

QUALCOMM INC/DE  
Form 10-Q  
January 25, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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 25, 2016

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 95-3685934  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

5775 Morehouse Dr., San Diego, California 92121-1714

(Address of Principal Executive Offices) (Zip Code)

(858) 587-1121

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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) Non-accelerated filer  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 23, 2017, was as follows:

Class Number of Shares

Class Number of Shares

Class Number of Shares

Common Stock, \$0.0001 per share par value 1,477,041,037

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QUALCOMM INCORPORATED  
 Form 10-Q  
 For the Quarter Ended December 25, 2016

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>22</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>46</u>
<u>Item 4.</u>	<u>Controls and Procedures</u> <u>46</u>
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> <u>46</u>
<u>Item 1A.</u>	<u>Risk Factors</u> <u>46</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>47</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> <u>47</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> <u>47</u>
<u>Item 5.</u>	<u>Other Information</u> <u>47</u>
<u>Item 6.</u>	<u>Exhibits</u> <u>47</u>
 <u>SIGNATURES</u>	 <u>50</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 25, 2016	September 25, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,885	\$ 5,946
Marketable securities	3,927	12,702
Accounts receivable, net	2,085	2,219
Inventories	1,910	1,556
Other current assets	972	558
Total current assets	15,779	22,981
Marketable securities	18,973	13,702
Deferred tax assets	2,312	2,030
Property, plant and equipment, net	2,270	2,306
Goodwill	5,686	5,679
Other intangible assets, net	3,338	3,500
Other assets	4,008	2,161
Total assets	\$ 52,366	\$ 52,359
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 1,648	\$ 1,858
Payroll and other benefits related liabilities	865	934
Unearned revenues	487	509
Short-term debt	1,749	1,749
Other current liabilities	3,245	2,261
Total current liabilities	7,994	7,311
Unearned revenues	2,278	2,377
Long-term debt	9,935	10,008
Other liabilities	953	895
Total liabilities	21,160	20,591
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Qualcomm stockholders' equity:		
Preferred stock, \$0.0001 par value; 8 shares authorized; none outstanding	—	—
Common stock and paid-in capital, \$0.0001 par value; 6,000 shares authorized; 1,478 and 1,476 shares issued and outstanding, respectively	214	414

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Retained earnings	30,815	30,936	
Accumulated other comprehensive income	186	428	
Total Qualcomm stockholders' equity	31,215	31,778	
Noncontrolling interests	(9	) (10	)
Total stockholders' equity	31,206	31,768	
Total liabilities and stockholders' equity	\$ 52,366	\$ 52,359	

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 25,	December 27,
	2016	2015
Revenues:		
Equipment and services	\$4,139	\$ 4,087
Licensing	1,860	1,688
Total revenues	5,999	5,775
Costs and expenses:		
Cost of revenues	2,443	2,534
Research and development	1,311	1,352
Selling, general and administrative	591	578
Other (Note 2)	876	(374)
Total costs and expenses	5,221	4,090
Operating income	778	1,685
Interest expense	(90)	(74)
Investment income, net (Note 2)	182	99
Income before income taxes	870	1,710
Income tax expense	(189)	(214)
Net income	681	1,496
Net loss attributable to noncontrolling interests	1	2
Net income attributable to Qualcomm	\$682	\$ 1,498
Basic earnings per share attributable to Qualcomm	\$0.46	\$ 1.00
Diluted earnings per share attributable to Qualcomm	\$0.46	\$ 0.99
Shares used in per share calculations:		
Basic	1,478	1,502
Diluted	1,495	1,517
Dividends per share announced	\$0.53	\$ 0.48

See  
 Accompanying  
 Notes to  
 Condensed  
 Consolidated  
 Financial  
 Statements.



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

	Three Months Ended	
	December 25,	December 27,
	2016	2015
Net income	\$681	\$ 1,496
Other comprehensive income (loss), net of income taxes:		
Foreign currency translation losses	(27 )	(14 )
Reclassification of foreign currency translation losses included in net income	—	1
Noncredit other-than-temporary impairment losses related to certain available-for-sale debt securities and subsequent changes in fair value	6	(27 )
Reclassification of net other-than-temporary losses on available-for-sale securities included in net income	79	47
Net unrealized losses on other available-for-sale securities	(210 )	(109 )
Reclassification of net realized gains on available-for-sale securities included in net income	(92 )	(25 )
Net unrealized gains on derivative instruments	2	1
Total other comprehensive loss	(242 )	(126 )
Total comprehensive income	439	1,370
Comprehensive loss attributable to noncontrolling interests	1	2
Comprehensive income attributable to Qualcomm	\$440	\$ 1,372

See  
 Accompanying  
 Notes to  
 Condensed  
 Consolidated  
 Financial  
 Statements.



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

	Three Months Ended	
	December 26,	December 27,
	2016	2015
Operating Activities:		
Net income	\$681	\$ 1,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	329	364
Indefinite and long-lived asset impairment charges	32	2
Income tax provision less than income tax payments	(113 )	(103 )
Gain on sale of wireless spectrum	—	(380 )
Non-cash portion of share-based compensation expense	239	247
Incremental tax benefits from share-based compensation	(35 )	(2 )
Net realized gains on marketable securities and other investments	(147 )	(49 )
Impairment losses on marketable securities and other investments	143	63
Other items, net	(4 )	(13 )
Changes in assets and liabilities:		
Accounts receivable, net	131	646
Inventories	(354 )	291
Other assets	(16 )	66
Trade accounts payable	(208 )	50
Payroll, benefits and other liabilities	785	98
Unearned revenues	(84 )	(37 )
Net cash provided by operating activities	1,379	2,739
Investing Activities:		
Capital expenditures	(129 )	(128 )
Purchases of available-for-sale marketable securities	(4,117 )	(3,737 )
Proceeds from sales and maturities of available-for-sale marketable securities	6,891	3,113
Purchases of trading securities	—	(149 )
Proceeds from sales and maturities of trading securities	—	121
Proceeds from sales of other marketable securities	—	200
Deposit of investments designated as collateral	(1,950 )	—
Acquisitions and other investments, net of cash acquired	(57 )	(450 )
Proceeds from sale of wireless spectrum	—	232
Other items, net	43	82
Net cash provided (used) by investing activities	681	(716 )
Financing Activities:		
Proceeds from short-term debt	2,727	1,089
Repayment of short-term debt	(2,727 )	(1,090 )
Proceeds from issuance of common stock	131	99
Repurchases and retirements of common stock	(444 )	(2,050 )
Dividends paid	(784 )	(717 )
Incremental tax benefits from share-based compensation	35	2

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Other items, net	(42	)	2	
Net cash used by financing activities	(1,104	)	(2,665	)
Effect of exchange rate changes on cash and cash equivalents	(17	)	(5	)
Net increase (decrease) in cash and cash equivalents	939		(647	)
Cash and cash equivalents at beginning of period	5,946		7,560	
Cash and cash equivalents at end of period	\$6,885		\$ 6,913	

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 financial information 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 25, 2016. 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. Each of the three-month periods ended December 25, 2016 and December 27, 2015 included 13 weeks, respectively.

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. 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/or accelerated share repurchase agreements, if any, 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, in the three months ended December 25, 2016 and December 27, 2015 were 17,029,000 and 14,430,000, 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 62,000 and 1,172,000 in the three months ended December 25, 2016 and December 27, 2015, respectively.

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

	Three Months Ended	
	December 25, 2016	December 27, 2015
Cost of equipment and services revenues	\$9	\$ 10
Research and development	153	165
Selling, general and administrative	77	72
Share-based compensation expense before income taxes	239	247

Related income tax benefit	(49 ) (60 )
	\$ 190 \$ 187

At December 25, 2016, total unrecognized compensation expense related to nonvested restricted stock units granted prior to that date was \$1.5 billion, which is expected to be recognized over a weighted-average period of 2.1 years. Recent Accounting Pronouncements. In May 2014, the FASB issued new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new guidance requires a company to recognize revenue upon transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019. Adoption one year

7

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QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

early is permitted. Two methods of adoption are permitted: (a) full retrospective adoption, meaning the standard is applied to all periods presented or (b) modified retrospective adoption, meaning the cumulative effect of applying the new guidance is recognized as an adjustment to the opening retained earnings balance. The Company does not intend to adopt the new guidance early and is in the process of determining the adoption method as well as the effects the adoption will have on its consolidated financial statements.

In January 2016, the FASB issued new guidance on classifying and measuring financial instruments, which requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk be recognized separately in other comprehensive income.

Additionally, it changes the disclosure requirements for financial instruments. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted for certain provisions. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt certain provisions early.

In February 2016, the FASB issued new guidance related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal 2020. Early adoption is permitted. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In March 2016, the FASB issued new guidance that changes the accounting for share-based payments. Under the new guidance, excess tax benefits associated with share-based payment awards will be recognized through earnings when the awards vest or settle, rather than in stockholders' equity. In addition, it will increase the number of shares an employer can withhold to cover income taxes on share-based payment awards and still qualify for the exemption to liability classification. The new guidance will be effective for the Company starting in the first quarter of fiscal 2018. Early adoption is permitted in any annual or interim period. The Company does not intend to adopt the new guidance early and is in the process of determining the effects the adoption will have on its consolidated financial statements.

In June 2016, the FASB issued new guidance that changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In August 2016, the FASB issued new guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019 on a retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements as well as whether to adopt the new guidance early.

In October 2016, the FASB issued new guidance that changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to

recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019 on a modified retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements as well as whether to adopt the new guidance early.

QUALCOMM  
 Incorporated  
 NOTES TO  
 CONDENSED  
 CONSOLIDATED  
 FINANCIAL  
 STATEMENTS  
 (Unaudited)

Note 2. Composition of Certain Financial Statement Items

Inventories (in millions)

	December 25, 2016	September 25, 2016
Raw materials	\$ —	\$ 1
Work-in-process	1,016	847
Finished goods	894	708
	\$ 1,910	\$ 1,556

Other Current Liabilities (in millions)

	December 25, 2016	September 25, 2016
Customer incentives and other customer-related liabilities	\$ 1,985	\$ 1,710
Charge related to the KFTC investigation (Note 6)	868	—
Other	392	551
	\$ 3,245	\$ 2,261

Other Income, Costs and Expenses. Other expenses in the three months ended December 25, 2016 consisted of an \$868 million charge related to the Korea Fair Trade Commission (KFTC) investigation (Note 6) and \$8 million in restructuring and restructuring-related charges related to the Company's Strategic Realignment Plan, which was substantially implemented in fiscal 2016.

Other income in the three months ended December 27, 2015 included a gain of \$380 million on the sale of wireless spectrum in the United Kingdom that was held by the QSI (Qualcomm Strategic Initiatives) segment in the first quarter of fiscal 2016 for \$232 million in cash and \$275 million in deferred payments due in 2020 to 2023, which were recorded at their present values in other assets. Other income in the three months ended December 27, 2015 also included \$54 million in restructuring and restructuring-related charges, which were partially offset by a \$48 million gain on the sale of the Company's business that provided augmented reality applications, both of which related to the Company's Strategic Realignment Plan.

Investment Income, Net (in millions)

	Three Months Ended	
	December 25, 2016	December 27, 2015
Interest and dividend income	\$167	\$ 136
Net realized gains on marketable securities	139	43
Net realized gains on other investments	8	6
Impairment losses on marketable securities	(122 )	(49 )
Impairment losses on other investments	(21 )	(14 )
Equity in net earnings (losses) of investees	3	(20 )
Net gains (losses) on derivative investments	8	(3 )
	\$182	\$ 99

QUALCOMM  
 Incorporated  
 NOTES TO  
 CONDENSED  
 CONSOLIDATED  
 FINANCIAL  
 STATEMENTS  
 (Unaudited)

There were no net impairment losses on marketable securities related to the noncredit portion of losses on debt securities recognized in other comprehensive income in the three months ended December 25, 2016, and such losses were negligible in the three months ended December 27, 2015. The ending balance of the credit loss portion of other-than-temporary impairments on debt securities held by the Company was negligible and \$22 million at December 25, 2016 and December 27, 2015, respectively.

Note 3. Income Taxes

The Company estimates its annual effective income tax rate to be approximately 22% for fiscal 2017, which is greater than its 17% effective income tax rate for fiscal 2016. Tax benefits from foreign income taxed at rates lower than rates in the United States are expected to be approximately 15% in fiscal 2017, compared to 16% in fiscal 2016. In the first quarter of fiscal 2017, the Company recorded a charge of \$868 million related to the KFTC investigation (Note 6), which is not

deductible for tax purposes and is attributable to both the United States and a foreign jurisdiction. The estimated annual effective tax rate of 22% for fiscal 2017 also reflects the increase in the Company's Singapore tax rate as a result of the expiration of its tax exemption in March 2017, which is partially offset by tax benefits resulting from the increase in the Singapore tax rate that will be in effect when certain deferred tax assets are scheduled to reverse. The annual effective tax rate of 17% for fiscal 2016 reflected a \$101 million tax benefit recorded discretely in the third quarter of fiscal 2016 resulting from a worthless stock deduction on a domestic subsidiary of one of the Company's former display businesses and a \$79 million benefit recorded discretely in the first quarter of fiscal 2016 related to fiscal 2015 resulting from the retroactive and permanent reinstatement of the United States federal research and development tax credit.

Unrecognized tax benefits were \$272 million and \$271 million at December 25, 2016 and September 25, 2016, respectively. The Company believes that it is reasonably possible that the total amounts of unrecognized tax benefits at December 25, 2016 may increase or decrease in the next 12 months.

