capital Leases	Operating Leases	Total
Remainder of fiscal 2014	\$1	\$70	\$71
2015	1	79	80
2016	1	66	67
2017	1	48	49
2018	1	28	29
Thereafter	23	49	72
Total minimum lease payments	28	\$340	\$368
Deduct: Amounts representing interest	14		
Present value of minimum lease payments	14		
Deduct: Current portion of capital lease obligations	1		
Long-term portion of capital lease obligations	\$13		

The Company leases certain of its land, facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 25 years and with provisions in certain leases for cost-of-living increases. The Company leases certain property under capital lease agreements primarily related to site leases that have an initial term of five years with renewal options of up to five additional renewal periods. Capital lease obligations are included in other liabilities.

#### Note 7 — Segment Information

The Company is organized on the basis of products and services. The Company aggregates two of its divisions into the QSI segment. Reportable segments are as follows:

QCT (Qualcomm CDMA Technologies) segment — develops and supplies integrated circuits and system software based on CDMA, OFDMA and other technologies for use in voice and data communications, networking, application processing, multimedia and global positioning system products.

QTL (Qualcomm Technology Licensing) segment — grants licenses or otherwise provides rights to use portions of the Company's intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing CDMA2000, WCDMA, CDMA TDD (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA (including LTE) standards and their derivatives, and QTL collects fixed license fees and/or royalties based on sales by licensees of products incorporating or using the Company's intellectual property.

QSI (Qualcomm Strategic Initiatives) segment — comprised of the Company's Qualcomm Ventures and Structured Finance & Strategic Investments divisions. QSI makes strategic investments that the Company believes may open new or expand opportunities for its technologies, support the design and introduction of new products or services for voice and data communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum.

During the first quarter of fiscal 2014, the Company reassessed its management reporting as a result of the sale of the North and Latin America operations of the Omnitrac division (Note 8), which was substantially all of the Omnitrac division, among other reasons. The Omnitrac division was previously aggregated with three other divisions into the Qualcomm Wireless & Internet (QWI) reportable segment. Starting in fiscal 2014, the QWI segment was eliminated, and

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

revenues and operating results for the divisions that comprised the QWI reportable segment are included in nonreportable segments as components of reconciling items. Prior period segment information has been adjusted to conform to the new segment presentation.

Nonreportable segments include the Company's QIS (Qualcomm Internet Services), QGOV (Qualcomm Government Technologies), QMT (Qualcomm MEMS Technologies) and QRS (Qualcomm Retail Solutions) divisions and other display, wireless technology and service initiatives. Nonreportable segments develop and offer products and services that include, but are not limited to: software products and content enablement services to wireless operators; development, other services and related products to U.S. government agencies and their contractors; low power consumption, high optical performance flat display modules; software applications that enable location-awareness and commerce services; 3G/LTE and Wi-Fi products designed for implementation of small cells; medical device connectivity and related data management; augmented reality; and device-to-device communication.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT) from continuing operations. Segment 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 net investment income; certain share-based compensation; and certain research and development expenses and selling and marketing expenses that were deemed to be not directly related to the businesses of the segments. Additionally, unallocated charges include recognition of the step-up of inventories to fair value, amortization and impairment of certain intangible assets and certain other acquisition-related charges. The table below presents revenues and EBT for reportable segments (in millions):

	QCT	QTL	QSI	Reconciling Items*	Total
For the three months ended:					
December 29, 2013					
Revenues	\$4,616	\$1,900	\$—	\$106	\$6,622
EBT	906	1,670	4	(823)	) 1,757
December 30, 2012					
Revenues	\$4,120	\$1,757	\$—	\$141	\$6,018
EBT	1,068	1,532	(17)	(256)	) 2,327

\*As adjusted

QCT revenues included intersegment revenues of \$1 million for each of the three months ended December 29, 2013 and December 30, 2012. All other revenues for reportable segments were from external customers for all periods presented.

QUALCOMM Incorporated  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

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

	Three Months Ended	
	December 29, 2013	December 30, 2012*
Revenues		
Nonreportable segments	\$108	\$142
Intersegment eliminations	(2	) (1
	\$106	\$141
EBT		
Unallocated cost of equipment and services revenues	\$(73	) \$(83
Unallocated research and development expenses	(217	) (186
Unallocated selling, general and administrative expenses	(125	) (111
Unallocated other expense	(12	) —
Unallocated investment income, net	257	248
Nonreportable segments	(653	) (124
	\$(823	) \$(256

\*As adjusted

Nonreportable segments EBT included a total of \$460 million in impairment charges related to the Company's QMT and QRS divisions (Note 9).

Unallocated acquisition-related expenses were comprised as follows (in millions):

	Three Months Ended	
	December 29, 2013	December 30, 2012
Cost of equipment and services revenues	\$61	\$63
Research and development expenses	1	—
Selling, general and administrative expenses	7	7

Segment assets are comprised of accounts receivable and inventories for all reportable segments other than QSI. QSI segment assets include marketable securities, notes receivable, wireless spectrum, other investments and all assets of consolidated subsidiaries included in QSI. Reconciling items for total consolidated assets included \$425 million and \$892 million at December 29, 2013 and September 29, 2013, respectively, of goodwill and other assets related to the Company's QMT division. The decrease in QMT assets was primarily a result of an impairment of certain property, plant and equipment recorded in the first quarter of fiscal 2014 (Note 2). Total segment assets also 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, other intangible assets and assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

	December 29, 2013	September 29, 2013
QCT	\$2,292	\$3,305
QTL	31	28
QSI	474	511
Reconciling items	43,485	41,672
Total consolidated assets	\$46,282	\$45,516

Note 8 — Discontinued Operations





QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

On November 25, 2013, the Company completed its sale of the North and Latin America operations of its Omnitrac division to a U.S.-based private equity firm for cash consideration of \$788 million (net of cash sold), which is subject to a working capital adjustment pursuant to the terms and conditions of the definitive agreement. As a result, the Company recorded a gain in discontinued operations of \$665 million (\$430 million net of income tax expense) during the three months ended December 29, 2013. Total assets and total liabilities were reduced by \$150 million and \$45 million, respectively. The revenues and operating results of the North and Latin America operations of the Omnitrac division, which comprised substantially all of the Omnitrac division, were not presented as discontinued operations in any fiscal period because they were immaterial. The related assets (included in other current assets and other noncurrent assets) and liabilities (included in other current liabilities and other noncurrent liabilities) of \$139 million and \$43 million, respectively, were classified as held for sale at September 29, 2013.

Note 9 — Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides 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 that 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 that 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 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument.

• Level 3 includes financial instruments for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including the Company's own assumptions.

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 at December 29, 2013 (in millions):

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	\$4,502	\$3,174	\$—	\$7,676
Marketable securities				
U.S. Treasury securities and government-related securities	790	561	—	1,351
Corporate bonds and notes	—	12,227	—	12,227
Mortgage- and asset-backed securities	—	921	246	1,167
Auction rate securities	—	—	83	83
Common and preferred stock	1,672	857	—	2,529
Equity funds	792	—	—	792
Debt funds	1,581	3,588	—	5,169
Total marketable securities	4,835	18,154	329	23,318
Derivative instruments	1	38	—	39
Other investments	270	—	—	270
Total assets measured at fair value	\$9,608	\$21,366	\$329	\$31,303
Liabilities				
Derivative instruments	\$—	\$3	\$—	\$3
Other liabilities	270	—	—	270
Total liabilities measured at fair value	\$270	\$3	\$—	\$273

Cash Equivalents and Marketable Securities. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents, including money market funds, certificates of deposit, commercial paper, government agencies' securities and repurchase agreements fully collateralized by government agencies' securities.

With the exception of auction rate securities, the Company obtains pricing information from quoted market prices, pricing vendors or quotes from brokers/dealers. The Company conducts reviews of its primary pricing vendors to determine whether the inputs used in the vendor's pricing processes are deemed to be observable. The fair value for interest-bearing securities includes accrued interest.

The fair value of U.S. Treasury securities and government-related securities, corporate bonds and notes and common and preferred stock is generally determined using standard observable inputs, including reported trades, quoted market prices, matrix pricing, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets and/or benchmark securities.

The fair value of debt and equity funds is reported at published net asset values. The Company assesses the daily frequency and size of transactions at published net asset values and/or the funds' underlying holdings to determine whether fair value is based on observable or unobservable inputs.

The fair value of highly rated mortgage- and asset-backed securities is derived from the use of matrix pricing (prices for similar securities) or, in some cases, cash flow pricing models with observable inputs such as contractual terms, maturity, credit rating and/or securitization structure to determine the timing and amount of future cash flows. Certain mortgage- and asset-backed securities, principally those rated below AAA, may require the use of significant unobservable inputs to estimate fair value, such as default likelihood, recovery rates and prepayment speed.

The fair value of auction rate securities is estimated by the Company using a discounted cash flow model that incorporates transaction details such as contractual terms, maturity and timing and amount of future cash flows, as well as assumptions related to liquidity, default likelihood and recovery, the future state of the auction rate market and credit valuation adjustments of market participants. Though most of the securities held by the Company are pools of student loans guaranteed by the U.S. government, prepayment speeds and illiquidity discounts are considered significant unobservable inputs. These additional inputs are generally unobservable, and therefore, auction rate

securities are included in Level 3.

17

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QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**Derivative Instruments.** Derivative instruments include foreign currency option and forward contracts to manage foreign exchange risk for certain foreign currency transactions and certain balances denominated in a foreign currency; option, forward and swap contracts to acquire or reduce foreign exchange, interest rate and/or equity, prepayment and credit risks for portfolios of marketable securities classified as trading; and warrants to purchase common stock of other companies at fixed prices. Derivative instruments that are traded on an exchange are valued using quoted market prices and are included in Level 1. Derivative instruments that are not traded on an exchange are valued using conventional calculations/models that are primarily based on observable inputs, such as foreign currency exchange rates, the Company's stock price, volatilities and interest rates, and therefore, such derivative instruments are included in Level 2.

**Other Investments and Other Liabilities.** Other investments and other liabilities included in Level 1 are comprised of the Company's deferred compensation plan liability and related assets, which consist of mutual funds classified as trading securities, and were included in other noncurrent assets.

**Activity between Levels of the Fair Value Hierarchy.** There were no significant transfers between Level 1 and Level 2 during the three months ended December 29, 2013 or December 30, 2012. 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 and other liabilities classified within Level 3 of the valuation hierarchy (in millions):

	Three Months Ended December 29, 2013		Three Months Ended December 30, 2012	
	Auction Rate Securities	Other Marketable Securities	Auction Rate Securities	Other Marketable Securities
Beginning balance of Level 3	\$83	\$239	\$118	\$203
Total realized and unrealized gains or losses:				
Included in investment income, net	—	2	—	2
Included in other comprehensive income	—	(1	) 1	2
Purchases	—	23	—	41
Sales	—	(9	) —	(1
Settlements	—	(8	) (34	) (19
Transfers into Level 3	—	—	—	14
Ending balance of Level 3	\$83	\$246	\$85	\$242

The Company recognizes transfers into and out of levels within the fair value hierarchy at the end of the fiscal month in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 during the three months ended December 30, 2012 primarily consisted of debt securities with significant inputs that became unobservable as a result of an increased likelihood of a shortfall in contractual cash flows or a significant downgrade in credit ratings.

**Nonrecurring Fair Value Measurements.** 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 first quarter of fiscal 2014, certain property, plant and equipment related to the Company's QMT division were written down to their estimated fair values resulting in an impairment charge of \$444 million (Note 2). At December 29, 2013, the carrying value of the QMT division's property, plant and equipment was \$255 million. During the first quarter of fiscal 2014, the Company recorded an impairment charge of \$16 million in other expenses to write down goodwill related to its QRS division. At December 29, 2013, the remaining goodwill for the QRS

division was negligible. The Company determined the fair values primarily using a cost approach. The estimation of fair values and cash flows used in these fair value measurements required the use of significant unobservable inputs, and as a result, the fair value measurements were classified as Level 3. During the three months ended December 29, 2013 and December 30, 2012, the Company did not have any other significant assets or liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 10 — Marketable Securities

Marketable securities were comprised as follows (in millions):

	Current December 29, 2013	September 29, 2013	Noncurrent December 29, 2013	September 29, 2013
Trading:				
U.S. Treasury securities and government-related securities	\$289	\$241	\$21	\$49
Corporate bonds and notes	220	269	260	256
Mortgage- and asset-backed securities	—	—	121	104
Total trading	509	510	402	409
Available-for-sale:				
U.S. Treasury securities and government-related securities	968	721	73	71
Corporate bonds and notes	4,858	4,533	6,889	6,812
Mortgage- and asset-backed securities	719	745	327	328
Auction rate securities	—	—	83	83
Common and preferred stock	49	8	2,480	2,351
Equity funds	153	—	639	960
Debt funds	1,732	2,307	2,894	2,889
Total available-for-sale	8,479	8,314	13,385	13,494
Fair value option:				
Debt fund	—	—	543	537
Total marketable securities	\$8,988	\$8,824	\$14,330	\$14,440

The Company holds an investment in a debt fund for which the Company elected the fair value option because the Company is able to redeem its shares at net asset value, which is determined daily. The investment would have otherwise been recorded using the equity method. The debt fund has no single maturity date. At December 29, 2013, the Company had an effective ownership interest in the debt fund of 20%. Net increases in fair value associated with this investment of \$13 million and \$10 million were recognized in net investment income during the three months ended December 29, 2013 and December 30, 2012, respectively.

The Company classifies certain portfolios of debt securities that utilize derivative instruments to acquire or reduce foreign exchange, interest rate and/or equity, prepayment and credit risks as trading. Net losses and net gains recognized on debt securities classified as trading still held at December 29, 2013 and December 30, 2012, respectively, were negligible for the three months ended December 29, 2013 and December 30, 2012, respectively. At December 29, 2013, the contractual maturities of available-for-sale debt securities were as follows (in millions):

Years to Maturity	Less Than One Year	One to Five Years	Five to Ten Years	Greater Than Ten Years	No Single Maturity Date	Total
	\$2,086	\$7,100	\$2,300	\$1,302	\$5,755	\$18,543

Debt securities with no single maturity date included debt funds, mortgage- and asset-backed securities and auction rate securities.

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

Gross Realized Gains	Gross Realized Losses	Net Realized Gains
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For the three months ended

December 29, 2013	\$116	\$(3	) \$113
December 30, 2012	84	(5	) 79

19

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QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 29, 2013				
Equity securities	\$2,564	\$809	\$(52)	) \$3,321
Debt securities (including debt funds)	18,280	420	(157)	) 18,543
	\$20,844	\$1,229	\$(209)	) \$21,864
September 29, 2013				
Equity securities	\$2,570	\$793	\$(44)	) \$3,319
Debt securities (including debt funds)	18,255	396	(162)	) 18,489
	\$20,825	\$1,189	\$(206)	) \$21,808

The following table shows the gross unrealized losses and fair values of the Company's investments in individual securities that are classified as available-for-sale and 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):

	December 29, 2013			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and government-related securities	\$155	\$(2)	) \$—	\$—
Corporate bonds and notes	2,335	(24)	) 17	—
Mortgage- and asset-backed securities	374	(3)	) 26	(1)
Auction rate securities	—	—	) 83	(1)
Common and preferred stock	347	(49)	) 1	—
Debt funds	1,288	(125)	) 336	(1)
Equity funds	40	(3)	) —	—
	\$4,539	\$(206)	) \$463	\$(3)
	September 29, 2013			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and government-related securities	\$42	\$(1)	) \$—	\$—
Corporate bonds and notes	2,084	(31)	) 24	(1)
Mortgage- and asset-backed securities	367	(5)	) 24	—
Auction rate securities	—	—	) 83	(1)
Common and preferred stock	291	(41)	) —	—
Debt funds	2,776	(123)	) 4	—
Equity funds	82	(3)	) —	—
	\$5,642	\$(204)	) \$135	\$(2)

At December 29, 2013, the Company concluded that the unrealized losses on its available-for-sale securities were temporary. Further, for common and preferred stock and for equity and debt 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 (in millions):

20

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QUALCOMM Incorporated  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

	Three Months Ended	
	December 29, 2013	December 30, 2012
Beginning balance of credit losses	\$4	\$31
Credit losses recognized on securities not previously impaired	2	—
Reductions in credit losses related to securities sold	—	(12 )
Ending balance of credit losses	\$6	\$19

## 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 Part I, Item 1 of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 29, 2013 contained in our 2013 Annual Report on Form 10-K.

This Quarterly Report (including, but not limited to, this section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements, including, but not limited to, statements regarding our business, financial condition, results of operations and prospects. Additionally, statements concerning future matters, such as the development of new products, enhancements of technologies, industry or regional trends, consumer demand, sales or price levels, challenges to our business model, capital expenditures, investments in research and development, strategic investments and acquisitions and other statements regarding matters that are not historical, are forward-looking statements. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report. Although forward-looking statements in this Quarterly Report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this Quarterly Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

### Overview

#### Recent Developments

Revenues for the first quarter of fiscal 2014 were \$6.6 billion, with net income attributable to Qualcomm of \$1.9 billion, which primarily resulted from the following key items:

We shipped approximately 213 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, an increase of 17%, compared to 182 million MSM integrated circuits in the year ago quarter.

Total reported device sales were approximately \$61.6 billion, an increase of approximately 16%, compared to approximately \$53.3 billion in the year ago quarter.<sup>(1)</sup>

As a result of further discussions with potential buyers and consideration of alternative uses for the separate asset groups that comprise one of our QMT division's manufacturing facilities in Taiwan, we recorded an impairment charge of \$444 million in other expenses.

On November 23, 2013, we completed the sale of the North and Latin America operations of our Omnitrac division, which was substantially all of the Omnitrac division. As a result, we recognized a gain in discontinued operations of \$430 million net of income tax expense.

Against this backdrop, the following recent developments occurred during the first quarter of fiscal 2014 with respect to key elements of our business or our industry:

Worldwide cellular connections grew sequentially by approximately 2% to reach approximately 6.9 billion.<sup>(2)</sup>

Worldwide 3G/4G connections (CDMA-based, OFDMA-based and CDMA/OFDMA multimode) grew sequentially by approximately 6% to approximately 2.5 billion, which was approximately 36% of total cellular subscriptions.<sup>(2)</sup>

The Ministry of Industry and Information Technology in China confirmed the licensing of spectrum for 4G wireless services to the country's three wireless operators for the LTE-TDD mode of the LTE standard (also frequently referred to in China as TD-LTE).