Note 4. Stockholders' Equity

Changes in stockholders' equity in the three months ended December 25, 2016 were as follows (in millions):

	Qualcomm Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at September 25, 2016	\$ 31,778	\$ (10 )	\$ 31,768
Net income (loss)	682	(1 )	681
Other comprehensive loss	(242 )	—	(242 )
Common stock issued under employee benefit plans and related tax benefits	161	—	161
Share-based compensation	255	—	255
Tax withholdings related to vesting of share-based payments	(172 )	—	(172 )
Dividends	(801 )	—	(801 )
Stock repurchases	(444 )	—	(444 )
Other	(2 )	2	—
Balance at December 25, 2016	\$ 31,215	\$ (9 )	\$ 31,206

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in Qualcomm stockholders' equity in the three months ended December 25, 2016 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 25, 2016	\$ (161 )	\$ 6	\$ 532	\$ 51	\$ 428
Other comprehensive (loss) income before reclassifications	(27 )	6	(210 )	2	(229 )
Reclassifications from accumulated other comprehensive income (loss)	—	11	(24 )	—	(13 )
Other comprehensive (loss) income	(27 )	17	(234 )	2	(242 )
Balance at December 25, 2016	\$ (188 )	\$ 23	\$ 298	\$ 53	\$ 186

Reclassifications from accumulated other comprehensive income related to available-for-sale securities of \$13 million and \$6 million in the three months ended December 25, 2016 and December 27, 2015, respectively, were recorded in investment income, net (Note 2). Reclassifications from accumulated other comprehensive income related to foreign currency

QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

translation losses were negligible in the three months ended December 27, 2015 and were recorded in selling, general and administrative expenses and other operating expenses.

**Stock Repurchase Program.** On March 9, 2015, the Company announced a stock repurchase program authorizing it to repurchase up to \$15 billion of the Company's common stock. The stock repurchase program has no expiration date. In the three months ended December 25, 2016 and December 27, 2015, the Company repurchased and retired 6,647,000 and 36,606,000 shares for \$444 million and \$2.05 billion, respectively, before commissions. At December 25, 2016, \$2.5 billion remained authorized for repurchase under the Company's stock repurchase program.

**Dividends.** Cash dividends announced in the three months ended December 25, 2016 and December 27, 2015 were \$0.53 and \$0.48 per share, respectively. Dividends charged to retained earnings in the three months ended December 25, 2016 and December 27, 2015 were \$801 million and \$730 million, respectively. On January 12, 2017, the Company announced a cash dividend of \$0.53 per share on the Company's common stock, payable on March 22, 2017 to stockholders of record as of the close of business on March 1, 2017.

**Note 5. Debt**

**Revolving Credit Facility.** In November 2016, the Company amended and restated its existing Revolving Credit Facility that provides for unsecured revolving facility loans, swing line loans and letters of credit (Amended and Restated Revolving Credit Facility) to increase the aggregate amount available to \$5.0 billion, of which \$530 million and \$4.47 billion will expire in February 2020 and November 2021, respectively. The Company had not previously borrowed any funds under the existing Revolving Credit Facility. Proceeds from the Amended and Restated Revolving Credit Facility are expected to be used for general corporate purposes. Loans under the Amended and Restated Revolving Credit Facility will bear interest, at the option of the Company, at either the reserve-adjusted Eurocurrency Rate (determined in accordance with the Amended and Restated Revolving Credit Facility) or the Base Rate (determined in accordance with the Amended and Restated Revolving Credit Facility), in each case plus an applicable margin based on the Company's long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurocurrency Rate and the Base Rate will be 0.70% and 0.00% per annum, respectively. The Amended and Restated Revolving Credit Facility has a facility fee, which initially accrues at a rate of 0.05% per annum. At December 25, 2016, the Company had not borrowed any funds under the Amended and Restated Revolving Credit Facility.

**Commercial Paper Program.** The Company has an unsecured commercial paper program, which provides for the issuance of up to \$5.0 billion of commercial paper. Net proceeds from this program are used for general corporate purposes.

QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

Maturities of commercial paper can range from 1 day to up to 397 days. At December 25, 2016 and September 25, 2016, the Company had \$1.7 billion of outstanding commercial paper recorded as short-term debt with weighted-average interest rates of 0.64% and 0.52%, respectively, which included fees paid to the commercial paper dealers and weighted-average remaining days to maturity of 41 days and 36 days, respectively. The carrying value of the outstanding commercial paper approximated its estimated fair value at December 25, 2016 and September 25, 2016.

Bridge Loan Facility. In October 2016, the Company entered into commitment letters pursuant to which the Company received commitments for senior unsecured bridge facility loans in an aggregate principal amount up to \$13.6 billion (Bridge Loan Facility). In November 2016, the commitments available under the Bridge Loan Facility were reduced to \$9.6 billion upon the Company entering into a \$4.0 billion Term Loan Facility, described below. Proceeds from the Bridge Loan Facility, if drawn, will be used to finance, in part, the proposed acquisition of NXP Semiconductors N.V. by Qualcomm River Holdings B.V., a wholly owned subsidiary of the Company (Qualcomm River Holdings) (Note 8). Loans under the Bridge Loan Facility will only be available on the closing date of the proposed acquisition of NXP. The commitments available under the Bridge Loan Facility will be reduced on a dollar-for-dollar basis by the net cash proceeds of certain issuances of debt or equity securities and the incurrence of certain indebtedness by the Company, and the sales of certain assets by the Company and NXP. Commitments under the Bridge Loan Facility will expire on the first to occur of (i) the consummation of the proposed acquisition of NXP without using loans under the Bridge Loan Facility, (ii) the termination of Qualcomm River Holding's obligation to consummate the proposed acquisition of NXP and (iii) October 27, 2017 (unless such date is extended in accordance with the NXP purchase agreement).

Loans drawn under the Bridge Loan Facility will mature 364 days after the date on which the Bridge Loan Facility is funded and will bear interest at either the reserve-adjusted Eurodollar Rate (determined in accordance with the Bridge Loan Facility) or the Base Rate (determined in accordance with the Bridge Loan Facility), in each case plus an applicable margin based on the Company's long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurodollar Rate and the Base Rate will be 0.75% and 0.00% per annum, respectively, and will adjust 90 days, 180 days and 270 days after the Bridge Loan Facility is funded to 1.00% and 0.00%, respectively, 1.25% and 0.25%, respectively, and 1.50% and 0.50%, respectively. Loans outstanding under the Bridge Loan Facility will also incur duration fees equal to 0.50%, 0.75% and 1.00% of the outstanding principal amount of Bridge Loan Facility loans on the dates that are 90 days, 180 days and 270 days after the funding date, respectively. The Bridge Loan Facility also has a ticking fee, which initially accrues at a rate of 0.05% per annum commencing on December 26, 2016. At December 25, 2016, no amounts were outstanding under the Bridge Loan Facility.

Term Loan Facility. In November 2016, the Company entered into a Credit Agreement that provides for senior unsecured delayed-draw term facility loans in an aggregate amount of \$4.0 billion (Term Loan Facility). Proceeds from the Term Loan Facility, if drawn, will be used to finance the proposed acquisition of NXP. Commitments under the Term Loan Facility will expire on the first to occur of (i) the consummation of the proposed acquisition of NXP without using loans under the Term Loan Facility, (ii) the termination of Qualcomm River Holdings's obligation to consummate the proposed acquisition of NXP and (iii) October 27, 2017 (unless such date is extended in accordance with the NXP purchase agreement). Loans under the Term Loan Facility will mature on the third anniversary of the date on which they are funded and will bear interest at either the reserve-adjusted Eurocurrency Rate (determined in accordance with the Term Loan Facility) or the Base Rate (determined in accordance with the Term Loan Facility), in

each case plus an applicable margin based on the Company's long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurocurrency Rate and the Base Rate will be 0.875% and 0.00% per annum, respectively. The Term Loan Facility has a ticking fee, which initially accrues at a rate of 0.05% per annum commencing on December 26, 2016. At December 25, 2016, the Company had not borrowed any funds under the Term Loan Facility.

12

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QUALCOMM  
 Incorporated  
 NOTES TO  
 CONDENSED  
 CONSOLIDATED  
 FINANCIAL  
 STATEMENTS  
 (Unaudited)

Long-term Debt. The following table provides a summary of the Company's long-term debt (in millions except percentages):

	December 25, 2016		September 25, 2016	
	Amount	Effective Rate	Amount	Effective Rate
Floating-rate notes due May 18, 2018	\$250	1.24%	\$250	1.14%
Floating-rate notes due May 20, 2020	250	1.52%	250	1.42%
Fixed-rate 1.40% notes due May 18, 2018	1,250	1.36%	1,250	0.93%
Fixed-rate 2.25% notes due May 20, 2020	1,750	2.04%	1,750	1.69%
Fixed-rate 3.00% notes due May 20, 2022	2,000	2.53%	2,000	2.04%
Fixed-rate 3.45% notes due May 20, 2025	2,000	3.46%	2,000	3.46%
Fixed-rate 4.65% notes due May 20, 2035	1,000	4.74%	1,000	4.74%
Fixed-rate 4.80% notes due May 20, 2045	1,500	4.71%	1,500	4.71%
Total principal	10,000		10,000	
Unamortized discount, including debt issuance costs	(55 )		(57 )	
Hedge accounting fair value adjustments	(10 )		65	
Total long-term debt	\$9,935		\$10,008	

The interest rate on the floating rate notes due in 2018 and 2020 for a particular interest period will be a per annum rate equal to three-month LIBOR as determined on the interest determination date plus 0.27% and 0.55%, respectively. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes. The Company may redeem the fixed-rate notes at any time in whole, or from time to time in part, at specified make-whole premiums as defined in the applicable form of note. The Company may not redeem the floating-rate notes prior to maturity. The Company is not subject to any financial covenants under the notes nor any covenants that would prohibit the Company from incurring additional indebtedness ranking equal to the notes, paying dividends, issuing securities or repurchasing securities issued by it or its subsidiaries. At December 25, 2016 and September 25, 2016, the aggregate fair value of the notes, based on Level 2 inputs, was approximately \$10.2 billion and \$10.6 billion, respectively.

In fiscal 2015, the Company entered into interest rate swaps with an aggregate notional amount of \$3.0 billion, which effectively converted all of the fixed-rate notes due in 2018 and approximately 43% and 50% of the fixed-rate notes due in 2020 and 2022, respectively, into floating-rate notes. The net gains and losses on the interest rate swaps, as well as the offsetting gains or losses on the related fixed-rate notes attributable to the hedged risks, are recognized in earnings in interest expense in the current period.

The effective interest rates for the notes include the interest on the notes, amortization of the discount, which includes debt issuance costs, and if applicable, adjustments related to hedging. Cash interest paid related to the Company's commercial paper program and long-term debt, net of cash received from the related interest rate swaps, was \$134 million and \$128 million and in the three months ended December 25, 2016 and December 27, 2015.

Debt Covenants. The Amended and Restated Revolving Credit Facility, the Bridge Loan Facility and the Term Loan Facility require, and the prior Revolving Credit Facility required, that the Company comply with certain covenants, including one financial covenant to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization to consolidated interest expense, as defined in each of the respective agreements, of not less than three to

one at the end of each fiscal quarter. At December 25, 2016 and September 25, 2016, the Company was in compliance with the applicable covenants under each facility outstanding at such time.

#### Note 6. Commitments and Contingencies

**Legal Proceedings. ParkerVision, Inc. v. QUALCOMM Incorporated:** On May 1, 2014, 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 certain ParkerVision patents. On August 21, 2014, ParkerVision amended the complaint, now captioned ParkerVision, Inc. v. QUALCOMM Incorporated, Qualcomm Atheros, Inc., HTC Corporation, HTC America, Inc., Samsung Electronics Co., LTD., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC, broadening the allegations. ParkerVision alleged that the Company infringes 11 ParkerVision patents and seeks damages and injunctive and other relief. On September 25, 2015, ParkerVision filed a motion with the court to sever some claims against the Company and all other defendants into a separate lawsuit. In addition, on December 3, 2015, ParkerVision dismissed six patents from the lawsuit and granted the Company and all other defendants a covenant not to assert those patents against any existing products. On February 2, 2016, after agreement among the parties, the District Court stayed the remainder of the case pending the resolution of the complaint filed by ParkerVision against the Company and other parties with the United States International Trade Commission (ITC) described below.

On December 14, 2015, ParkerVision filed another complaint against the Company in the United States District Court for the Middle District of Florida alleging patent infringement. Apple Inc., Samsung Electronics Co., LTD., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, Samsung Semiconductor, Inc., LG Electronics, Inc., LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A., Inc. are also named defendants. The complaint asserts that certain of the Company's products infringe four additional ParkerVision patents and seeks damages and other relief. On December 15, 2015, ParkerVision filed a complaint with the ITC pursuant to Section 337 of the Tariff Act of 1930 against the same parties asserting the same four patents. The complaint seeks an exclusion order barring the importation of products that use either of two Company transceivers or one Samsung transceiver and a cease and desist order preventing the Company and the other defendants from carrying out commercial activities within the United States related to such products. On January 13, 2016, the Company served its answer to the District Court complaint. On January 15, 2016, the ITC instituted an investigation. The ITC hearing is scheduled to begin on March 13, 2017. The ITC's target date for completion of the investigation is October 23, 2017. The District Court case was stayed on February 12, 2016 pending completion of the ITC investigation.

The Company believes ParkerVision's claims in the above matters are without merit.