Total reported device sales is the sum of all reported sales in U.S. dollars (as reported to us by our licensees) of all licensed CDMA-based, OFDMA-based and CDMA/OFDMA multimode subscriber devices (including handsets, modules, modem cards and other subscriber devices) by our licensees during a particular period (collectively, 3G/4G devices). Not all licensees report sales the same way (e.g., some licensees report sales net of permitted deductions, including transportation, insurance, packing costs and other items, while other licensees report sales and then identify the amount of permitted deductions in their reports), and the way in which licensees report such information may change from time to time. Total reported device sales for a particular period may include prior period activity that was not reported by the licensee until such particular period.

(1) According to GSMA Intelligence estimates as of January 27, 2014, for the quarter ended December 29, 2013 (estimates excluded Wireless Local Loop).

#### Our Business and Operating Segments

We design, manufacture, have manufactured on our behalf and market digital communications products and services based on CDMA, OFDMA and other technologies. We derive revenues principally from sales of integrated circuit products, fixed license fees (payable in one or more installments) and ongoing royalties for use of our intellectual property, and fees for messaging and other services and related hardware sales, software development and licensing, and related services and software hosting services. Costs and expenses primarily consist of cost of equipment and services revenues and research and development and selling, general and administrative expenses.

We conduct business primarily through three reportable segments: QCT, QTL and QSI. Our reportable segments are operated by QUALCOMM Incorporated and its direct and indirect subsidiaries. Following our corporate reorganization at the beginning of fiscal 2013, substantially all of our products and services businesses, including QCT, and substantially all of our engineering, research and development functions, are now operated by Qualcomm Technologies, Inc. (QTI), a wholly-owned subsidiary of QUALCOMM Incorporated, and QTI's subsidiaries. QTL continues to be operated by QUALCOMM Incorporated, which continues to own the vast majority of our patent portfolio. Neither QTI nor any of its subsidiaries has any right, power or authority to grant any licenses or other rights under or to any patents owned by QUALCOMM Incorporated.

QCT (Qualcomm CDMA Technologies) is a leading developer and supplier of integrated circuits and system software based on CDMA, OFDMA and other technologies for use in voice and data communications, networking, application processing, multimedia and global positioning system products. QCT's integrated circuit products and system software are sold to or licensed to manufacturers that use our products in wireless devices, particularly mobile phones, tablets, laptops, data modules, handheld wireless computers and gaming devices, access points and routers, data cards and infrastructure equipment, and in wired devices, particularly broadband gateway equipment, desktop computers, televisions, set-top boxes and Blu-ray players. The MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Qualcomm Snapdragon processor devices, perform the core baseband modem functionality in wireless devices providing voice and data communications, as well as multimedia applications and global positioning functions. In addition, our Snapdragon processors provide advanced application and graphics processing capabilities. QCT's system software enables the other device components to interface with the integrated circuit products and is the foundation software enabling manufacturers to develop devices utilizing the functionality within the integrated circuits. QCT revenues comprised 70% and 68% of total consolidated revenues in the first quarter of fiscal 2014 and 2013, 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 been assembled into packages or modules and have completed the 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 based primarily on our proprietary designs and test programs. 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 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 model, we purchase wafers and die from semiconductor manufacturing foundries and contract with separate third-party suppliers for probe, assembly and test services.

QTL (Qualcomm Technology Licensing) grants licenses or otherwise provides rights to use portions of our intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing CDMA2000, WCDMA, CDMA TDD (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards and their derivatives. QTL licensing revenues are comprised of license fees as well as royalties based on sales by licensees of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments.

Royalties are generally based upon a percentage of the wholesale (i.e., licensee's) selling price of complete licensed products, net of certain permissible deductions (e.g., certain shipping costs, packing costs, VAT, etc.). QTL recognizes royalty revenues based on royalties reported by licensees during the quarter and when other revenue recognition criteria are met. Licensees, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. QTL revenues comprised 29% of total consolidated revenues in the first quarter of both fiscal 2014 and 2013. The vast majority of such revenues were generated through our licensees' sales of CDMA2000- and WCDMA-based products, including multimode products that also implement OFDMA, such as feature phones and smartphones.

QSI (Qualcomm Strategic Initiatives) makes strategic investments that we believe may open new or expand opportunities for our technologies, support the design and introduction of new products and services for voice and data communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum. As part of our strategic investment activities, we intend to pursue various exit strategies from each of our QSI investments at some point in the future.

During the first quarter of fiscal 2014, we reassessed our management reporting as a result of the sale of the North and Latin America operations of our Omnitrac division, among other reasons. The Omnitrac division was previously aggregated with three other divisions into the Qualcomm Wireless & Internet (QWI) reportable segment. Starting in fiscal 2014, the QWI segment was eliminated, and the former QWI divisions are nonreportable segments.

Nonreportable segments include our QIS (Qualcomm Internet Services), QGOV (Qualcomm Government Technologies), QMT (Qualcomm MEMS Technologies) and QRS (Qualcomm Retail Solutions) divisions and other display, wireless technology and service initiatives. Nonreportable segments develop and offer products and services that include, but are not limited to: software products and content enablement services to wireless operators; development, other services and related products to U.S. government agencies and their contractors; low power consumption, high optical performance flat display modules; software applications that enable location-awareness and commerce services; 3G/LTE and Wi-Fi products designed for implementation of small cells; medical device connectivity and related data management; augmented reality; and device-to-device communication.

Seasonality. Many of our products or intellectual property are incorporated into consumer wireless devices, which are subject to seasonality and other fluctuations in demand. As a result, QCT has tended historically to have stronger sales toward the end of the calendar year as manufacturers prepare for major holiday selling seasons, and QTL has tended to record higher royalty revenues in the first calendar quarter when licensees report their sales made during the fourth calendar quarter. These seasonal trends may or may not continue in the future.

Discontinued Operations. On November 25, 2013, we completed our sale of the North and Latin America operations of our Omnitrac division to a U.S.-based private equity firm for cash consideration of \$788 million (net of cash sold), which is subject to a working capital adjustment pursuant to the terms and conditions of the definitive agreement. As a result, we recorded a gain in discontinued operations of \$665 million (\$430 million net of income tax expense) during the three months ended December 29, 2013. The revenues and operating results of the North and Latin America operations of the Omnitrac division, which comprise substantially all of the Omnitrac division, were not presented as discontinued operations in any fiscal period because they were immaterial.

#### Looking Forward

The deployment of 3G networks has enabled increased voice capacity and higher data rates than prior generation networks, thereby supporting more minutes of use and a wide range of mobile broadband data applications for handsets, 3G connected computing devices and other consumer electronics. According to the Global mobile Suppliers Association (GSA), as of January 2014, to complement their existing 3G networks, more than 260 wireless operators have deployed and more than 450 wireless operators are planning to deploy OFDMA-based technology, often called 4G, in new wireless spectrum to gain additional capacity for data services. As a result, we expect continued growth in the coming years in consumer demand for 3G, 3G/4G multimode and 4G 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 worldwide transition from 2G to 3G and 3G/4G networks is expected to continue, including the further expansion of 3G and 3G/4G in emerging regions, such as China. We expect that the growth of low-tier smartphone products will contribute to such expansion.

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We expect consumer demand for advanced 3G and 3G/4G multimode devices, including smartphones and data-centric devices, to continue at a strong pace.

We expect the issuance of 4G operator licenses in China will encourage competition and growth, bring the benefits of 4G LTE to consumers and enable new opportunities for the industry. We will continue to support the operators and the industry to help provide consumers in China with a wide selection of 3G/4G devices and services.

We expect that 3G/4G device prices will continue to vary broadly due to the increased penetration of smartphones combined with active competition throughout the world at all price tiers. Additionally, varying rates of economic growth by region and stronger growth of device shipments in emerging regions, as compared to developed regions, are expected to continue to impact the average and range of selling prices of 3G/4G devices.

We continue to invest significant resources toward advancements in 3G, 3G/4G and 4G LTE (an OFDMA-based standard) technologies, audio and video codecs, wireless baseband chips, our converged computing/communications (Snapdragon) chips, multimedia products, software and services. We are also investing across a broad spectrum of opportunities that leverage our existing technical and business expertise to deploy new business models and enter into new industry segments, such as our IMOD and other display technologies; 3G/LTE and Wi-Fi products designed for implementation of small cells and the 1000x data challenge; wireless charging; proximity-based communications; very high speed connectivity; mobile location awareness and commerce; automotive; mobile health; wearable technology; gaming; and products for the connected home, the digital 6th sense and the Internet of Everything. In addition to the foregoing business and market-based matters, we 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 industry. 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.

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

#### Results of Operations

##### Revenues (in millions)

	Three Months Ended		
	December 29, 2013	December 30, 2012	Change
Equipment and services	\$4,653	\$4,199	\$454
Licensing	1,969	1,819	150
	\$6,622	\$6,018	\$604

The increase in equipment and services revenues was primarily due to an increase in QCT revenues of \$495 million.

The increase in licensing revenues was primarily due to an increase in QTL revenues of \$143 million.