**Blackberry Limited (Blackberry) Arbitration:** On April 20, 2016, the Company and Blackberry entered into an agreement to arbitrate Blackberry's allegation that it overpaid royalties on certain past sales of subscriber units based on the alleged effect of specific provisions in its license agreement. The arbitration, which is scheduled to begin on February 27, 2017, is being conducted under the rules of the Judicial Arbitration and Mediation Services in San Diego, California. Blackberry seeks the return of the alleged overpayment. The Company believes Blackberry's claims are without merit.

**QUALCOMM Incorporated v. Meizu Technology Co., Ltd. et al:** On June 23, 2016 and June 29, 2016, the Company filed a series of actions against Meizu Technology Co., Ltd., aka Zhuhai Meizu Technology Co., Ltd. (Meizu) and certain of its distributors in the Intellectual Property Courts in Beijing and Shanghai (China). The first complaint, filed in Beijing on June 23, 2016, requests rulings that the terms of a patent license offered by the Company to Meizu comply with China's Anti-Monopoly Law and the Company's applicable fair, reasonable and non-discriminatory licensing commitment. The complaint also seeks a ruling that the offered patent license terms should form the basis for a patent license with Meizu for the Company's fundamental mobile device technologies patented in China, including those relating to 3G (WCDMA and CDMA2000) and 4G (LTE) wireless communications standards, and seeks damages for Meizu's past use of the Company's patented inventions. On June 29, 2016, the Company filed patent infringement complaints in the Intellectual Property Courts in Beijing and Shanghai alleging infringement of 17 patents by Meizu. The patent infringement actions concern a broad range of features and technologies used in smartphones, including features relating to 3G (WCDMA and CDMA2000) and 4G (LTE) wireless communications standards, and seek to enjoin Meizu from manufacturing, selling and offering for sale mobile devices that infringe the asserted patents. The courts are currently considering various jurisdictional challenges raised by Meizu. No final schedules have been set by the courts. Meizu has also filed actions before China's Patent Reexamination Board

challenging the validity of each of the asserted patents. These actions are proceeding in parallel with the litigation. On October 14, 2016, the Company filed patent infringement complaints against Meizu in the United States ITC and the Mannheim Regional Court in Germany. The ITC complaint seeks an exclusion order enjoining Meizu and certain of its distributors from the importation, sale for importation and sale after importation of Meizu mobile devices that infringe certain of the Company's patents related to semiconductor, radio frequency and digital camera technologies. The German complaint seeks damages and to enjoin Meizu from offering, putting into circulation, using, possessing or importing into Germany

QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

mobile devices that infringe one of the Company's patents related to wireless messaging technology. On the same day, the Company also initiated a seizure action in France pursuant to orders from the Paris District Court to obtain evidence for a possible future infringement action in that country.

On December 26, 2016, the Company and Meizu entered into a patent license agreement whereby the Company granted Meizu a worldwide royalty-bearing patent license to develop, manufacture and sell CDMA2000, WCDMA and 4G LTE (including "3-mode" GSM, TD-SCDMA and LTE-TDD) complete devices. This agreement resolves all of the patent disputes between the Company and Meizu in China, Germany, France and the United States. Accordingly, the Company and Meizu have agreed to take appropriate steps to terminate or withdraw all of the foregoing complaints and actions.

Apple Inc. (Apple) v. Qualcomm Incorporated: On January 20, 2017, Apple filed a complaint against the Company in the United States District Court for the Southern District of California seeking declarations with respect to several of the Company's patents and alleging that the Company breached certain agreements and violated federal antitrust and California state unfair competition laws. In particular, Apple seeks declaratory judgments of non-infringement by Apple of nine of the Company's patents, or in the alternative, a declaration of royalties Apple must pay for the patents. Apple further seeks a declaration that the Company's sale of baseband chipsets exhausts the Company's patent rights for patents embodied in those chipsets. Separately, Apple seeks to enjoin the Company from seeking excessive royalties from Apple and to disgorge royalties paid by Apple's contract manufacturers that the court finds were not fair, reasonable and non-discriminatory. Apple also claims the Company's refusal to make certain payments to Apple under a Business Cooperation and Patent Agreement constitutes a breach of contract in violation of California law and seeks damages in the amount of the unpaid payments, alleged to be approximately \$1 billion. In addition, Apple claims that the Company has refused to deal with competitors in contravention of the Company's agreements with applicable standard setting organizations, has used its market position to impose contractual obligations on Apple that prevented Apple from challenging the Company's licensing practices, has tied the purchase of the Company's CDMA-enabled and premium LTE-enabled chipsets to licensing certain of the Company's patents and has required Apple to purchase baseband processor chipsets exclusively from the Company as a condition of the Company's payment to Apple of certain rebates, in violation of Section 2 of the Sherman Act and the California Unfair Competition Law. Apple seeks injunctive relief with respect to these claims and a judgment awarding its expenses, costs and attorneys' fees.

On January 25, 2017, the Company learned that an Apple subsidiary, Apple Electronic Products Trading (Beijing) Co., Ltd. (collectively with Apple Inc., Apple), has also filed two complaints against the Company and certain of the Company's subsidiaries in the Beijing Intellectual Property Court in China. The Company has not yet been served with the complaints. Based on a press release from the Court, the Company understands that one of the complaints alleges a violation of China's Anti-Monopoly Law (AML), and the other requests a determination of the terms of a patent license between the Company and Apple. In particular, the AML complaint alleges that the Company has abused its dominant position in communication standards-essential patents (SEPs) licensing markets and the global baseband chipset market by offering royalty terms that were excessively high; that the Company refused to license certain implementers of standardized technologies; that the Company restricted Apple to using only products and services provided or approved by the Company; and that the Company engaged in other bundling and discriminatory conduct and imposed unreasonable trading terms on Apple in violation of the AML. Apple seeks economic damages in the amount of 1 billion Chinese Renminbi (approximately \$145 million based on current exchange rates). The other complaint alleges that the Company refused to provide a royalty offer to Apple for the Company's cellular SEPs



consistent with the Company's fair, reasonable and non-discriminatory (FRAND) licensing commitments. Apple has requested the Court make a determination of the terms of a patent license between the Company and Apple consistent with the Company's FRAND obligations. Apple also seeks its expenses in each of the cases.

The Company believes Apple's claims in the above matters are without merit.

3226701 Canada, Inc. v. QUALCOMM Incorporated et al: On November 30, 2015, plaintiffs filed a securities class action complaint against the Company and certain of its current and former officers in the United States District Court for the Southern District of California. On April 29, 2016, plaintiffs filed an amended complaint alleging that the Company and certain of its current and former officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, by making false and misleading statements regarding the Company's business outlook and product development between April 7, 2014 and July 22, 2015. The amended complaint seeks unspecified damages, interest, attorneys' fees and other costs. On June 28, 2016, the Company filed a Motion to Dismiss the amended complaint, which Motion was heard by the Court on November 7, 2016. The Company believes the plaintiffs' claims are without merit.

QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

**Bornstein et al. v. QUALCOMM Incorporated:** On January 18, 2017, a complaint was filed against the Company in the United States District Court for the Northern District of California on behalf of a putative class of purchasers of cellular phones and other cellular devices alleging that the Company violated various federal and state antitrust and consumer protection laws by, among other things, refusing to license standard-essential patents to its competitors, conditioning the supply of certain of its baseband processors on the purchaser first agreeing to license the Company's entire patent portfolio, entering into alleged exclusive deals with companies, including Apple Inc., and charging unreasonably high royalties that allegedly do not comply with the Company's commitments to standard-setting organizations. The complaint further alleges that, as a result of the foregoing conduct, the Company was unjustly enriched. The complaint seeks unspecified damages, interest, attorneys' fees and other costs, and that the Company and related parties be enjoined from further unlawful conduct. The Company believes the plaintiffs' claims are without merit.

**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 34 different dates, with the next hearing scheduled for April 24, 2017.

**Korea Fair Trade Commission (KFTC) Complaint:** On January 4, 2010, the KFTC issued a written decision finding that the Company had violated Korean law by offering certain discounts and rebates for purchases of its CDMA chipsets 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 and recorded as an expense in 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. There have been no material developments since then with respect to this matter.

**Korea Fair Trade Commission (KFTC) Investigation:** On March 17, 2015, the KFTC notified the Company that it was conducting an investigation of the Company relating to the Korean Monopoly Regulation and Fair Trade Act (MRFTA). On December 27, 2016, the KFTC announced that it had reached a decision in the investigation, finding that the Company has violated provisions of the MRFTA. On January 22, 2017, the Company received the KFTC's formal written decision, which finds that the following conducts violate the MRFTA: (i) refusing to license, or imposing restrictions on licenses for, cellular communications standard essential patents with competing modem chipset makers; (ii) conditioning the supply of modem chipsets to handset suppliers on their execution and performance of license agreements with the Company; and (iii) coercing agreement terms including portfolio license terms, royalty terms and free cross-grant terms in executing patent license agreements with handset makers. The KFTC's decision orders the Company to: (i) upon request by modem chipset companies, engage in good-faith

negotiations for patent license agreements, without offering unjustifiable conditions, and if necessary submit to a determination of terms by an independent third party; (ii) not demand that handset companies execute and perform under patent license agreements as a precondition for purchasing modem chips; (iii) not demand unjustifiable conditions in the Company's license agreements with handset companies, and upon request renegotiate existing patent license agreements; and (iv) notify modem chipset companies and handset companies of the decision and order imposed on the Company and report to the KFTC new or amended agreements. According to the KFTC's decision, the foregoing will apply to transactions between the Company and the following enterprises: (i) handset manufacturers headquartered in Korea and their affiliate companies; (ii) enterprises that sell handsets in or to Korea and their affiliate companies; (iii) enterprises that supply handsets to companies referred in (ii) above and the affiliate companies of such enterprises; (iv) modem chipset manufacturers headquartered in Korea and their affiliate companies; and (v) enterprises that supply modem chipsets to companies referred in (i), (ii) or (iii) above and the affiliate companies of such enterprises. The KFTC's decision also imposes a fine of approximately 1.03 trillion Korean Won (approximately \$868 million based on exchange rates at December 25, 2016), which was recorded as a charge to other expenses in the first quarter of fiscal 2017. The Company believes that its business practices do not violate the MRFTA, and intends to challenge the decision in the Seoul High Court. The Company will also seek a stay of the decision's remedial order.

QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

Icera Complaint to the European Commission (Commission): On June 7, 2010, the Commission notified and provided the Company with a redacted copy of a complaint filed with the Commission by Icera, Inc. (subsequently acquired by Nvidia Corporation) 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 provided additional documents and information as requested by the Commission. On July 16, 2015, the Commission announced that it had initiated formal proceedings in this matter. On December 8, 2015, the Commission announced that it had issued a Statement of Objections expressing its preliminary view that between 2009 and 2011, the Company engaged in predatory pricing by selling certain baseband chipsets to two customers at prices below cost, with the intention of hindering competition. A Statement of Objections informs the subject of the investigation of the allegations against it and provides an opportunity to respond to such allegations. It is not a determination of the final outcome of the investigation. On August 15, 2016, the Company submitted its response to the Statement of Objections. If a violation is found, a broad range of remedies is potentially available to the Commission, including imposing a fine and/or injunctive relief prohibiting or restricting certain business practices. It is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the Commission. The Company believes that its business practices do not violate the EU competition rules.

European Commission (Commission) Investigation: On October 15, 2014, the Commission notified the Company that it is conducting an investigation of the Company relating to Articles 101 and/or 102 of the Treaty on the Functioning of the European Union (TFEU). On July 16, 2015, the Commission announced that it had initiated formal proceedings in this matter. On December 8, 2015, the Commission announced that it had issued a Statement of Objections expressing its preliminary view that since 2011 the Company has paid significant amounts to a customer on condition that it exclusively use the Company's baseband chipsets in its smartphones and tablets. This conduct has allegedly reduced the customer's incentives to source chipsets from the Company's competitors and harmed competition and innovation for certain baseband chipsets. A Statement of Objections informs the subject of the investigation of the allegations against it and provides an opportunity to respond to such allegations. It is not a determination of the final outcome of the investigation. On June 27, 2016, the Company submitted its response to the Statement of Objections. If a violation is found, a broad range of remedies is potentially available to the Commission, including imposing a fine and/or injunctive relief prohibiting or restricting certain business practices. It is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the Commission. The Company believes that its business practices do not violate the EU competition rules.

(United States) Federal Trade Commission (FTC) v. QUALCOMM Incorporated: On September 17, 2014, the FTC notified the Company that it was conducting an investigation of the Company relating to Section 5 of the Federal Trade Commission Act (FTCA). On January 17, 2017, the FTC filed a complaint against the Company in the United States District Court for the Northern District of California alleging that the Company engaged in anticompetitive conduct and unfair methods of competition in violation of Section 5 of the FTCA by conditioning the supply of baseband processors on the purchaser first agreeing to a license to the Company's standard-essential patents, paying incentives to purchasers of baseband processors to induce them to accept certain license terms, refusing to license its standard-essential patents to the Company's competitors and entering into alleged exclusive dealing arrangements with Apple Inc. The complaint seeks a permanent injunction against the Company's alleged violations of the FTCA and other unspecified ancillary equitable relief. The Company believes the FTC's claims are without merit.

Taiwan Fair Trade Commission (TFTC) Investigation: On December 4, 2015, the TFTC notified the Company that it is conducting an investigation into whether the Company's patent licensing arrangements violate the Taiwan Fair Trade Act (TFTA). On April 27, 2016, the TFTC specified that the allegations under investigation include whether: (i) the Company jointly licensed its patents rather than separately licensing standard-essential patents and non-standard-essential patents; (ii) the Company's royalty charges are unreasonable; (iii) the Company unreasonably required licensees to grant it cross-licenses; (iv) the Company failed to provide lists of licensed patents to licensees; (v) the Company violated a FRAND licensing commitment by declining to grant licenses to chipset makers; (vi) the Company declined to sell chipsets to unlicensed potential customers; and (vii) the Company provided royalty rebates to certain companies in exchange for their exclusive use of the Company's chipsets. If a violation is found, a broad range of remedies is potentially available to the TFTC, including imposing a fine or requiring modifications to the Company's business practices. At this stage of the investigation, it is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the TFTC. The Company believes that its business practices do not violate the TFTA. The Company continues to cooperate with the TFTC 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 with respect to

QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

the KFTC Investigation, the Company has not recorded any accrual at December 25, 2016 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. 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 25, 2016, 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. 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 25, 2016 associated with these indemnification arrangements 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 under these agreements at December 25, 2016 for the remainder of fiscal 2017 and for each of the subsequent four years from fiscal 2018 through 2021 were \$3.7 billion, \$879 million, \$771 million, \$230 million and \$42 million, respectively, and \$5 million thereafter. Of these amounts, for the remainder of fiscal 2017 and for each of the subsequent three years from fiscal 2018 through 2020, commitments to purchase integrated circuit product inventories comprised \$2.9 billion, \$761 million, \$696 million, \$165 million, respectively, and there were no purchase commitments thereafter. Integrated circuit product inventory obligations represent purchase commitments for semiconductor die, finished goods and manufacturing services, such as wafer bump, probe, assembly and final test. Under the Company's manufacturing relationships with its foundry suppliers and assembly and test service providers, cancellation of outstanding purchase commitments is generally allowed but requires payment of costs incurred through the date of cancellation, and in some cases, incremental fees related to capacity underutilization.

**Operating Leases.** The Company leases certain of its land, facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 21 years and with provisions in certain leases for cost-of-living increases. Future minimum lease payments at December 25, 2016 for the remainder of fiscal 2017 and for each of the subsequent four years from fiscal 2018 through 2021 were \$67 million, \$77 million, \$63 million, \$46 million and \$38 million, respectively, and \$47 million thereafter.

**Other Commitments.** At December 25, 2016, the Company was committed to fund certain strategic investments up to \$349 million. Of this amount, \$113 million is expected to be funded in the remainder of fiscal 2017. The remaining commitments represent the maximum amounts that do not have fixed funding dates and/or are subject to certain

conditions. Actual funding may be in lesser amounts or not at all.

#### Note 7. Segment Information

The Company is organized on the basis of products and services. The Company conducts business primarily through two reportable segments, QCT (Qualcomm CDMA Technologies) and QTL (Qualcomm Technology Licensing), and its QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments and includes revenues and related costs associated with development contracts with an equity method investee. QCT develops and supplies integrated circuits and system software for use in mobile devices, wireless networks, broadband gateway equipment and consumer electronic devices. QTL grants licenses to use portions of its intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products. The Company also has nonreportable segments, including its mobile health, data center, small cell and other wireless technology and service initiatives.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT). 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 interest expense; certain net investment income; certain share-based compensation; and certain research and development expenses, selling, general and administrative expenses and other expenses or income 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 of certain intangible assets and certain other acquisition-related charges, third-party acquisition and integration services costs and certain other items, which may include major restructuring and restructuring-related costs, goodwill and long-lived asset impairment charges and litigation settlements and/or damages. All of the costs related to the initial research of 5G technology are included in unallocated corporate research and development expenses, whereas initial costs related to the research of 3G and 4G technology were recorded in both the QCT segment and unallocated corporate research and development expenses based on the nature of the activity. Fiscal 2016 results have not been revised as such costs were incurred prior to fiscal 2014.

Segment assets are comprised of accounts receivable and inventories for all reportable segments other than QSI. QSI segment assets are comprised primarily of certain non-marketable equity instruments and other investments and a receivable from the sale of wireless spectrum in fiscal 2016 (Note 2). Total segment assets 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, intangible assets and assets of nonreportable segments.

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 Incorporated  
 NOTES TO  
 CONDENSED  
 CONSOLIDATED  
 FINANCIAL  
 STATEMENTS  
 (Unaudited)

The table below presents revenues, EBT and total assets for reportable segments (in millions):

	QCT	QTL	QSI	Reconciling Items	Total
For the three months ended					
December 25, 2016					
Revenues	\$4,101	\$1,811	\$14	\$ 73	\$5,999
EBT	724	1,532	(17 )	(1,369 )	870
December 27, 2015					
Revenues	\$4,096	\$1,607	\$9	\$ 63	\$5,775
EBT	590	1,339	359	(578 )	1,710

Total assets

December 25, 2016	\$3,037	\$873	\$956	\$ 47,500	\$52,366
September 25, 2016	2,995	644	910	47,810	52,359

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

	Three Months Ended	
	December 25, 2016	December 27, 2015
Revenues		
Nonreportable segments	\$73	\$ 64
Intersegment eliminations	—	(1 )
	\$73	\$ 63
EBT		
Unallocated cost of revenues	\$(95 )	\$(150 )
Unallocated research and development expenses	(269 )	(216 )
Unallocated selling, general and administrative expenses	(145 )	(127 )
Unallocated other expenses, net	(876 )	(6 )
Unallocated interest expense	(89 )	(70 )
Unallocated investment income, net	184	114
Nonreportable segments	(79 )	(124 )
Intersegment eliminations	—	1
	\$(1,369)	\$( 578 )

Unallocated other expense in the three months ended December 25, 2016 was comprised primarily of the charge related to the KFTC investigation (Note 6). Unallocated other expense in the three months ended December 27, 2015 was comprised of net restructuring and restructuring-related charges associated with the Company's Strategic Realignment Plan, which was substantially implemented in fiscal 2016 (Note 2).

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

Three Months Ended	
December 25, 2016	December 27, 2015



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Cost of revenues	\$ 84	\$ 140
Research and development expenses	3	3
Selling, general and administrative expenses	61	29

18

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QUALCOMM  
Incorporated  
NOTES TO  
CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
(Unaudited)

Note 8. Acquisitions

In January 2016, the Company announced that it had reached agreement with TDK Corporation to form a joint venture, under the name RF360 Holdings Singapore Pte. Ltd., to enable delivery of radio frequency front-end (RFFE) modules and RF filters into fully integrated products for mobile devices and Internet of Things (IoT) applications, among others. The joint venture will initially be owned 51% by Qualcomm Global Trading Pte. Ltd., a Singapore corporation and wholly-owned subsidiary of the Company (Qualcomm Global Trading) and 49% by EPCOS AG, a German Aktiengesellschaft and wholly-owned subsidiary of TDK Corporation (EPCOS). Certain intellectual property, patents and filter and module design and manufacturing assets will be carved out of existing TDK businesses and be owned by the joint venture, and certain assets will be acquired directly by affiliates of the Company. The purchase price of Qualcomm Global Trading's interest in the joint venture and the assets to be transferred to the Company is \$1.2 billion, to be adjusted for working capital, outstanding indebtedness and certain capital expenditures, among other things. Additionally, Qualcomm Global Trading has the option to acquire (and EPCOS has an option to sell) EPCOS's interest in the joint venture for \$1.15 billion 30 months after the closing date. EPCOS will be entitled to up to a total of \$200 million in payments based on sales of RF filter functions over the three-year period after the closing date, which is a substitute for and in lieu of any right of EPCOS to receive any profit sharing, distributions, dividends or other payments of any kind or nature. Every required regulatory agency has either approved the transaction or declined to exercise jurisdiction. The completion of the transaction remains subject to satisfaction of additional conditions and is expected to close in the second quarter of fiscal 2017.

On October 27, 2016, the Company announced a definitive agreement under which Qualcomm River Holdings, B.V. (Qualcomm River Holdings), an indirect, wholly owned subsidiary of QUALCOMM Incorporated, will acquire NXP Semiconductors N.V. Pursuant to the definitive agreement, Qualcomm River Holdings has commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. NXP is a leader in high-performance, mixed-signal semiconductor electronics in automotive, broad-based microcontrollers, secure identification, network processing and RF power products. The transaction is expected to close by the end of calendar 2017 and is subject to receipt of regulatory approvals in various jurisdictions and other closing conditions, including the tender of specified percentages (which vary from 70% to 95% based on certain circumstances as provided in the definitive agreement) of the issued and outstanding common shares of NXP in the offer. An Extraordinary General Meeting of NXP's shareholders will be convened in connection with the offer to adopt, among other things, certain resolutions relating to the transaction. The tender offer is not subject to any financing condition; however, the Company intends to fund the transaction with cash held by foreign entities and new debt. As a result, the Company has secured \$13.6 billion in committed financing through a \$9.6 billion Bridge Loan Facility and \$4.0 billion Term Loan Facility (Note 5). The Company expects to issue additional debt, including accessing the public debt markets in fiscal 2017, in lieu of drawing on the Bridge Loan Facility at close of the NXP transaction.

Qualcomm River Holdings and NXP may terminate the definitive agreement under certain circumstances. If the definitive agreement is terminated by NXP in certain circumstances, NXP will be required to pay Qualcomm River Holdings a termination fee of \$1.25 billion. If the definitive agreement is terminated by Qualcomm River Holdings under certain circumstances involving the failure to obtain the required regulatory approvals or the failure of NXP to complete certain pre-closing reorganization steps in all material respects, Qualcomm River Holdings will be required to pay NXP a termination fee of \$2.0 billion. In November 2016, as required by the definitive agreement, Qualcomm River Holdings entered into four letters of credit for an aggregate amount of \$2.0 billion related to the potential

termination fee payable to NXP. Pursuant to the terms of each letter of credit, NXP will have the right to draw amounts to fund certain termination compensation owed by Qualcomm River Holdings to NXP if the definitive agreement is terminated under certain circumstances. The letters of credit expire on June 30, 2018 or if drawn on by NXP or surrendered by Qualcomm River Holdings. Each letter of credit is required to be fully cash collateralized in an amount equal to 100% of its face value through deposits with the issuers of the letters of credit. Qualcomm River Holdings is restricted from using the funds deposited as collateral while the letters of credit are outstanding. At December 25, 2016, \$1.95 billion of the letters of credit were collateralized through bank time deposits and money market funds, which were recorded as other noncurrent assets, and the remaining \$50 million was collateralized in the second quarter of fiscal 2017.

#### Note 9. Fair Value Measurements

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at December 25, 2016 (in millions):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$2,385	\$3,850	\$ —	\$6,235
<b>Marketable securities</b>				
U.S. Treasury securities and government-related securities	915	975	—	1,890
Corporate bonds and notes	—	17,747	—	17,747
Mortgage- and asset-backed and auction rate securities	—	1,524	42	1,566
Equity and preferred securities and equity funds	88	476	—	564
Debt funds	—	1,133	—	1,133
Total marketable securities	1,003	21,855	42	22,900
Derivative instruments	—	11	—	11
Other investments	330	—	—	330
Total assets measured at fair value	\$3,718	\$25,716	\$ 42	\$29,476
<b>Liabilities</b>				
Derivative instruments	\$—	\$21	\$ —	\$21
Other liabilities	329	—	—	329
Total liabilities measured at fair value	\$329	\$21	\$ —	\$350

Activity between Levels of the Fair Value Hierarchy. There were no significant transfers between Level 1 and Level 2 in the three months ended December 25, 2016 and December 27, 2015. 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 mortgage- and asset-backed and auction rate securities classified within Level 3 of the valuation hierarchy (in millions):

	Three Months Ended	
	December 25, 2016	December 27, 2015
Beginning balance of Level 3	\$ 43	\$ 224
Total realized and unrealized gains or losses:		
Included in other comprehensive income (loss)	—	(1 )
Sales	—	(1 )
Settlements	(1 )	(36 )
Transfers out of Level 3	—	(12 )
Ending balance of Level 3	\$ 42	\$ 174

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 out of Level 3 in the three months ended December 27, 2015 primarily consisted of debt securities with significant upgrades in credit ratings or for which there were observable inputs.