##### Operating Expenses (in millions)

	Three Months Ended		
	December 29, 2013	December 30, 2012	Change
Cost of equipment and services (E&S) revenues	\$2,706	\$2,237	\$469
Cost as % of E&S revenues	58	% 53	%

The decrease in margin percentage was primarily attributable to a decrease in QCT margin percentage. Our margin percentage may fluctuate in future periods depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

	Three Months Ended		
	December 29, 2013	December 30, 2012	Change
Research and development	\$1,328	\$1,106	\$222
% of revenues	20	% 18	%
Selling, general, and administrative	\$623	\$587	\$36
% of revenues	9	% 10	%
Other	\$472	\$—	\$472

The dollar increase in research and development expenses was primarily attributable to an increase of \$184 million in costs related to the development of CDMA-based 3G, OFDMA-based 4G LTE and other technologies for integrated circuit and related software products and to expand our intellectual property portfolio and an increase of \$16 million in share-based compensation.

The dollar increase in selling, general and administrative expenses was primarily attributable to increases of \$27 million in employee-related expenses and \$12 million in selling and marketing expenses, partially offset by a decrease of \$16 million in costs related to litigation and other legal matters.

Other expenses in the first quarter of fiscal 2014 were comprised of a \$444 million impairment charge resulting from further discussions with potential buyers and consideration of alternative uses for the separate asset groups that comprise one of our QMT division's manufacturing facilities in Taiwan, a \$16 million goodwill impairment charge related to our QRS division and a \$12 million charge related to the ParkerVision verdict.

Net Investment Income (in millions)

	Three Months Ended		
	December 29, 2013	December 30, 2012	Change
Interest and dividend income	\$156	\$165	\$(9)
Interest expense	(3)	(8)	5
Net realized gains on marketable securities	128	94	34
Net realized gains on other investments	17	2	15
Net impairment losses on marketable securities and other investments	(37)	(10)	(27)
Net gains (losses) on derivative instruments	4	(1)	5
Equity in net losses of investees	(1)	(3)	2
	\$264	\$239	\$25

The increase in net realized gains on marketable securities was primarily due to the increased impact of portfolio rebalancing in the first quarter of fiscal 2014, compared to the first quarter of fiscal 2013. The increase in net realized gains on other investments was primarily due to our acquisition of substantially all of the assets of a strategic investee in the first quarter of fiscal 2014. The increase in net impairment losses on marketable securities and other investments was primarily due to an increase in our recognition of unrealized losses on equity securities that we did not assert an intention to hold to recovery in the first quarter of fiscal 2014.

Income Tax Expense (in millions)

	Three Months Ended		
	December 29, 2013	December 30, 2012	Change
Income tax expense	\$313	\$424	\$(111)
Effective tax rate	18	% 18	% —

The following table summarizes the primary factors that caused our effective tax rates for the first quarter of fiscal 2014 and 2013 to be less than the United States federal statutory rate:

	Three Months Ended			
	December 29, 2013		December 30, 2012	
Expected income tax provision at federal statutory tax rate	35	%	35	%
Benefits from foreign income taxed at other than U.S. rates	(17	%)	(17	%)
Benefits related to the research and development tax credit	(1	%)	—	%
Other	1	%	—	%
Effective tax rate	18	%	18	%

The effective tax rate for the first quarter of fiscal 2014 is the same as the effective tax rate for the first quarter of fiscal 2013 as a result of a federal research and development tax credit, offset by an increase in non-deductible expenses in fiscal 2014. The estimated annual effective tax rate for fiscal 2014 reflects the United States federal research and development tax credit expected to be generated through December 31, 2013, the date on which the credit expired.

We believe that it is reasonably possible that several tax audits will be resolved within the next 12 months, thereby decreasing some or all of our \$233 million unrecognized tax benefit liability at December 29, 2013. Such decrease will result in a reduction of our effective tax rate to the extent tax benefits are sustained or in the settlement of the tax liability with the tax authorities to the extent not sustained.

#### Segment Results

The following should be read in conjunction with the first quarter financial results of fiscal 2014 for each reportable segment. See “Notes to Condensed Consolidated Financial Statements, Note 7 - Segment Information.”

	QCT	QTL	QSI
Three Months Ended December 29, 2013			
Revenues	\$4,616	\$1,900	\$—
EBT (1)	906	1,670	4
EBT as a % of revenues	20	% 88	%
Three Months Ended December 30, 2012			
Revenues	\$4,120	\$1,757	\$—
EBT (1)	1,068	1,532	(17
EBT as a % of revenues	26	% 87	%

(1) Earnings (loss) before taxes.

**QCT Segment.** The increase in QCT revenues of \$496 million was primarily due to an increase in equipment and services revenues. Equipment and services revenues, mostly related to sales of MSM and accompanying RF and PM integrated circuits, were \$4.56 billion and \$4.07 billion in the first quarter of fiscal 2014 and 2013, respectively. The increase in equipment and services revenues resulted primarily from increases of \$589 million related to higher unit shipments and \$100 million related to sales of connectivity products, partially offset by a decrease of \$215 million related to the net effects of changes in product mix and lower average selling prices of such products. Approximately 213 million and 182 million MSM integrated circuits were sold during the first quarter of fiscal 2014 and 2013, respectively.

QCT EBT as a percentage of revenues decreased due to a decrease in gross margin percentage and an increase of 12% in QCT revenues relative to a combined increase of 14% in research and development expenses and selling, general and administrative expenses. QCT gross margin percentage decreased as a result of the net effects of lower average selling prices, unfavorable product mix and lower average unit costs.

QCT inventories decreased by 19% in the first quarter of fiscal 2014 from \$1.30 billion to \$1.05 billion primarily due to a decrease in work-in-process related to the timing of inventory receipts and stages of completion, and the overall impact of lower average unit costs.

**QTL Segment.** The increase in QTL revenues of \$143 million was primarily due to an increase in sales of CDMA-based products, including multimode products that also implement OFDMA, by licensees. The increase in QTL EBT as a



percentage of revenues was attributable to an increase of 8% in revenues relative to an increase of 2% in costs and expenses.

QSI Segment. The increase in QSI EBT of \$21 million was primarily due to an increase of \$14 million in net realized gains on investments, primarily due to our acquisition of substantially all of the assets of a strategic investee, and a decrease of \$6 million in interest expense due to the deconsolidation of the former BWA subsidiaries in fiscal 2013.

#### 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 \$31.6 billion at December 29, 2013, an increase of \$2.2 billion from September 29, 2013. This increase included \$788 million in net proceeds from the sale of the North and Latin America operations of our Omnitracs division and \$441 million in proceeds from the issuance of common stock under our equity compensation plans. Our cash, cash equivalents and marketable securities at December 29, 2013 consisted of \$8.7 billion held by United States-based entities and \$22.9 billion held by foreign entities. Of our cash, cash equivalents and marketable securities at December 29, 2013, \$22.7 billion is indefinitely reinvested and would be subject to material tax effects if repatriated. Due to tax considerations, we derive liquidity for operations primarily from domestic cash flow and investments held domestically. Total cash provided by operating activities increased to \$2.8 billion during the first quarter of fiscal 2014, compared to \$2.0 billion during the first quarter of fiscal 2013.

Accounts receivable decreased 38% during the first quarter of fiscal 2014. Days sales outstanding, on a consolidated basis, were 18 days at December 29, 2013, compared to 30 days at September 29, 2013. The decreases in accounts receivable and the related days sales outstanding were primarily due to the timing of integrated circuit shipments. During the first quarter of fiscal 2014, we repurchased and retired 14,196,000 shares of our common stock for \$1.0 billion, before commissions. At December 29, 2013, approximately \$3.8 billion remained available for repurchase under our stock repurchase program, and we currently expect to complete a minimum of \$3 billion of stock repurchases during the remainder of fiscal 2014. The stock repurchase program has no expiration date. We continue to evaluate repurchases as a means of returning capital to stockholders, subject to our periodic determinations that repurchases are in the best interests of our stockholders.

We paid cash dividends totaling \$590 million, or \$0.35 per share, on December 19, 2013. On January 22, 2014, we announced a cash dividend of \$0.35 per share on our common stock, payable on March 26, 2014 to stockholders of record as of the close of business on March 5, 2014. We intend to continue to use cash dividends as a means of returning capital to stockholders, subject to capital availability and our view that cash dividends are in the best interests of our stockholders.

During the first quarter of fiscal 2014, we announced our intention of returning 75% of our free cash flow to stockholders through stock repurchases and dividends over the foreseeable future, where free cash flow is defined as net cash provided by operating activities less capital expenditures. To meet this goal, we expect to use existing cash held by, and cash flow generated from, United States-based entities, and we anticipate that we will supplement this by borrowing additional funds beginning in the next few years. The requirement for and timing of such borrowing is subject to a number of factors, including the cash flow generated by United States-based entities, acquisitions and strategic investments, acceptable interest rates and changes in corporate income tax law, among other factors.

Subject to the foregoing paragraph, we believe our current cash, cash equivalents and marketable securities and our expected cash flow generated from operations will provide us with flexibility and satisfy our working and other capital requirements for at least the next 12 months based on our current business plans.

Our research and development expenditures were \$1.3 billion during the first quarter of fiscal 2014 and \$5.0 billion in fiscal 2013, and we expect to continue to invest heavily in research and development for new technologies, applications and services for voice and data communications, primarily in the wireless industry.

Cash outflows for capital expenditures were \$210 million during the first quarter of fiscal 2014 and \$1.0 billion in fiscal 2013. We expect to continue to incur capital expenditures in the future to support our business, including research and development activities. Future capital expenditures may be impacted by transactions that are currently not forecasted.