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. In the three

19

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QUALCOMM  
 Incorporated  
 NOTES TO  
 CONDENSED  
 CONSOLIDATED  
 FINANCIAL  
 STATEMENTS  
 (Unaudited)

months ended December 25, 2016 and December 27, 2015, the Company did not have any significant assets or liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

Note 10. Marketable Securities

Marketable securities were comprised as follows (in millions):

	Current		Noncurrent	
	December 25, 2016	September 25, 2016	December 25, 2016	September 25, 2016
Available-for-sale:				
U.S. Treasury securities and government-related securities	\$251	\$ 1,116	\$1,639	\$ 1,099
Corporate bonds and notes	3,312	10,159	14,435	8,584
Mortgage- and asset-backed and auction rate securities	176	1,363	1,390	534
Equity and preferred securities and equity funds	88	64	476	1,682
Debt funds	100	—	1,033	1,803
	\$3,927	\$ 12,702	\$18,973	\$ 13,702

At December 25, 2016, 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
	\$5,628	\$11,797	\$1,575	\$ 637	\$ 2,699	\$22,336

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
For the three months ended			
December 25, 2016	\$ 248	\$ (109 )	\$ 139
December 27, 2015	50	(12 )	38

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

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 25, 2016				
Equity securities	\$478	\$ 86	\$ —	\$564
Debt securities (including debt funds)	22,269	111	(44 )	22,336
	\$22,747	\$ 197	\$ (44 )	\$22,900
September 25, 2016				
Equity securities	\$1,554	\$ 204	\$ (12 )	\$1,746
Debt securities (including debt funds)	24,363	388	(93 )	24,658
	\$25,917	\$ 592	\$ (105 )	\$26,404



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 Incorporated  
 NOTES TO  
 CONDENSED  
 CONSOLIDATED  
 FINANCIAL  
 STATEMENTS  
 (Unaudited)

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 25, 2016			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and government-related securities	\$263	\$ (11 )	\$5	\$ —
Corporate bonds and notes	1,681	(28 )	59	—
Mortgage- and asset-backed and auction rate securities	89	(2 )	59	(1 )
Debt funds	489	(2 )	—	—
	\$2,522	\$ (43 )	\$123	\$ (1 )
	September 25, 2016			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and government-related securities	\$444	\$ (5 )	\$16	\$ —
Corporate bonds and notes	2,775	(12 )	1,033	(65 )
Mortgage- and asset-backed and auction rate securities	337	(3 )	211	(2 )
Equity and preferred securities and equity funds	312	(4 )	130	(8 )
Debt funds	—	—	309	(6 )
	\$3,868	\$ (24 )	\$1,699	\$ (81 )

In the first quarter of fiscal 2017, the Company announced that it entered into an agreement to acquire NXP Semiconductors N.V. (Note 8). As a result, prior to the closing, the Company has begun, and expects to continue, to divest a substantial portion of its marketable securities portfolio in order to finance, in part, that transaction. Marketable securities that were expected to be used to finance the NXP transaction were classified as noncurrent at December 25, 2016 as they are not considered available for current operations. Given the change in the Company's intention to sell certain marketable securities, the Company recognized other-than-temporary impairment losses in the three months ended December 25, 2016 for certain marketable securities (Note 2) and may recognize additional losses prior to the sale of such marketable securities. For the remaining available-for-sale securities, which are not expected to be sold to finance the NXP transaction, the Company concluded that the unrealized losses were temporary at December 25, 2016. Further, for debt funds with unrealized losses, the Company has the ability and the intent to hold such securities until they recover, which was expected to be within a reasonable period of time, and for debt securities and preferred stock with unrealized losses, the Company did not have the intent to sell, nor was it more likely than not that the Company would be required to sell, such securities before recovery or maturity.

## 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 25, 2016 contained in our 2016 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 industry trends and dynamics; challenges and opportunities related to our semiconductor and licensing businesses; our proposed acquisition of NXP Semiconductors N.V.; our pending joint venture with TDK Corporation; current and future legal proceedings or actions of governmental or quasi governmental bodies or standards or industry organizations; and our future business, investments, financial condition, results of operations and prospects. Additionally, statements concerning other 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 and/or 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.

### Recent Developments

Revenues for the first quarter of fiscal 2017 were \$6.0 billion, an increase of 4% compared to the year ago quarter, with net income attributable to Qualcomm of \$682 million, a decrease of 54% compared to the year ago quarter. We shipped approximately 217 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, a decrease of 10% compared to approximately 242 million MSM integrated circuits in the year ago quarter. Despite the decline in MSM shipments, QCT's revenues remained substantially flat compared to the year ago quarter primarily due to higher-priced product mix and an increase in revenues related to other products, primarily related to higher connectivity shipments.

Total reported device sales were approximately \$62.9 billion, an increase of approximately 4% compared to approximately \$60.6 billion in the year ago quarter.<sup>(1)</sup> QTL's revenues increased by 13% compared to the prior year quarter primarily due to increases in reported sales of CDMA-based products (including multimode products that also implement OFDMA) and revenues per reported unit. The increase in revenues per reported unit was primarily attributable to the deferral of royalty revenues due to an arbitration with LG Electronics, Inc. in the first quarter of fiscal 2016, partially offset by a decrease in recognition of unearned license fees. QTL revenues and EBT in the first quarter of fiscal 2017 continued to be impacted negatively by units that we believe are not being reported by certain licensees and sales of certain unlicensed products.

On December 27, 2016, the Korea Fair Trade Commission (KFTC) announced that it had reached a decision in its investigation of us, finding that we have violated provisions of the Korean Monopoly Regulation and Fair Trade Act (MRFTA). On January 22, 2017, we received the KFTC's formal written decision. The KFTC ordered certain remedial actions and imposed a fine of approximately 1.03 trillion Korean Won (approximately \$868 million based on



exchange rates at December 25, 2016), which was recorded as a charge to other expenses in the first quarter of fiscal 2017. We believe that our business practices do not violate the MRFTA. We intend to challenge the decision in the Seoul High Court and seek a stay of the decision's remedial order.

Against this backdrop, the following recent developments occurred in the first quarter of fiscal 2017 with respect to key elements of our industry:

- Worldwide cellular connections grew sequentially by approximately 1% to reach approximately 7.5 billion.<sup>(2)</sup>
- Worldwide 3G/4G connections (CDMA-based, OFDMA-based and CDMA/OFDMA multimode) grew sequentially by approximately 4% to approximately 4.2 billion, which was approximately 56% of total cellular connections.<sup>(2)</sup>

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 (1) 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. In addition, certain licensees may not report (in the quarter in which they are contractually obligated to report) their sales of certain types of subscriber units, which (as a result of audits, legal actions or for other reasons) may be reported in a subsequent quarter. Accordingly, total reported device sales for a particular period may include prior period activity that was not reported by the licensee until such particular period.

(2) According to GSMA Intelligence estimates as of January 23, 2017 for the quarter ended December 31, 2016.

#### Our Business and Operating Segments

We design, manufacture, have manufactured on our behalf and market digital communications products based on CDMA, OFDMA and other technologies. We derive revenues principally from sales of integrated circuit products and licensing our intellectual property, including patents, software and other rights.

We have three reportable segments. We conduct business primarily through two reportable segments: QCT (Qualcomm CDMA Technologies) and QTL (Qualcomm Technology Licensing), and our QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments. Our reportable segments are operated by QUALCOMM Incorporated and its direct and indirect subsidiaries. Substantially all of our products and services businesses, including QCT, and substantially all of our engineering, research and development functions, are operated by Qualcomm Technologies, Inc. (QTI), a wholly-owned subsidiary of QUALCOMM Incorporated, and QTI's subsidiaries. QTL is operated by QUALCOMM Incorporated, which owns 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 is a leading developer and supplier of integrated circuits and system software based on CDMA, OFDMA and other technologies for use in wireless voice and data communications, networking, application processing, multimedia and global positioning system products. QCT's integrated circuit products are sold and its system software is licensed to manufacturers that use our products in mobile phones, tablets, laptops, data modules, handheld wireless computers and gaming devices, access points and routers, data cards and infrastructure equipment, broadband gateway equipment and other consumer electronic devices. Our MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Snapdragon processors and LTE modems, 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 helps enable 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 68% and 71% of total consolidated revenues in the first quarter of fiscal 2017 and 2016, respectively.

QCT currently utilizes a fabless production model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. Integrated circuits are die cut from silicon wafers that have completed the package assembly and 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 die in singular or wafer form from semiconductor manufacturing foundries and contract with separate third-party suppliers for manufacturing services, such as wafer bump, probe, assembly and the majority of our final test requirements.

QTL 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 and/or LTE standards and their derivatives. QTL licensing revenues include license fees and 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 (including transportation, insurance, packing costs and other items). QTL recognizes royalty revenues based on royalties reported by licensees 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 30% and 28% of total consolidated revenues in the first quarter of fiscal 2017 and 2016, respectively. The vast majority of such revenues were generated through our licensees' sales of CDMA2000- and WCDMA-based products, such as feature phones and smartphones.

QSI makes strategic investments that are focused on opening new or expanding opportunities for our technologies and supporting the design and introduction of new products and services (or enhancing existing products or services) for voice and data communications. Many of these strategic investments are in early-stage companies in a variety of industries, including, but not limited to, digital media, e-commerce, healthcare and wearable devices. Investments primarily include non-marketable equity instruments, which generally are recorded using the cost method or the equity method, and convertible debt instruments, which are recorded at fair value. In addition, QSI segment results include revenues and related costs associated with development contracts with one of our equity method investees. As part of our strategic investment activities, we intend to pursue various exit strategies for each of our QSI investments in the foreseeable future.

Nonreportable segments include our mobile health, data center, small cell and other wireless technology and service initiatives.

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 because QTL recognizes royalty revenues when royalties are reported by licensees, QTL has tended to record higher royalty revenues in the first calendar quarter when licensees report their sales made in the fourth calendar quarter. We have also experienced fluctuations in revenues due to the timing of conversions and expansions of 3G and 3G/4G networks by wireless operators and the timing of launches of flagship wireless devices that incorporate our products and/or intellectual property. These trends may or may not continue in the future.

#### Looking Forward

We expect continued growth in the coming years in consumer demand for 3G, 3G/4G multimode and 4G products and services around the world, driven primarily by smartphones. We also expect growth in new device categories and industries, driven by the expanding adoption of certain technologies that are already commonly used in smartphones. As we look forward to the next several months, we expect our business to be impacted by the following key items:

On October 27, 2016, we announced a definitive agreement under which Qualcomm River Holdings, B.V., an indirect, wholly owned subsidiary of QUALCOMM Incorporated, will acquire NXP Semiconductors N.V. Pursuant to the definitive agreement, Qualcomm River Holdings has commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. NXP is a leader in high-performance, mixed-signal semiconductor electronics in automotive, broad-based microcontrollers, secure identification, network processing and RF power products. The transaction is expected to close by the end of calendar 2017 and is subject to receipt of regulatory approvals in various jurisdictions and other closing conditions, including the tender of specified percentages (which vary from 70% to 95% based on certain circumstances as provided in the definitive agreement) of the issued and outstanding common shares of NXP in the offer. The tender offer is not subject to any financing condition; however, we intend to fund the transaction with cash held by foreign entities and new debt. We expect that this will require us to devote significant resources and management time and attention prior to close; take on significant debt; and utilize a substantial portion of our cash, cash equivalents and marketable securities.

Consumer demand for 3G/4G smartphone products is increasing in emerging regions driven by availability of lower-tier-3G/4G devices. We expect the ongoing rollout of 4G services in emerging regions will encourage competition and growth, bringing the benefits of 3G/4G LTE multimode to consumers.

We expect our business, particularly QCT, to continue to be impacted by industry dynamics, including:

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Concentration of device share among a few companies within the premium tier, resulting in significant supply chain leverage for those companies;

• Decisions by companies to utilize their own internally-developed integrated circuit products or our competitors' integrated circuit products in a portion of their devices;

Intense competition, particularly in China, as our competitors expand their product offerings and/or reduce the prices of their products as part of a strategy to attract new and/or retain customers; and

- Lengthening replacement cycles in developed regions, where the smartphone industry is mature, premium-tier smartphones are common and consumer demand is increasingly driven by new product launches and/or innovation cycles, and from increasing consumer demand in emerging regions where premium-tier smartphones are less common and replacement cycles are on average longer than in developed regions.

We continue to believe that certain licensees, particularly in China, are not fully complying with their contractual obligations to report their sales of licensed products to us, and certain companies, including unlicensed companies, particularly in emerging regions, including China, are delaying execution of new license agreements. We have made substantial progress in reaching agreements with many companies, primarily in China. However, negotiations with certain licensees and unlicensed companies are ongoing. We believe that the conclusion of new agreements with these companies will result in improved reporting by these licensees, including with respect to sales of three-mode devices (i.e., devices that implement GSM, TD-SCDMA and LTE-TDD) sold in China. Additionally, we believe our increased efforts in the areas of compliance will also improve reporting, but will also result in increased costs to the business. Litigation and/or other actions may be necessary to compel licensees to report and pay the required royalties for sales they have not previously reported and/or to compel unlicensed companies to execute licenses.

Regulatory authorities in other jurisdictions continue to investigate our business practices, and other regulatory authorities may do so in the future. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business with remedies that include, among others, injunctions, monetary damages or fines or other orders to pay money, and the issuance of orders to cease certain conduct and/or modify our business practices. Additionally, certain of our direct and indirect customers and licensees have pursued, and others may in the future pursue, litigation or arbitration against us related to our business. The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, including monetary damages. These activities may also require the investment of significant management time and attention and may result in increased legal costs. See “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies” elsewhere in this Quarterly Report.

We continue to invest significant resources toward advancements in 4G LTE and 5G technologies, OFDM-based WLAN technologies, wireless baseband chips, our converged computing/communications (Snapdragon) chips, radio frequency front-end (RFFE), connectivity, graphics, audio and video codecs, multimedia products, software and services, which contribute to the expansion of our intellectual property portfolio. We are also investing in targeted opportunities that leverage our existing technical and business expertise to deploy new business models and enter into new industry segments, such as products for: automotive; the Internet of Things (IoT), including the connected home, smart cities and wearables; data center; networking; computing; mobile health; and machine learning, including robotics, among others.

In January 2016, we announced that we had reached an agreement with TDK Corporation to form a joint venture, under the name RF360 Holdings Singapore Pte. Ltd., to enable delivery of RFFE modules and RF filters into fully integrated products for mobile devices and IoT applications, among others. The joint venture will initially be owned 51% by Qualcomm Global Trading Pte. Ltd., a Singapore corporation and wholly-owned subsidiary of ours (Qualcomm Global Trading) and 49% by EPCOS AG, a German Aktiengesellschaft and wholly-owned subsidiary of TDK Corporation (EPCOS). Certain intellectual property, patents and filter and module design and manufacturing assets will be carved out of existing TDK businesses and be owned by the joint venture, and certain assets will be acquired directly by affiliates of ours. The purchase price of Qualcomm Global Trading’s interest in the joint venture and the assets to be transferred to us is \$1.2 billion, to be adjusted for working capital, outstanding indebtedness and certain capital expenditures, among other things. Additionally, Qualcomm Global Trading has the option to acquire (and EPCOS has an option to sell) EPCOS’s interest in the joint venture for \$1.15 billion 30 months after the closing date. EPCOS will be entitled to up to a total of \$200 million in payments based on sales of RF filter functions over the three-year period after the closing date, which is a substitute for and in lieu of any right of EPCOS to receive any profit sharing, distributions, dividends or other payments of any kind or nature. Every required regulatory agency has either approved the transaction or declined to exercise jurisdiction. The completion of the transaction remains subject to satisfaction of additional conditions and is expected to close in the second quarter of fiscal 2017.

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 and governments as to the benefits of our business model and our extensive technology investments 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

25

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welcome the success of our business model in enabling new, highly cost-effective competitors to their products. We expect that such companies, and/or governments or regulators, 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		Change
	December 2016	December 2015	
Equipment and services	\$4,139	\$ 4,087	\$ 52
Licensing	1,860	1,688	172
	\$5,999	\$ 5,775	\$ 224

The increase in equipment and services revenues was primarily due to an increase in QCT revenues. The increase in licensing revenues was primarily due to an increase in QTL revenues.

##### Costs and Expenses (in millions)

	Three Months Ended		Change
	December 2016	December 2015	
Cost of revenues	\$2,443	\$ 2,534	\$ (91 )
Gross margin	59 %	56 %	%

The increase in margin percentage was primarily due to the impact of higher-margin segment mix primarily related to QTL, an increase in QCT margin percentage and a decrease of \$56 million in charges related to the recognition of the step-up of inventories to fair value and the amortization of intangible assets primarily related to the acquisition of CSR plc in the fourth quarter of fiscal 2015. The increase in margin percentage was partially offset by an increase in a nonreportable segment's costs. 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		Change
	December 2016	December 2015	
Research and development	\$1,311	\$ 1,352	\$(41 )
% of revenues	22 %	23 %	%
Selling, general, and administrative	\$591	\$ 578	\$13
% of revenues	10 %	10 %	%
Other	\$876	\$ (374 )	\$1,250

The dollar decrease in research and development expenses was primarily attributable to a decrease of \$55 million in costs related to the development of integrated circuit technologies and related software products. Such decrease was primarily driven by actions initiated under our Strategic Realignment Plan, which was substantially implemented in fiscal 2016, partially offset by a \$30 million impairment charge on certain intangible assets recorded in the first quarter of fiscal 2017.

The dollar increase in selling, general and administrative expenses was primarily attributable to increases of \$28 million in professional services and \$14 million in costs related to litigation and other legal matters, partially offset by decreases of \$15 million in selling and marketing expenses and \$15 million in depreciation and amortization expense. Other expenses in the first quarter of fiscal 2017 included an \$868 million charge related to the KFTC investigation and \$8 million in restructuring and restructuring-related charges related to our Strategic Realignment Plan. Other income in the first quarter of fiscal 2016 was primarily attributable to a \$380 million gain on the sale of wireless spectrum and also included \$54 million in restructuring and restructuring-related charges, partially offset by a \$48 million gain on the sale of our business that provided augmented reality applications, both of which related to our Strategic Realignment Plan.





## Interest Expense and Net Investment Income (in millions)

	Three Months Ended		
	December 25, 2016	December 27, 2015	Change
Interest expense	\$90	\$ 74	\$ 16
Investment income, net			
Interest and dividend income	\$167	\$ 136	\$ 31
Net realized gains on marketable securities	139	43	96
Net realized gains on other investments	8	6	2
Impairment losses on marketable securities and other investments	(143 )	(63 )	(80 )
Equity in net earnings (losses) of investees	3	(20 )	23
Net gains (losses) on derivative instruments	8	(3 )	11
	\$182	\$ 99	\$ 83

The increases in net realized gains on marketable securities and impairment losses on marketable securities and other investments were primarily attributable to certain marketable securities that we sold and expect to sell before their anticipated recovery, respectively, to fund, in part, the acquisition of NXP Semiconductors N.V.

## Income Tax Expense (in millions)

	Three Months Ended		
	December 25, 2016	December 27, 2015	Change
Income tax expense	\$189	\$ 214	\$(25)
Effective tax rate	22 %	13 %	9 %

The following table summarizes the primary factors that caused our effective tax rates for the first quarter of fiscal 2017 and 2016 to be less than the United States federal statutory rate:

	Three Months Ended		
	December 25, 2016	December 27, 2015	
Expected income tax provision at federal statutory tax rate	35 %	35 %	
Benefits from foreign income taxed at other than U.S. rates	(15 %)	(17 %)	
Benefits related to the research and development tax credit	(1 %)	(6 %)	
Nondeductible charge related to the KFTC investigation	2 %	— %	
Other	1 %	1 %	
Effective tax rate	22 %	13 %	

The estimated annual effective tax rate of 22% for fiscal 2017 is greater than the 17% effective income tax rate for fiscal 2016. In the first quarter of fiscal 2017, we recorded an \$868 million charge related to the KFTC investigation, which is not deductible for tax purposes and is attributable to both the United States and a foreign jurisdiction. The estimated annual effective tax rate of 22% for fiscal 2017 also reflects the increase in our Singapore tax rate as a result of the expiration of its tax exemption in March 2017, which is partially offset by tax benefits resulting from the increase in our Singapore tax rate that will be in effect when certain deferred tax assets are scheduled to reverse. The annual effective tax rate of 17% for fiscal 2016 reflected a \$101 million tax benefit recorded discretely in the third quarter of fiscal 2016 resulting from a worthless stock deduction on a domestic subsidiary of one of our former display businesses and a \$79 million benefit recorded discretely in the first quarter of fiscal 2016 related to fiscal 2015 resulting from the retroactive and permanent reinstatement of the United States federal research and development tax credit.

Unrecognized tax benefits were \$272 million and \$271 million at December 25, 2016 and September 25, 2016, respectively. We believe that it is reasonably possible that the total amounts of unrecognized tax benefits at December 25, 2016 may increase or decrease in the next 12 months.



## Segment Results

The following should be read in conjunction with the financial results for the first quarter of fiscal 2017 for each reportable segment included in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 7. Segment Information.”

(in millions)	QCT	QTL	QSI
Three Months Ended December 25, 2016			
Revenues	\$4,101	\$1,811	\$14
EBT <sup>(1)</sup>	724	1,532	(17 )
EBT as a % of revenues	18	% 85	%
Three Months Ended December 27, 2015			
Revenues	\$4,096	\$1,607	\$9
EBT <sup>(1)</sup>	590	1,339	359
EBT as a % of revenues	14	% 83	%

(1) Earnings (loss) before taxes.

**QCT Segment.** QCT results of operations in the first quarter of fiscal 2017 were impacted by higher demand in China, growth within adjacent industry segments outside traditional cellular industries and cost reduction initiatives achieved under the Strategic Realignment Plan, partially offset by a decline in share at a large customer. Approximately 217 million and 242 million MSM integrated circuits were sold in the first quarter of fiscal 2017 and 2016, respectively. Despite the decline in MSM shipments, QCT revenues remained substantially flat primarily due to an increase in equipment and services revenues, offset by a decrease in licensing revenues. Equipment and services revenues, mostly related to sales of MSM and accompanying Radio Frequency (RF), Power Management (PM) and wireless connectivity integrated circuits, were \$4.06 billion and \$4.02 billion in the first quarter of fiscal 2017 and 2016, respectively. The increase in equipment and services revenues was primarily due to an increase of \$175 million resulting from the net impact of higher-priced product mix and lower average selling prices and an increase of \$113 million in revenues related to other products, primarily related to higher connectivity shipments, partially offset by a decrease of \$247 million primarily related to lower MSM shipments.

QCT EBT as a percentage of revenues increased primarily due to an increase in gross margin percentage and a combined decrease of 5% in research and development and selling, general and administrative expenses. The increase in QCT gross margin percentage resulted primarily from lower average unit costs and higher-margin product mix, partially offset by lower average selling prices and higher excess inventory charges.

**QTL Segment.** The increase in QTL revenues of \$204 million was primarily attributable to increases in reported sales of CDMA-based products (including multimode products that also implement OFDMA) and revenues per reported unit. The increase in revenues per reported unit was primarily attributable to the deferral of royalty revenues reported by LG Electronics, Inc. in the first quarter of fiscal 2016, partially offset by a decrease in recognition of unearned license fees. QTL revenues and EBT in the first quarter of fiscal 2017 continued to be impacted negatively by units that we believe are not being reported by certain licensees and sales of certain unlicensed products. While we have reached agreements with many licensees, negotiations with certain other licensees and unlicensed companies are ongoing, particularly in emerging regions, including China, and additional litigation may become necessary if negotiations fail to resolve the relevant issues.

**QSI Segment.** The decrease in QSI EBT was primarily due to the effect of a \$380 million gain on the sale of wireless spectrum recorded in the first quarter of fiscal 2016 and a decrease of \$15 million in net realized gains on investments, partially offset by a decrease of \$17 million in equity losses.

## Liquidity and Capital Resources

On October 27, 2016, we announced a definitive agreement under which Qualcomm River Holdings will acquire NXP. Pursuant to the definitive agreement, Qualcomm River Holdings has commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. The transaction is expected to close by the end of calendar 2017 and is subject to receipt of regulatory approvals in various jurisdictions and other closing conditions. We intend to fund the transaction with cash held by foreign entities, which will result in the use of a substantial portion of our cash, cash equivalents and marketable securities, as well as new debt, and we secured \$13.6 billion in committed financing through a \$9.6 billion Bridge

Loan Facility and \$4.0 billion Term Loan Facility. The Company expects to issue additional debt, including accessing the public debt markets in fiscal 2017, in lieu of drawing on the Bridge Loan Facility at close of the NXP transaction.

Qualcomm River Holdings and NXP may terminate the definitive agreement under certain circumstances. If the definitive agreement is terminated by NXP in certain circumstances, NXP will be required to pay Qualcomm River Holdings a termination fee of \$1.25 billion. If the definitive agreement is terminated by Qualcomm River Holdings under certain circumstances involving the failure to obtain the required regulatory approvals or the failure of NXP to complete certain pre-closing reorganization steps in all material respects, Qualcomm River Holdings will be required to pay NXP a termination fee of \$2.0 billion. In November 2016, as required by the definitive agreement, we entered into four letters of credit for an aggregate amount of \$2.0 billion pursuant to which NXP will have the right to draw amounts to fund the potential termination fee payable to NXP. Each letter of credit is required to be fully cash collateralized in an amount equal to 100% of its face value through deposits with the issuers of the letters of credit. We are restricted from using the funds deposited as collateral while the letters of credit are outstanding. At December 25, 2016, \$1.95 billion of the letters of credit were collateralized through bank time deposits and money market funds, and the remaining \$50 million was collateralized in the second quarter of fiscal 2017.

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations, cash provided by our debt programs and proceeds from the issuance of common stock under our employee benefit plans. The following tables present selected financial information related to our liquidity as of December 25, 2016 and September 25, 2016 and for the first quarter of fiscal 2017 and 2016 (in millions):

	December 25, September 25, \$		%	
	2016	2016	Change	Change
Cash, cash equivalents and marketable securities	\$ 29,785	\$ 32,350	\$(2,565)	(8 %)
Accounts receivable, net	2,085	2,219	(134)	(6 %)
Inventories	1,910	1,556	354	23 %
Short-term debt	1,749	1,749	—	— %
Long-term debt	9,935	10,008	(73)	(1 %)

  

	Three Months Ended			
	December 25, \$		%	
	2016	2015	Change	Change
Net cash provided by operating activities	\$1,379	\$ 2,739	\$(1,360)	(50 %)
Net cash provided (used) by investing activities	681	(716)	1,397	N/M
Net cash used by financing activities	(1,104)	(2,665)	1,561	(59 %)

N/M - Not Meaningful

The net decrease in cash, cash equivalents and marketable securities was primarily due to the deposit of \$1.95 billion that was used to collateralize the letters of credit related to our proposed acquisition of NXP and recorded as other noncurrent assets, \$784 million in cash dividends paid, \$444 million in payments to repurchase shares of our common stock and the timing of the settlement of sales of marketable securities, partially offset by net cash provided by operating activities. Total cash provided by operating activities decreased primarily due to changes in working capital related to inventories and the timing of related payments and accounts receivable. Our days sales outstanding, on a consolidated basis, decreased to 29 days at December 25, 2016 compared to 33 days at September 25, 2016. The decreases in accounts receivable and the related days sales outstanding were primarily due to the timing of integrated circuit shipments, partially offset by the timing of the collection of payments from certain of our licensees. The increase in inventories was primarily due to an increase in the overall quantity of units on hand, driven by efforts to provide increased assurance in meeting customer demand and the cancelation by a customer of one of its flagship products, and higher average unit costs.

Our cash, cash equivalents and marketable securities at December 25, 2016 consisted of \$1.9 billion held by United States-based entities and \$27.9 billion held by foreign entities. Most of our cash, cash equivalents and marketable securities held by foreign entities are indefinitely reinvested and would be subject to material tax effects if repatriated. However, we believe that our United States sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate funds held by foreign entities.

We believe our current cash, cash equivalents and marketable securities, our expected cash flow generated from operations and our expected financing activities will satisfy our working and other capital requirements, for at least the next 12 months based on our current business plans. Recent and expected working and other capital requirements,

in addition to our proposed acquisition of NXP, also include the items described below.

29

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Our purchase obligations at December 25, 2016, some of which relate to research and development activities and capital expenditures, totaled \$3.7 billion and \$879 million for fiscal 2017 and 2018, respectively, and \$1.0 billion thereafter.

Our research and development expenditures were \$1.3 billion in the first quarter of fiscal 2017 and \$5.2 billion in fiscal 2016, and we expect to continue to invest heavily in research and development for new technologies, applications and services for voice and data communications.