Our purchase obligations for the remainder of fiscal 2014 and for fiscal 2015, some of which relate to research and development activities and capital expenditures, totaled \$3.1 billion and \$209 million, respectively, at December 29, 2013.

We expect to continue making strategic investments and acquisitions, the amounts of which could vary significantly, to open new opportunities for our technologies, obtain development resources, grow our patent portfolio or pursue new business.

#### 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 Regulation S-K 303(a)(4)(ii).

Additional information regarding our financial commitments at December 29, 2013 is provided in the notes to our condensed consolidated financial statements. See “Notes to Condensed Consolidated Financial Statements, Note 4 — Income Taxes” and “Note 6 — 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 trading 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 29, 2013, including our financial statements and the related notes.

#### Risks Related to Our Businesses

Our revenues depend on the commercial deployment of CDMA, OFDMA and other communications technologies, continuing growth in our customers’ and licensees’ sales of products and services based on these technologies and our ability to continue to drive customer demand for our products and services based on these technologies.

We develop, patent and commercialize technology and products based on CDMA, OFDMA and other communications technologies. We depend on our customers, licensees, operators of CDMA- and OFDMA-based wireless networks and other industries to use our technologies, and on the timing of their deployment of new products and services, and they may incur lower gross margins on products or services based on these technologies than on products and services based on alternative technologies. We also depend on our customers and licensees to develop products and services with value-added features to drive selling prices as well as consumer demand for new 3G and 3G/4G devices. Our revenues and/or growth in revenues could be negatively impacted, our business may be harmed and our substantial investments in these technologies may not provide us an adequate return, if:

- wireless operators and other industries deploy alternative technologies;
- wireless operators delay 3G and/or 3G/4G multimode network deployments, expansions or upgrades and/or delay moving 2G customers to 3G, 3G/4G multimode or 4G wireless devices;
- LTE, an OFDMA-based 4G wireless technology, is not more widely deployed or commercial deployment is delayed;
- government regulators delay the reallocation of 2G spectrum to allow wireless operators to upgrade their networks to 3G and/or 3G/4G, thereby restricting the expansion of 3G/4G wireless connectivity;
- wireless operators are unable to drive improvements in 3G or 3G/4G multimode network performance and/or capacity;
- our customers’ and licensees’ sales of products and services using these technologies, particularly premium-tier device products, do not grow or do not grow as quickly as anticipated; or
- we are unable to drive the adoption of our products and services into networks and devices based on CDMA, OFDMA and other communications technologies.

Our industry is subject to competition in an environment of rapid technological change that could result in decreased demand and/or declining average selling prices for our products and those of our customers and/or licensees and/or





result in placing new specifications or requirements on our products, each of which could negatively affect our revenues and operating results.

Our products, services and technologies face significant competition, and the revenues they generate or the timing of their deployment, which may depend on the actions of others, may not meet expectations. Competition in the communications industry is affected by various factors that include, among others: evolving industry standards and business models; evolving methods of transmission for voice and data communications; networking and connectivity trends; evolving nature of computing (including demand for always on, always connected capabilities); rapid technological change; value-added features that drive selling prices as well as consumer demand for new 3G, 3G/4G multimode and 4G devices; turnkey, integrated products that incorporate hardware, software, user interface, applications and reference designs; rapid growth in mobile data consumption; device manufacturer concentrations; growth in emerging geographic regions; scalability; and the ability of the system technology to meet customers' immediate and future network requirements. We anticipate that additional competitors will introduce products as a result of growth opportunities in wireless communications, 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.

Our future success will depend on, among other factors, our ability to:

- develop innovative, differentiated integrated circuit products at competitive cost and price points for emerging and developed geographic regions and across device tiers (e.g., premium- and low-tier smartphones);
- increase and/or accelerate demand for our integrated circuit products and drive their adoption into the most popular device models, particularly premium-tier models, and across a broad spectrum of devices, such as smartphones, tablets, e-readers, gaming devices and other mobile computing and connected devices;
- strengthen our integrated circuit product roadmap for, and develop channel relationships in, emerging geographic regions, such as China and India, and provide turnkey products for low-tier smartphones;
- be a preferred partner (and sustain preferred relationships) providing integrated circuit products that support multiple operating system platforms to the partners that effectively commercialize new devices using these platforms;
- continue to be a leader in 4G technology evolution, including expansion of our OFDMA-based single mode licensing program, and continue to innovate and introduce 4G turnkey, integrated products and services that differentiate us from our competition;
- be a leader serving original equipment manufacturers, high level operating systems (HLOS) providers, operators and other industry participants as competitors, new industry entrants and other factors continue to affect the industry landscape;
- increase and/or accelerate demand for our wired and wireless connectivity products, including networking products for consumers, carriers and enterprise equipment and connected devices;
- become a leading supplier of small cell technology (which allows inexpensive cell sites deployed by users to connect to traditional cellular networks through wired internet connections) to enable significant network capacity expansion to meet anticipated growth in mobile data traffic;
- continue to develop brand recognition to effectively compete against better known companies in mobile computing and other consumer driven segments and to deepen our presence in significant emerging geographic regions; and/or create stand-alone value and/or contribute to the success of our existing businesses through investments in new industry segments and/or disruptive technologies, including new display technologies, wireless charging, mobile health, mobile location awareness and commerce, automotive, the connected home and the Internet of Everything, among others.

Competition and/or the introduction and growth in sales of low-tier products, particularly relative to premium-tier products, may reduce average selling prices for our chipset products and the products of our customers and licensees. This dynamic is particularly pronounced in emerging geographic regions. Reductions in the average selling prices of our chipset products, without corresponding decreases in average unit costs, would negatively impact our margins. In addition, total royalties payable to us would generally decrease, negatively impacting our revenues, as a result of reductions in the average selling prices of our licensees' products, unless offset by an increase in volumes.



Companies that promote standards that are neither CDMA- nor OFDMA-based (e.g., GSM) as well as companies that design integrated circuits based on CDMA, OFDMA or their derivatives are generally competitors or potential competitors. Examples (some of which are strategic partners of ours in other areas) include Broadcom, Ericsson, Fujitsu, HiSilicon Technologies, Intel, Lantiq, Marvell Technology, Maxim Integrated Products, MediaTek, nVidia, Realtek Semiconductor, Samsung Electronics, Spreadtrum Communications, Texas Instruments and VIA Telecom. Some of these current and potential competitors have advantages over us that include, among others: motivation by our customers in certain circumstances to find alternate suppliers; foreign government support of other technologies or competitors; more extensive relationships with local distribution companies and original equipment manufacturers in emerging geographic regions (e.g., China); lower cost structures; and/or a more established presence in certain device markets.

Certain of our software and our suppliers' software may contain or may be derived from "open source" software, and we have seen, and believe we will continue to see, an increase in customers requesting that we develop products, including software associated with our integrated circuit products, that incorporate open source software elements and operate in an open source environment, which, under certain open source licenses, may offer accessibility to a portion of a product's source code and may expose related intellectual property to adverse licensing conditions. Licensing of such software may impose certain obligations on us if we were to distribute derivative works of the open source software. For example, these obligations may require us to make source code for the derivative works available to our customers in a manner that allows them to make such source code available to their customers, or license such derivative works under a particular type of license that is different than what we customarily use to license our software. Developing open source products, while adequately protecting the intellectual property rights upon which our licensing business depends, may prove burdensome and time-consuming under certain circumstances, thereby placing us at a competitive disadvantage for new product designs. Also, our use and our customers' use of open source software may subject our products and our customers' products to governmental scrutiny and delays in product certification, which could cause customers to view our products as less desirable than our competitors' products. While we believe we have taken appropriate steps and employed adequate controls to protect our intellectual property rights, our use of open source software presents risks that could have an adverse effect on these rights and on our business. We derive a significant portion of our consolidated revenues from a small number of customers and licensees. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuate, our operating results could be negatively affected.

Our QCT segment derives a significant portion of revenues from a small number of customers, and we may be unable to further diversify our customer base. In addition, our industry is experiencing and may continue to experience an increasing concentration of device share among a few companies, and this trend may result in an increasing portion of our revenues being derived from a small number of customers. The loss of any one of our significant customers, a reduction in the purchases of our products by such customers or cancelation of significant purchases from any of these customers would reduce our revenues and could harm our ability to achieve or sustain expected operating results, and a delay of significant purchases, even if only temporary, would reduce our revenues in the period of the delay. Further, concentration of device share among a few companies, and the corresponding purchasing power of these companies, may result in lower prices for our products which, if not accompanied by a sufficient increase in the volume of purchases of our products, could have an adverse effect on our revenues and margins. In addition, the timing and size of purchases by our significant customers may be impacted by the timing of such customers' new or next generation product introductions, over which we have little or no control, and the timing of such introductions may cause our operating results to fluctuate. Accordingly, if current industry dynamics and concentrations continue, our QCT segment's revenues will continue to depend largely upon, and be impacted by, future purchases and the timing and size of any such future purchases by these significant customers.

Further, companies that provide HLOS for devices, including leading technology companies, have entered the device market. If we fail to effectively partner with these companies, or their partners or customers, they may decide not to purchase (either directly or through their contract manufacturers), or to reduce or discontinue their purchases of, our integrated circuit products.