Cash outflows for capital expenditures were \$129 million in the first quarter of fiscal 2017 and \$539 million in fiscal 2016. 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.

- In connection with the KFTC investigation, we are obligated to pay a fine of approximately 1.03 trillion Korean Won (approximately \$868 million based on exchange rates at December 25, 2016) within 60 days of the KFTC's formal written decision, which was issued on January 22, 2017.

In January 2016, we announced that we had reached agreement with TDK Corporation to form a joint venture, under the name RF360 Holdings Singapore Pte. Ltd. The joint venture will initially be owned 51% by Qualcomm Global Trading Pte. Ltd., a Singapore corporation and wholly-owned subsidiary of ours (Qualcomm Global Trading) and 49% by EPCOS AG, a German Aktiengesellschaft and wholly-owned subsidiary of TDK Corporation (EPCOS). The purchase price due upon close of the transaction is \$1.2 billion, to be adjusted for working capital, outstanding indebtedness and certain capital expenditures, among other things. Additionally, Qualcomm Global Trading has the option to acquire (and EPCOS has an option to sell) EPCOS's interest in the joint venture for \$1.15 billion 30 months after the closing date. We expect to use existing cash resources to fund the acquisition. EPCOS will be entitled to up to a total of \$200 million in payments based on sales of RF filter functions over the three-year period after the closing date. Every required regulatory agency has either approved the transaction or declined to exercise jurisdiction. The completion of the transaction remains subject to satisfaction of additional conditions and is expected to close in the second quarter of fiscal 2017.

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 businesses.

Debt. In November 2016, we amended and restated our existing Revolving Credit Facility that provides for unsecured revolving facility loans, swing line loans and letters of credit to increase the aggregate amount available to \$5.0 billion, of which \$530 million and \$4.47 billion will expire in February 2020 and November 2021, respectively. At December 25, 2016, no amounts were outstanding under the Amended and Restated Revolving Credit Facility. We have an unsecured commercial paper program, which provides for the issuance of up to \$5.0 billion of commercial paper. Net proceeds from this program are used for general corporate purposes. At December 25, 2016, we had \$1.7 billion of commercial paper outstanding with weighted-average net interest rates of 0.64% and weighted-average remaining days to maturity of 41 days.

In October 2016, we entered into a Bridge Loan Facility that provides for senior unsecured bridge facility loans in an aggregate amount up to \$13.6 billion. In November 2016, the commitments available under the Bridge Loan Facility were reduced to \$9.6 billion upon us entering into a \$4.0 billion Term Loan Facility. Proceeds from the Bridge Loan Facility, if drawn, will be used to finance, in part, the proposed acquisition of NXP. At December 25, 2016, no amounts were outstanding under the Bridge Loan Facility.

In November 2016, we entered into a Term Loan Facility that provides for senior unsecured delayed-draw term facility loans in an aggregate amount of \$4.0 billion. Proceeds from the Term Loan Facility, if drawn, will be used to finance, in part, the proposed acquisition of NXP. At December 25, 2016, no amounts were outstanding under the Term Loan Facility.

In May 2015, we issued an aggregate principal amount of \$10.0 billion in eight tranches of unsecured floating- and fixed-rate notes, with maturity dates in 2018 through 2045 and effective interest rates between 1.24% and 4.74%. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes. In addition to the new debt we expect to issue in connection with our proposed acquisition of NXP, we may also issue debt in the future. The amount and timing of such additional borrowings will be 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.

30

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Additional information regarding our outstanding debt at December 25, 2016 is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 5. Debt.”

Capital Return Program. In the first quarter of fiscal 2017, we repurchased and retired 6,647,000 shares of our common stock for \$444 million, before commissions. At December 25, 2016, \$2.5 billion remained authorized for repurchase under our stock repurchase program. As a result of our proposed acquisition of NXP and the pending use of our cash and marketable securities, we currently expect to repurchase shares in the next few years to offset dilution from the issuance of common stock under our employee benefit plans.

In the first quarter of fiscal 2017, we paid cash dividends totaling \$784 million, or \$0.53 per share. On January 12, 2017, we announced a cash dividend of \$0.53 per share on our common stock, payable on March 22, 2017 to stockholders of record as of the close of business on March 1, 2017. 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.

#### Contractual Obligations/Off-Balance Sheet Arrangements

We have no significant contractual obligations not fully recorded on our 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 25, 2016 is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 3. Income Taxes,” “Note 5. Debt,” “Note 6. Commitments and Contingencies” and “Note 8. Acquisitions.”

#### Recent Accounting Pronouncements

Information regarding recent accounting pronouncements and the impact of those pronouncements, if any, on our consolidated financial statements is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 1. Basis of Presentation.”

#### 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 these risks occur, our management may be required to invest significant time and attention and our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also consider the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 25, 2016 in evaluating our business and our prospects, including but not limited to our financial statements and the related notes and “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### Risks Related to Our Businesses

Our proposed acquisition of NXP Semiconductors N.V. involves a number of risks, including, among others, the risk that we fail to complete the acquisition, in a timely manner or at all, regulatory risks, risks associated with our use of a significant portion of our cash and our taking on significant indebtedness, other financial risks, integration risks, and risk associated with the reactions of customers, suppliers and employees.

Our and NXP’s obligations to consummate the proposed transaction are subject to the satisfaction or waiver of certain conditions, including, among others: (i) the tender of a minimum number of NXP’s outstanding common shares in the tender offer commenced by a subsidiary of QUALCOMM Incorporated; (ii) the expiration or termination of any waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iii) the receipt of regulatory clearance under European Union and certain other foreign antitrust laws; (iv) the absence of any law or order prohibiting the proposed transaction; (v) there being no event that would have a material adverse effect on NXP; (vi) the accuracy of the representations and warranties of NXP, subject to certain exceptions, and NXP’s material compliance with its covenants, in the definitive agreement; (vii) the approval of certain governance-related resolutions at an extraordinary general meeting of NXP’s shareholders; and (viii) the completion of certain internal reorganization steps with respect to NXP and the disposition of certain non-core assets of NXP. We cannot provide assurance that the conditions to the completion of the proposed transaction will be satisfied in a timely manner or at all, and if the proposed transaction is not completed, we would not realize any of the expected benefits.



The regulatory approvals required in connection with the proposed transaction may not be obtained or may contain materially burdensome conditions. If any conditions or changes to the structure of the proposed transaction are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the proposed transaction or reducing our anticipated benefits. If we agree to any material conditions in order to obtain any approvals required to complete the proposed transaction, our business and results of operations may be adversely affected.

In addition, the use of a significant portion of our cash and the incurrence of substantial indebtedness in connection with the financing of the proposed transaction may have an adverse impact on our liquidity, limit our flexibility in responding to other business opportunities and increase our vulnerability to adverse economic and industry conditions. See the Risk Factor entitled “There are risks associated with our indebtedness.”

If the proposed transaction is not completed, our stock price could fall to the extent that our current price reflects an assumption that we will complete it. Furthermore, if the proposed transaction is not completed and the purchase agreement is terminated, we would not realize any of the expected benefits of the proposed transaction, and we may suffer other consequences that could adversely affect our business, results of operations and stock price, including, among others:

- we could be required to pay a termination fee to NXP of \$2.0 billion;
- we will have incurred and may continue to incur costs relating to the proposed transaction, many of which are payable by us whether or not the proposed transaction is completed;
- matters relating to the proposed transaction (including integration planning) require substantial commitments of time and resources by our management team and numerous others throughout our organization, which could otherwise have been devoted to other opportunities;
- we may be subject to legal proceedings related to the proposed transaction or the failure to complete the proposed transaction;
- the failure to consummate the proposed transaction may result in negative publicity and a negative perception of us in the investment community; and
- any disruptions to our business resulting from the announcement and pendency of the proposed transaction, including any adverse changes in our relationships with our customers, suppliers, partners or employees, may continue or intensify in the event the proposed transaction is not consummated.

The proposed transaction will be our largest acquisition to date, by a significant margin. The benefits we expect to realize from the proposed transaction will depend, in part, on our ability to integrate the businesses successfully and efficiently. See the Risk Factor entitled “We may engage in strategic acquisitions, transactions or make investments that could adversely affect our financial results or fail to enhance stockholder value.”

Furthermore, uncertainties about the proposed transaction may cause our and/or NXP’s current and prospective employees to experience uncertainty about their futures. These uncertainties may impair our and/or NXP’s ability to retain, recruit or motivate key management, engineering, technical and other personnel. Similarly, our and/or NXP’s existing or prospective customers, licensees, suppliers and/or partners may delay, defer or cease purchasing products or services from or providing products or services to us or NXP; delay or defer other decisions concerning us or NXP; or otherwise seek to change the terms on which they do business with us or NXP. Any of the above could harm us and/or NXP, and thus decrease the benefits we expect to receive from the proposed transaction.

The proposed transaction may also result in significant charges or other liabilities that could adversely affect our financial results, such as cash expenses and non-cash accounting charges incurred in connection with our acquisition and/or integration of the business and operations of NXP. Further, our failure to identify or accurately assess the magnitude of certain liabilities we are assuming in the proposed transaction could result in unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition. The price of our common stock following the proposed transaction could decline to the extent our financial results are materially affected by any of these events.

Our revenues depend on commercial network deployments, expansions and upgrades of CDMA, OFDMA and other communications technologies; our customers’ and licensees’ sales of products and services based on these technologies; and customers’ demand for our products and services.

We develop, patent and commercialize technology and products based on CDMA, OFDMA and other communications technologies, which are primarily wireless. We depend on operators of wireless networks and our customers and licensees to adopt these technologies for use in their networks, devices and services. We also depend on our customers and licensees to

32

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develop devices and services based on these technologies with value-added features to drive consumer demand for new 3G, 3G/4G multimode and 4G devices, as well as establishing the selling prices for such devices. Further, we depend on the timing of our customers' and licensees' deployments of new devices and services based on these technologies. Increasingly, we also depend on operators of wireless networks, our customers and licensees and other third parties to incorporate these technologies into new device types and into industries beyond traditional cellular communications, such as automotive, the IoT, including the connected home, smart cities and wearables, data center, networking, computing, mobile health and machine learning, including robotics, among others. We are also impacted by consumers' rates of replacement of smartphones and other computing 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 industries beyond traditional cellular communications deploy alternative technologies;

- wireless operators delay 3G and 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 further commercial deployment is delayed;

- government regulators delay making sufficient spectrum available for 3G, 4G, new unlicensed technologies that we are developing in conjunction with 3G and 4G, as well as for 5G, thereby restricting the ability of wireless operators to deploy or expand the use of these technologies;

- wireless operators delay or do not drive improvements in 3G or 3G/4G multimode network performance and/or capacity;

- our customers' and licensees' revenues and sales of products, particularly premium-tier products, and services using these technologies do not grow or do not grow as quickly as anticipated due to, for example, the maturity of smartphone penetration in developed regions;

- our intellectual property and technical leadership included in the 5G standardization effort is different than in 3G and 4G standards;

- the standardization and/or deployment of 5G technology is delayed; and/or

- we are unable to drive the adoption of our products and services into networks and devices, including devices beyond traditional cellular applications, 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/or those of our customers and/or licensees.

Our products, services and technologies face significant competition. We expect competition to increase as our current competitors expand their product offerings or reduce the prices of their products as part of a strategy to attract new business and/or customers, as new opportunities develop and as new competitors enter the industry. Competition in wireless communications is affected by various factors that include, among others: device manufacturer concentrations; growth in demand, consumption and competition in emerging geographic regions; government intervention and/or support of national industries and/or competitors; evolving industry standards and business models; evolving methods of transmission of voice and data communications; increasing data traffic and densification of wireless networks; convergence and aggregation of connectivity technologies (including Wi-Fi and LTE) in both devices and access points; consolidation of wireless technologies and infrastructure at the network edge; networking and connectivity trends (including cloud services); use of both licensed and unlicensed spectrum; the evolving nature of computing (including demand for always on, always connected capabilities); the speed of technological change (including the transition to smaller geometry process technologies); 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; 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 certain segments of the industry. Additionally, the semiconductor industry has experienced and may continue to experience consolidation, which could result in significant changes to the competitive landscape. We expect that our future success will depend on, among other factors, our ability to:



differentiate our integrated circuit products with innovative technologies across multiple products and features (e.g., modem, RFFE, graphics and/or other processors, camera and connectivity) and with smaller geometry process technologies that drive performance;

develop and offer integrated circuit products at competitive cost and price points to effectively cover both emerging and developed geographic regions and all device tiers;

continue to drive the adoption of our integrated circuit products into the most popular device models and across a broad spectrum of devices, such as smartphones, tablets, other computing devices, automobiles, wearable and other connected devices and infrastructure products;

maintain and/or accelerate demand for our integrated circuit products at the premium device tier, while increasing the adoption of our products in mid- and low-tier devices, in part by strengthening our integrated circuit product roadmap for, and developing channel relationships in, emerging geographic regions, such as China and India, and by providing turnkey products, which incorporate our integrated circuits, for low- and mid-tier smartphones and tablets;

continue to be a leader in 4G technology evolution, including expansion of our LTE-based single mode licensing program in areas where single-mode products are commercialized, 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;

be a preferred partner (and sustain preferred relationships) providing integrated circuit products that support multiple operating system and infrastructure platforms to industry participants that effectively commercialize new devices using these platforms;

increase and/or accelerate demand for our semiconductor component products, including RFFE, and our wired and wireless connectivity products, including networking products for consumers, carriers and enterprise equipment and connected devices;

identify potential acquisition targets that will grow or sustain our business or address strategic needs, reach agreement on terms acceptable to us and effectively integrate these new businesses and/or technologies;

create standalone value and/or contribute to the success of our existing businesses through acquisitions, joint ventures and other transactions (and/or by developing customer, licensee and/or vendor relationships) in new industry segments and/or disruptive technologies, products and/or services (such as products for automotive, the IoT, including the connected home, smart cities and wearables, data center, networking, computing, mobile health and machine learning, including robotics, among others);

become a leading supplier of radio frequency front-end products, which are designed to address cellular radio frequency band fragmentation while improving radio frequency performance and assist original equipment manufacturers in developing multiband, multimode mobile devices;

be a leader in 5G technology development, standardization, intellectual property creation and licensing and develop and commercialize 5G integrated circuit products and services; and/or

continue to develop brand recognition to effectively compete against better known companies in computing and other consumer driven segments and to deepen our presence in significant emerging geographic regions.