In addition, there has been and continues to be litigation among certain of our customers and other industry participants, and the potential outcomes of such litigation, including but not limited to injunctions against devices that

incorporate our products or rulings on certain patent law or patent licensing issues that create new legal precedent, could impact our business.

Although we have more than 250 CDMA-based licensees, our QTL segment derives a significant portion of licensing revenues from a limited number of licensees. Moreover, the future growth and success of our core licensing business will depend in part on the ability of our licensees to develop, introduce and deliver high-volume products that

achieve and sustain customer acceptance. We have little or no control over the product development or sales efforts of our licensees, and our licensees might not be successful. Reductions in the average selling prices of wireless devices sold by our major licensees, without a sufficient increase in the volumes of such devices sold, would generally have an adverse effect on our revenues.

The continued and future success of our licensing programs can be impacted by the deployment of other technologies in place of technologies based on CDMA, OFDMA and their derivatives; the need to extend certain existing license agreements that are expiring and/or to cover additional later patents; and/or the success of our licensing programs for 4G single mode products and emerging industry segments.

Although we own a very strong portfolio of issued and pending patents related to GSM, GPRS, EDGE, OFDM, OFDMA, WLAN, MIMO and other technologies, our patent portfolio licensing program in these areas is less established and might not be as successful in generating licensing revenues as our CDMA licensing program. Many wireless operators are investigating, have selected or have deployed OFDMA-based LTE as their next-generation 4G technology for deployment in existing or future wireless spectrum bands as complementary to their existing CDMA-based networks. While 3G/4G multimode products are generally covered by existing 3G licensing agreements, products that implement 4G and do not implement 3G are generally not covered by existing 3G licensing agreements. Although we believe that our patented technology is essential and useful to implementation of the LTE industry standards and have granted royalty-bearing licenses to more than 95 companies (including LG, Nokia, Samsung, Sony Mobile and ZTE) that have realized that they need a license under our patents to make and sell products implementing 4G standards but not implementing 3G standards, the royalty rates for single mode 4G products are generally lower than our royalty rates for 3G and 3G/4G multimode products, and therefore, we might not achieve the same licensing revenues on such LTE products as on 3G or 3G/4G multimode products. In addition, new connectivity services are emerging that rely on devices that may or may not be used on traditional cellular networks, such as devices used in the connected home or the Internet of Everything. Standards, even de facto standards, that develop as these technologies mature, in particular those that do not include a base level of interoperability, may impact our ability to obtain royalties that are equivalent to those that we receive for 3G products used in cellular communications. Although we believe that our patented technology is essential and useful to the commercialization of such services, the royalties we receive may be lower than those we receive from our current licensing program.

Over the long-term, we need to continue to evolve our patent portfolio. If we do not maintain a strong portfolio that is applicable to current and/or future products and/or services, our future licensing revenues could be negatively impacted.

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 and/or royalties are not owed to us under such license agreements after the specified time period. In order to license or to obtain a license to such later patents, or to receive royalties after the specified time period, we will need to extend or modify such license agreements or enter into new license agreements with such licensees. We might not be able to modify those license agreements, or enter into new license agreements, in the future without affecting the material terms and conditions of our license agreements with such licensees, and such modifications or new agreements may negatively impact our revenues. If we are unable to reach agreement on such modifications or new agreements, it could result in patent infringement litigation with such companies.

Efforts by some communications equipment manufacturers or their customers to avoid paying fair and reasonable royalties for the use of our intellectual property may require the investment of substantial management time and financial resources and may result in legal decisions and/or actions by governments, courts, regulators or agencies, Standards Development Organizations (SDOs) or other industry organizations that harm our business.

From time to time, companies initiate various strategies to attempt to renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property. These strategies have included: (i) litigation, often alleging infringement of patents held by such companies, patent misuse, patent exhaustion, patent invalidity and/or unenforceability of our patents and/or licenses, or some form of unfair competition; (ii) taking positions contrary to our understanding of their contracts with us; (iii) appeals to governmental authorities; (iv) collective action, including

working with wireless operators, standards bodies, other like-minded companies and other organizations, on both formal and informal bases, to adopt intellectual property policies and practices that could have the effect of limiting returns on intellectual property innovations; and (v) lobbying 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.

In addition, in connection with our participation in SDOs, we, like other patent owners, generally have made contractual commitments to such organizations to license those of our patents that would necessarily be infringed by standard-compliant products (standard-essential patents) on terms that are fair, reasonable and nondiscriminatory (FRAND). Some manufacturers and users of standard-compliant products advance interpretations of these FRAND commitments that are adverse to our licensing business, including interpretations that would limit the amount of royalties that we could collect on the licensing of our patent portfolio.

Further, some companies or entities have proposed significant changes to existing intellectual property policies for implementation by SDOs and other industry organizations with the goal of significantly devaluing standard-essential patents. For example, some have put forth proposals which would require a maximum aggregate intellectual property royalty rate for the use of all standard-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 standard-essential patents based upon the number of standard-essential patents held by such company. Others have proposed that injunctions not be an available remedy for infringement of standard-essential patents and/or have made proposals that could severely limit damage awards and other remedies by courts for patent infringement (e.g., by severely limiting the base upon which the royalty percentage may be applied). A number of these strategies are purportedly based on interpretations of the policies of certain SDOs concerning the licensing of patents that are or may be essential to industry standards and on our and/or other companies' alleged failure to abide by these policies.

Some courts and governmental agencies have adopted and may in the future adopt some or all of these interpretations or proposals in a manner adverse to our interests, and SDOs may adopt such interpretations or proposals as so-called clarifications or amendments to their intellectual property policies.

We expect that such proposals, interpretations and strategies will continue in the future, and if successful in the future, our business model would be harmed, either by limiting or eliminating our ability to collect royalties on all or a portion of our patent portfolio, limiting our return on investment with respect to new technologies, limiting our ability to seek injunctions against infringers of our standard-essential patents, constraining our ability to make licensing commitments when submitting our technology for inclusion in future standards (which could make our technology less likely to be included in such standards) or forcing us to work outside of SDOs or other industry groups to promote our new technologies, and our results of operations could be negatively impacted. In addition, the legal and other costs associated with asserting or defending our positions have been and continue to be significant. We assume that such challenges, regardless of their merits, will continue into the foreseeable future and may require the investment of substantial management time and financial resources.

The enforcement and protection of our intellectual property rights may be expensive, could fail to prevent misappropriation or unauthorized use of our proprietary intellectual property rights, could result in the loss of our ability to enforce one or more patents, or could be adversely affected by changes in patent laws, by laws in certain foreign jurisdictions that may not effectively protect our intellectual property rights or by ineffective enforcement of laws in such jurisdictions.

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, technologies and proprietary information is difficult and time consuming. We cannot be certain that the steps we have taken, or may take in the future, 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 or where the enforcement of such laws may be lacking or ineffective. Some industry participants who have a vested interest in devaluing patents in general, or standard-essential patents in particular, have mounted attacks on certain patent systems, increasing the likelihood of changes to established patent laws. In the United States, there is continued discussion regarding potential patent law changes. We expect that in the next few years the European Union will adopt a unitary patent system that may broadly impact that region's patent regime. We cannot predict with certainty the long-term effects of any potential changes. In addition, we cannot be certain that the laws and policies of any country or the practices of any standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing or the adoption of standards, will not be changed in the future in a way detrimental to our licensing program



or to the sale or use of our products or technology. We have had, and may continue to have, difficulty in certain circumstances in protecting or enforcing our intellectual property rights and/or contracts, including collecting royalties for use of our patent portfolio in particular foreign jurisdictions due to, among others: policies of foreign governments; 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); failure of foreign courts to recognize and enforce judgments of contract breach and damages issued by courts in the United States; and/or challenges pending before foreign competition agencies to the pricing and integration of additional features and functionality into our chipset products.

We may need to litigate in the United States or elsewhere in the world 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.

Our research, development and other investments in new technologies, products and services may not generate operating income or contribute to future operating results that meet our expectations.

Our industry is subject to rapid technological change, and we must make substantial research, development and other investments in new products, services and technologies to compete successfully. Technological innovations generally require significant research and development efforts before they are commercially viable. We intend to continue to make substantial investments in developing new products, services and technologies that we believe can create stand-alone value and/or contribute to the success of our existing businesses, and it is possible that these initiatives will not be successful and/or will not result in meaningful revenues or generate operating income that meets expectations. While we continue to focus our development efforts primarily in support of 3G CDMA- and 4G OFDMA-based technologies, we innovate across a broad spectrum of opportunities that leverage our existing technical and business expertise to deploy new business models and enter into new industry segments. Our recent investment initiatives relate to, among others, new display technologies, wireless charging technology, small cell technology and the 1000x data challenge, proximity-based communications, very high speed connectivity, mobile location awareness and commerce, automotive, mobile health, wearable technology, gaming and products for the connected home, the digital 6th sense and the Internet of Everything.

Our research, development and other investments in new technologies, products or services may not succeed due to, among others: improvements in alternate technologies in ways that reduce the advantages we anticipate from our investments; competitors' products or services being more cost effective, having more capabilities or fewer limitations or being brought to market faster than our new products and services; and competitors having longer operating histories in industry segments that are new to us. We may also underestimate the costs of or overestimate the future operating income and/or margins that could result from these investments; and these investments may not, or may take many years to, generate material returns. If our new technologies, products or services are not successful, or are not successful in the time frame we anticipate, we may incur significant costs and/or asset impairments, our business may not grow as anticipated, our margins may be negatively impacted and/or our reputation may be harmed.

Claims by other companies that we infringe their intellectual property 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, among other factors, 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 are 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. In any potential dispute involving other companies' patents or other intellectual property, our chipset foundries, semiconductor assembly and test providers 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 an adverse effect on our results of operations. Furthermore, any such litigation could severely disrupt the supply of our products and the businesses of our chipset customers and their customers, which in turn could hurt our relationships with them and could result in a decline in our chipset sales and/or reductions in our

licensees' sales, causing a corresponding decline in our chipset and/or licensing revenues. 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 an adverse effect upon our operating results.

We expect that we may 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 leverage in licensing negotiations. We may not be successful in such proceedings, and if we are not, the range of possible outcomes includes everything from royalty payment to an injunction on the sale of certain of our integrated circuit products (and on the sale of our customers' devices using such products). Any imposition of royalty payments might make purchases of our products less economical for our customers and could have an adverse effect upon our operating results. A negative outcome in any such proceeding could severely disrupt the business of our chipset customers and their wireless operator customers, which in turn could harm our relationships with them 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 corresponding declines in our chipset and/or licensing revenues.

A number of other companies have claimed to own patents applicable to products implementing various CDMA standards, GSM standards and OFDMA standards. In addition, existing standards continue to evolve, and new standards, including those applicable to new industry segments, continue to be developed. If future standards diminish, or fail to include, a base level of interoperability, our business may be harmed, and our investments in these new segments may not succeed. If we are required to obtain additional licenses and/or pay royalties to one or more of such other patent holders, this could have an adverse effect on the commercial implementation of our products and technologies and our results of operations.

We depend on a limited number of third-party suppliers for the procurement, manufacture and testing of our products. If we fail to execute supply strategies that provide supply assurance, technology leadership and low cost, our operating results and our business may be harmed.

Our QCT segment purchases wafers, die and fully-assembled and tested integrated circuits from third-party semiconductor manufacturing foundries. We also contract with third-party suppliers for assembly, test and other services related to the manufacture of our products. A reduction, interruption, delay or limitation in our product supply sources, a failure by our suppliers to procure raw materials or to provide or allocate adequate manufacturing or test capacity for our products or their inability to react to shifts in product demand or an increase in raw material or component prices could have an adverse effect on our ability to meet customer demands, our business and/or our profitability. The loss of a supplier or the inability of a supplier to meet performance or quality specifications or delivery schedules could harm our ability to meet our delivery obligations to our customers and/or negatively impact our revenues, business operations and ability to compete for future business. In the event of a loss of or a decision to change a supplier, qualifying a new supplier and commencing volume production or testing could cause us to incur additional expense and production delays, resulting in possible decrease in margins or loss of customers.

While we have established alternate suppliers for certain technologies that we consider critical, we rely on sole- or limited-source suppliers for some products, subjecting us to significant risks, including: possible shortages of raw materials or manufacturing capacity; poor product performance; and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs. To the extent we have established alternate suppliers, these suppliers may require significant levels of support to bring complex technologies to production. As a result, we may invest a significant amount of effort and resources and incur higher costs to support and maintain such alternate suppliers. Further, any future consolidation of foundry suppliers could increase our vulnerability to sole- or limited-source arrangements. 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. Our ability, and that of our suppliers, to develop or maintain leading process technologies, including transitions to smaller geometry process technologies, and to effectively compete with the manufacturing processes and performance of our competitors, could also impact our ability to meet customer demand, increase our costs and subject us to the risk of excess inventories. Our inability to meet customer demand due to sole- or limited-sourcing and/or the additional costs that we incur because of these or other supply constraints or because of the need to support alternate suppliers could negatively impact our business, our revenues and our results of operations.

Although we have long-term contracts with our suppliers, many of these contracts do not provide for long-term capacity commitments. To the extent that we do not have firm commitments from our suppliers over a specific time period, or for 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 or limiting capacity to manufacture or test our products. Accordingly, capacity for our products may not be available when we need it or at reasonable prices. To the extent we do obtain long-term capacity commitments, we may incur additional costs related to those commitments.

35

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One or more of our suppliers or potential alternate suppliers may manufacture CDMA- or OFDMA-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 or limit 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.

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

Our stock price and earnings have fluctuated in the past and are likely to fluctuate in the future. Factors that may have a significant impact on the market price of our stock and/or earnings include, among others:

- volatility of the stock market in general and technology-based companies in particular that is often unrelated to the operating performance of any specific public company;
- announcements concerning us, our suppliers, our competitors or our customers, including the selection of wireless communications technologies by wireless operators and the timing of the roll-out of those technologies, the use of our or our competitors' integrated circuits in wireless devices by certain manufacturers or the business performance of our customers;
- international developments, such as technology mandates, political developments or changes in economic policies;
- changes in recommendations of securities analysts;
- fluctuations (or market expectations of future fluctuations) in our revenues, operating margins and/or earnings (or forecasts) that exceed or fail to meet financial guidance that we provide to investors and/or the expectations of analysts or investors;
- proprietary rights, product or patent litigation taken or threatened against us or against our customers or licensees;
- our ability to return capital to stockholders through stock repurchases and dividends consistent with our long-term objectives and the expectations of analysts or investors;
- strategic transactions, such as debt issuance, strategic equity or debt investments, acquisitions, divestitures or spin-offs;
- unexpected and/or significant changes in the average selling prices of our licensees' products and/or our products;
- unresolved disputes with licensees that result in non-payment and/or non-recognition of royalty revenues that may be owed to us;
- declines in the value or performance of our significant marketable securities portfolio, which is subject to financial market volatility and liquidity, interest rate, credit and other risks; or
- inquiries, rumors or allegations regarding our financial disclosures, practices or compliance programs.

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 our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial uninsured costs and divert management's attention and resources.

We are subject to government regulations and policies. Our business may suffer as a result of new or changes in laws, regulations or policies, our failure or inability to comply with laws, regulations or policies or adverse rulings in enforcement or other proceedings.

Our business, products and services, and those of our customers and licensees, are subject to various laws and regulations globally, as well as government policies and the specifications of international, national and regional communications standards bodies. The adoption of new laws, regulations or policies, changes in the interpretation of existing laws, regulations or policies, changes in the regulation of our activities by a government or standards body and/or adverse rulings in court, regulatory, administrative or other proceedings relating to such laws, regulations or policies, including, among others, those affecting the use of our technology or products, competitive business practices, licensing practices, protection of intellectual property, trade, foreign investments or loans, spectrum availability and license issuance, adoption of standards, the provision of device subsidies by wireless operators to their customers, taxation,



environmental protection or employment, could have an adverse effect on our business. Delays in government approvals or other governmental activities that could result from, among others, a decrease in or a lack of funding for certain agencies or branches of the government and/or political changes, could result in our incurring higher costs, could negatively impact our ability to timely consummate strategic transactions and/or could have other negative impacts on our business and the businesses of our customers and licensees. We are currently subject to governmental investigations and/or proceedings, which are described more fully in the notes to our condensed consolidated financial statements. See “Notes to Condensed Consolidated Financial Statements, Note 6 - Commitments and Contingencies.” National, state and local environmental laws and regulations affect our operations around the world. These laws may make it more expensive to manufacture, have manufactured and sell products, and our costs could increase if our vendors (e.g., third-party manufacturers or utility companies) pass on their costs to us.

The SEC has recently adopted disclosure rules for companies that use conflict minerals in their products, with substantial supply chain verification requirements in the event that the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These new rules and verification requirements, which apply to our activities in calendar 2013 and future years, impose additional costs on us and on our suppliers and may limit the sources or increase the prices of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers that place us at a competitive disadvantage, and our reputation may be harmed.

Laws, regulations and standards relating to corporate governance, business conduct, public disclosure and health care are complex and changing and may create uncertainty regarding compliance. Laws, regulations and standards are subject to varying interpretations in many cases, and their application in practice may evolve over time. As a result, our efforts to comply may fail, particularly if there is ambiguity as to how they should be applied in practice. New laws, regulations and standards or evolving interpretations of legal requirements may cause us to incur higher costs as we revise current practices, policies and/or procedures and may divert management time and attention to compliance activities.

We may engage in acquisitions or strategic transactions or make strategic investments that could adversely affect our financial results or fail to enhance stockholder value.

We engage in acquisitions and strategic transactions and make strategic investments with the goal of maximizing stockholder value. We acquire businesses and other assets, including wireless spectrum, patents and other intangible assets, enter into joint ventures or other strategic transactions and purchase minority equity interests in or make loans to companies that may be private and early-stage. Our strategic activities are generally focused on opening new or expanded opportunities for our technologies and supporting the design and introduction of new products and services for voice and data communications. Many of our acquisitions or strategic investments entail a high degree of risk, and investments may not become liquid for several years after the date of the investment, if at all. Our acquisitions or strategic investments may not generate financial returns or result in increased adoption or continued use of our technologies. In some cases, we may be required to consolidate or record our share of the earnings or losses of companies in which we have acquired ownership interests. In addition, we may record impairment charges related to our acquisitions and strategic investments. Any losses or impairment charges that we incur related to strategic investments or other transactions will have a negative impact on our financial results, and we may continue to incur new or additional losses related to strategic assets or investments that we have not fully impaired or exited.

Achieving the anticipated benefits of business 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, including, among others: retaining key employees; successfully integrating new employees, business systems and technology; retaining customers and suppliers of 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 may not derive any commercial value from acquired technology, products or intellectual property or from future technologies or 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 or we may become subject to litigation. Additionally, we may not be successful in expanding into geographic regions and/or categories of products served by or adjacent to an acquired business or in addressing potential new



opportunities that may arise out of the combination. In part due to our inexperience with products of and/or geographic regions served by acquired businesses, we may underestimate the costs and/or overestimate the benefits, including product and other synergies and growth opportunities that we expect to realize, and we may not achieve them. If we do not achieve the

anticipated benefits of business acquisitions, our results of operations may be adversely affected, and we may not enhance stockholder value by engaging in these transactions.

Global economic conditions that impact the mobile communications industry could negatively affect the demand for our products and services and our customers' or licensees' products and services, which may negatively affect our revenues.

A decline in global economic conditions, particularly in geographic regions with high concentrations of wireless voice and data users, could have adverse, wide-ranging effects on demand for our products and for the products and services of our customers or licensees, particularly equipment manufacturers or others in the wireless communications industry who buy their products, such as wireless operators. Any prolonged economic downturn may result in a decrease in demand for our products or technology; the insolvency of key suppliers; delays in reporting and/or payments from our licensees and/or customers; failures by counterparties; and negative effects on wireless device inventories. In addition, our direct and indirect customers' ability to purchase or pay for our products and services, obtain financing and upgrade their wireless networks could be adversely affected by economic conditions, leading to a reduction, cancelation or delay of orders for our products or services.

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 our products or the activities of our foreign subsidiaries and strategic investments.

Our customers sell their products throughout the world in various currencies. Consolidated revenues from international customers as a percentage of total revenues were greater than 90% during each of the last three fiscal years. Adverse movements in currency exchange rates may negatively affect our business and our operating results due to a number of factors, including, among others:

Our products and those of our customers and licensees that are sold outside the United States may become less price-competitive, which may result in reduced demand for those products and/or downward pressure on average selling prices;

• Certain of our revenues, such as royalties, that are derived from licensee or customer sales denominated in foreign currencies could decrease;

• Our foreign suppliers may raise their prices if they are impacted by currency fluctuations, resulting in higher than expected costs and lower margins;

Foreign exchange hedging transactions that we engage in to reduce the impact of currency fluctuations may require the payment of structuring fees, limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies, cause earnings volatility if the hedges do not qualify for hedge accounting and expose us to counterparty risk if the counterparty fails to perform; and

• The U.S. dollar value of our marketable securities that are denominated directly or indirectly in foreign currencies may decline.

Failures in our products or services or in the products of our customers, including those resulting from security vulnerabilities, defects or errors, could harm our business.

The use of devices containing our products to access untrusted content creates a risk of exposing the system software in those devices to viral or malicious attacks. While we continue to focus on this issue and are taking measures to safeguard our products from cybersecurity threats, device capabilities continue to evolve, enabling more data and processes, such as mobile computing, and increasing the risk of security failures. Further, our products are inherently complex and may contain defects or errors that are detected only when the products are in use. 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 in new domains of technology are complex and add risk to manufacturing yields and reliability. Manufacturing, testing, marketing and use of our products and those of our customers and licensees entail the risk of product liability. Because our products and services are responsible for critical functions in our customers' products and/or networks, security failures, defects or errors in our components, materials or software or in our customers' products could have an adverse impact on us, on our customers and on the end users of their products. Such adverse impact could include product liability claims or recalls, a decrease in demand for connected devices and wireless services, damage to our reputation and to our customer relationships and other financial liability or harm to our business.

Our business and operations could suffer in the event of security breaches.

38

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Attempts by others to gain unauthorized access to our information technology systems are increasingly more sophisticated. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. While we have identified several incidents of unauthorized access, to date none have caused material damage to our business. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives and/or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability. We expect to continue to devote additional resources to the security of our information technology systems.

Potential tax liabilities could adversely affect our results of operations.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes. Although we believe that our tax estimates are reasonable, the final determination of tax audits and any related litigation could materially differ from amounts reflected in our historical income tax provisions and accruals. In such case, our income tax provision and results of operations in the period or periods in which that determination is made could be negatively affected.

Our QCT segment's non-United States headquarters is located in Singapore. We obtained tax incentives in Singapore provided that we meet specified employment and incentive criteria, and as a result of expiration of these incentives, our Singapore tax rate is expected to increase in fiscal 2017 and again in fiscal 2027. If we do not meet the criteria required to retain such incentives, our Singapore tax rate could increase prior to those dates, and our results of operations may be adversely affected.

Tax rules may change in a manner that adversely affects 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 our current needs for those earnings to be reinvested offshore as well as estimates that future domestic cash generation will be sufficient to meet future domestic cash needs for the foreseeable future. No provision has been made for United States federal and state or foreign taxes that may result from future remittances of the undistributed earnings of these foreign subsidiaries. Our future financial results and liquidity may be adversely affected if tax 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.

If wireless devices pose safety risks, we may be subject to new regulations, and demand for our products and those of our customers and licensees may decrease.

Concerns over the effects of radio frequency emissions continue. Interest groups have requested that the Federal Communications Commission investigate claims that wireless communications technologies pose health concerns and cause interference with, among other things, airbags, hearing aids and medical devices, and there continues to be litigation in the industry with respect to these issues. Legislation that may be adopted in response to these concerns or adverse news or findings about safety risks could reduce demand for our products and those of our licensees and customers in the United States as well as in foreign countries.

We may not be able to attract and retain qualified employees.

Our future success depends largely upon the continued service of our executive officers and other key management and technical personnel and on our ability to continue to attract, retain and motivate qualified personnel. In addition, implementing our business strategy requires specialized engineering and other talent, and our revenues are highly dependent on technological and product innovations. The market for employees in our industry is extremely competitive. Further, existing immigration laws make it more difficult for us to recruit and retain highly skilled foreign national graduates of universities in the United States, making the pool of available talent even smaller. We continue to anticipate increases in human resource needs, particularly in engineering. If we are unable to attract and retain qualified employees, our business may be harmed.

### 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 2013 Annual Report on Form 10-K. At December 29, 2013, there have been no material changes to the financial market risks described at September 29, 2013. Additionally, we do not currently anticipate any other near-term changes in the

nature of our financial market risk exposures or in management's objectives and strategies with respect to managing such exposures.

#### 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. 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 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

A review of our material pending legal proceedings is disclosed in the notes to our condensed consolidated financial statements. See "Notes to Condensed Consolidated Financial Statements, Note 6 — Commitments and Contingencies," in Part I, Item 1. We are also engaged in numerous other legal actions arising in the ordinary course of our business and, while there can be no assurance, we believe that the ultimate outcome of these other legal actions will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

#### 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

Issuer purchases of equity securities during the first quarter of fiscal 2014 were:

	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (In thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (In millions)
September 30, 2013 to October 27, 2013	—	\$—	—	\$4,850
October 28, 2013 to November 24, 2013	9,225	69.59	9,225	4,208
November 25, 2013 to December 29, 2013	4,971	72.45	4,971	3,848
Total	14,196	70.59	—14,196	3,848

(1) Average Price Paid Per Share excludes cash paid for commissions.

On September 11, 2013, we announced a stock repurchase program authorizing us to repurchase up to \$5.0 billion (2) of our common stock. At December 29, 2013, approximately \$3.8 billion remained available for repurchase. The stock repurchase program has no expiration date.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.



ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

As disclosed in a Current Report on Form 8-K filed on December 18, 2013, on December 12, 2013, the board of directors of the Company appointed Steven M. Mollenkopf to the position of Chief Executive Officer-elect. Mr. Mollenkopf continues to serve as President of the Company (but not Chief Operating Officer) and will commence his service as Chief Executive Officer following the Company's 2014 Annual Meeting of Stockholders on March 4, 2014. Dr. Paul E. Jacobs, the Company's Chief Executive Officer, will step down from that position effective March 4, 2014. Dr. Jacobs will remain an employee of the Company and will continue to serve as the Chairman of the board of directors, with the title Executive Chairman. Also on December 12, 2013, the Company appointed Mr. Mollenkopf to its board of directors.



ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, as amended. (1)
3.4	Amended and Restated Bylaws. (2)
4.1	Amended and Restated Rights Agreement dated as of September 26, 2005 between the Company and Computershare Trust Company, N.A., as successor Rights Agent to Computershare Investor Services LLC. (3)
4.2	Amendment dated as of December 7, 2006 to the Amended and Restated Rights Agreement dated as of September 26, 2005 between the Company and Computershare Trust Company, N.A., as successor Rights Agent to Computershare Investor Services LLC. (4)
10.120	Form of Annual Cash Incentive Plan Performance Unit Agreements. (5)
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 George S. Davis.
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 George S. Davis.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Labels Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

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(1) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 25, 2012.

(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 11, 2012.

(3) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 000-19528) filed on September 30, 2005.

(4) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 000-19528) filed on December 12, 2006

(5) Indicates management or compensatory plan or arrangement required to be identified pursuant to Item 15(a).

**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/ George S. Davis  
George S. Davis  
Executive Vice President and  
Chief Financial Officer

Dated: January 29, 2014