Competition in any or all product tiers may result in the loss of certain business or customers, which would negatively impact our revenues and operating results. Such competition may also reduce average selling prices for our chipset products and/or the products of our customers and licensees. Certain of these dynamics are particularly pronounced in emerging geographic regions where competitors may have lower cost structures and/or may have a willingness and ability to accept lower prices and/or lower or negative margins on their products (particularly in China). Reductions in the average selling prices of our chipset products, without a corresponding increase in volumes, would negatively impact our revenues, and without corresponding decreases in average unit costs, would negatively impact our margins. In addition, reductions in the average selling prices of our licensees' products, unless offset by an increase in volumes, would generally decrease total royalties payable to us, negatively impacting our licensing revenues.

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, Wi-Fi or their derivatives are generally competitors or potential competitors. Examples (some of which are strategic partners of ours in other areas) include Broadcom Limited, Cirrus



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34

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Ericsson, HiSilicon Technologies, Intel, Leadcore Technology Co., Ltd., Marvell Technology, Maxim Integrated Products, MediaTek, Microchip Technology Inc., Nvidia, Qorvo Inc., Realtek Semiconductor, Samsung Electronics, Skyworks Solutions Inc. and Spreadtrum Communications (which is controlled by Tsinghua Unigroup). Some of these current and potential competitors may have advantages over us that include, among others: motivation by our customers in certain circumstances to utilize their own internally-developed integrated circuit products, to use our competitors' integrated circuit products, or to choose alternative technologies; lower cost structures and/or a willingness and ability to accept lower prices and lower or negative margins for their products, particularly in China; foreign government support of other technologies or competitors; better known brand names; ownership and control of manufacturing facilities and greater expertise in manufacturing processes; more extensive relationships with local distribution companies and original equipment manufacturers in emerging geographic regions (such as China); and/or a more established presence in certain regions.

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 fluctuates, our operating results could be negatively affected.

Our QCT segment derives a significant portion of its revenues from a small number of customers, and we expect this trend to continue in the foreseeable future. Our industry is experiencing and may continue to experience concentration of device share among a few companies, particularly at the premium tier, contributing to this trend. In addition, certain of our largest integrated circuit customers develop their own integrated circuit products, which they have in the past chosen, and may in the future choose, to utilize in certain of their devices rather than our integrated circuit products (and/or sell their integrated circuit products to third parties in competition with us). Also, one of our largest integrated circuit customers has begun to utilize products of one of our competitors in certain of their devices rather than our products.

The loss of any one of our significant customers, a reduction in the purchases of our products by such customers or the cancelation of significant purchases by any of these customers, whether due to the use of their own integrated circuit products, our competitors' integrated circuit products or otherwise, 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, the 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 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.

One of our largest customers purchases our Mobile Data Modem (MDM) products, which do not include our integrated application processor technology and which have lower revenue and margin contributions than our combined modem and application processor products. To the extent such customer takes device share from our other customers who purchase our integrated modem and application processor products, our revenues and margins may be negatively impacted.

Further, companies that develop HLOS for devices, including leading technology companies, now sell their own devices. If we fail to effectively partner or continue partnering with these companies, or with 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 and/or intellectual property or rulings on certain patent law or patent licensing issues that create new legal precedent, could impact our business, particularly if such action impacts one of our larger customers. Although we have more than 335 CDMA-based licensees, our QTL segment derives a significant portion of its licensing revenues from a limited number of licensees. In the event that one or more of our significant licensees fail to

meet their reporting and/or payment requirements or we are unable to renew or modify one or more of such license agreements under similar terms, our revenues, operating results and cash flows would be adversely impacted. 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 no control over the product development, sales efforts or pricing of products by 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 licensing revenues.

We derive a significant portion of our consolidated revenues from the premium-tier device segment. If sales of premium-tier devices decrease, and/or sales of our premium-tier integrated circuit products decrease, our operating results could be negatively affected.

We derive a significant portion of our revenues from the premium-tier device segment, and we expect this trend to continue in the foreseeable future. We have experienced, and expect to continue to experience, slowing growth in the premium-tier device segment due to, among other factors, lengthening replacement cycles in developed regions, where premium-tier smartphones are common; increasing consumer demand in emerging regions, particularly China, where premium-tier smartphones are less common and replacement cycles are on average longer than in developed regions; and/or a maturing premium-tier smartphone industry in which demand is increasingly driven by new product launches and/or innovation cycles.

In addition, as discussed in the prior risk factor, our industry is experiencing concentration of device share among a few companies at the premium tier, which gives them significant supply chain leverage. Further, those companies may utilize their own internally-developed integrated circuit products, or our competitors' integrated circuit products, rather than our products in a portion of their devices. These dynamics may result in lower prices for and/or reduced sales of our premium-tier integrated circuit products.

A reduction in sales of premium-tier devices, or a reduction in sales of our premium-tier integrated circuit products (which have a higher revenue and margin contribution than our lower-tier integrated circuit products), may reduce our revenues and margins and may harm our ability to achieve or sustain expected operating results.

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; (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; and (vi) licensees using various strategies to attempt to shift their royalty obligation to their suppliers that results in lowering the wholesale (i.e., licensee's) selling price on which the royalty is calculated. In addition, certain licensees have disputed or underreported royalties owed to us under their license agreements with us or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or delayed entering into license agreements with us for their use of our intellectual property, and licensees and/or companies may continue to do so in the future. Further, to the extent such licensees and/or companies increase their device share, the negative impact of their underreporting and/or non-reporting on our business and operating results will be exacerbated.

We are currently subject to various litigation and governmental investigations and/or proceedings, some of which may arise out of the strategies described above. Certain legal matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. Depending on the type of matter, various remedies that could result from an unfavorable resolution include, among others, injunctions, monetary damages or fines or other orders to pay money and the issuance of orders to cease certain conduct and/or modify our business practices. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region.

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 SDOs, 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, including in litigation to which we may not be a party.

We expect that such proposals, interpretations and strategies will continue in the future, and if successful, our business model would be harmed, either by limiting or eliminating our ability to collect royalties (or by reducing the royalties we can collect) 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.

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

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 licensing practices, competitive business practices, the use of our technology or products, 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, privacy and data protection, environmental protection or employment, could have an adverse effect on our business.

We are currently subject to various governmental investigations and/or proceedings, and certain matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. Depending on the type of matter, various remedies that could result from an unfavorable resolution include, among others, injunctions, monetary damages or fines or other orders to pay money, and the issuance of orders to cease certain conduct and/or modify our business practices. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region.

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.

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.

Regulations in the United States require that we determine whether certain materials used in our products, referred to as conflict minerals, originated in the Democratic Republic of the Congo (DRC) or an adjoining country, or were from recycled or scrap sources. The verification and reporting requirements, in addition to customer demands for conflict free sourcing,

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 determine that our products are “DRC 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.

The enforcement and protection of our intellectual property rights may be expensive, could fail to prevent misappropriation or unauthorized use of our 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, international treaties 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. The steps we have taken have not always prevented, and we cannot be certain the steps we will 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 and current and potential future litigation regarding patents, the outcomes of which could be detrimental to our licensing business. The laws in certain foreign countries in which our products are or may be manufactured or sold, including certain countries in Asia, may not protect our intellectual property rights to the same extent as the laws in the United States. We expect that the European Union will adopt a unitary patent system in the next few years 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 in the future 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. Certain licensees have disputed or underreported royalties owed to us under their license agreements with us or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or delayed entering into license agreements for their use of our intellectual property, and such licensees and/or companies may continue to do so in the future. Additionally, although our license agreements provide us with the right to audit the books and records of licensees, audits can be expensive, time consuming, incomplete and subject to dispute. Further, certain licensees may not comply with the obligation to provide full access to their books and records. To the extent we do not aggressively enforce our rights under our license agreements, licensees may not comply with their existing license agreements, and to the extent we do not aggressively pursue unlicensed companies to enter into license agreements with us for their use of our intellectual property, other unlicensed companies may not



enter into license agreements.

We have entered into litigation in the past and may need to further litigate in the future to enforce our contract and/or 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, portions of our license agreements could be determined to be invalid or unenforceable (which may in turn result in other licensees either not complying with their existing license agreements and/or initiating litigation) and/or we could incur substantial unexpected operating costs. Any action we take to enforce our contract or intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results. Further, even a positive

resolution to our enforcement efforts may take time to conclude, which may reduce our revenues in the period prior to conclusion.

Our growth increasingly depends on our ability to extend our products and services into new and expanded product areas, such as RFFE, and adjacent industry segments outside of traditional cellular industries, such as the IoT, automotive and computing, among others. Our research, development and other investments in these new and expanded product areas and industry segments, and related technologies, products and services, as well as in our existing technologies, products and services and new technologies, such as 5G, may not generate operating income or contribute to future operating results that meet our expectations.

Our industry is subject to rapid technological change, evolving industry standards and frequent new product introductions, and we must make substantial research, development and other investments, such as acquisitions, in new products, services and technologies to compete successfully. Technological innovations generally require significant research and development efforts before they are commercially viable. While we continue to invest significant resources toward advancements primarily in support of 4G OFDMA- and 5G-based technologies, we also innovate across a broad spectrum of opportunities to deploy new and expanded products and enter into adjacent industry segments by leveraging our existing technical and business expertise and/or through acquisitions.

In particular, our future growth significantly depends on new and expanded product areas, such as RFFE, and adjacent industry segments, such as automotive, IoT, including the connected home, smart cities and wearables, data center, networking, computing, mobile health and machine learning, including robotics, among others; our ability to develop leading and cost-effective technologies, products and services for new and expanded product areas and adjacent industry segments; and third parties incorporating our technology, products and services into device types used in these product areas and industry segments. Accordingly, we intend to continue to make substantial investments in these new and expanded product areas and adjacent industry segments, and in developing new products, services and technologies for these product areas and industry segments.

However, our research, development and other investments in these new and expanded product areas and adjacent industry segments, and corresponding technologies, products and services, as well as in our existing, technologies, products and services and new technologies, such as use of both licensed and unlicensed spectrum, convergence of cellular and Wi-Fi and 5G, may not succeed due to, among others: new industry segments and/or consumer demand may not grow as anticipated; our strategies and/or the strategies of our customers, licensees or partners may not be successful; 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 and/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 revenues and/or margins may be negatively impacted and/or our reputation may be harmed.

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 success of our licensing programs for 4G single mode products and emerging industry segments; and the need to extend license agreements that are expiring and/or to cover additional future patents.

Although we own a very strong portfolio of issued and pending patents related to GSM, GPRS, EDGE, OFDM, OFDMA, WLAN 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 has been. Many wireless operators are investigating, have selected or have deployed OFDMA-based LTE as their next-generation 4G technology in existing (or future if not yet deployed) wireless spectrum bands as complementary to their existing CDMA-based networks. While 3G/4G multimode products are generally covered by our existing 3G licensing agreements, products that implement 4G but do not also implement 3G are generally not covered by these 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 220 companies (including Huawei, Lenovo, LG,

Microsoft, Oppo, Samsung, Sony Mobile, vivo, Xiaomi and ZTE) that have realized that they need a license to our patents to make and sell products implementing 4G standards but not implementing 3G standards, it may be difficult to agree on material terms and/or conditions of new license agreements that are acceptable to us with companies that are currently unlicensed. Further, the royalty rates for single mode 4G products are lower than our royalty rates for 3G and 3G/4G multimode products, so, without a corresponding increase in volumes and/or device ASP, we

will not achieve the same licensing revenues on such LTE products as on 3G and 3G/4G multimode products. In addition, new connectivity and other 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 IoT. We also seek to diversify and broaden our technology licensing programs to new industry segments in which we can utilize our technology leadership, such as wireless charging and other technologies. 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 and 3G/4G multimode 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 standards (such as 5G), 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. As a result, there are agreements with some licensees where later patents are not licensed by or to us. Additionally, certain of our license agreements (including essentially all of our recent agreements in China) are effective for a specified term. In order to license or to obtain a license to such later patents or after the expiration of a specified term, 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. Accordingly, to the extent not renewed on their terms or by election for an additional (generally multi-year) period, if applicable, we will need to extend or modify such license agreements or enter into new license agreements with such licensees more frequently than we have done historically. We might not be able to renew 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 there is a delay in renewing a license agreement prior to its expiration, there would be a delay in our ability to recognize revenues related to that licensee's product sales. Further, if we are unable to reach agreement on such modifications or new agreements, it could result in patent infringement litigation with such companies.

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 technology leadership, supply assurance and low cost, our operating results and our business may be harmed. We are also subject to order and shipment uncertainties that could negatively impact our operating results.

Our QCT segment currently utilizes a fabless production model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. We employ both turnkey and two-stage manufacturing models to purchase our integrated circuits. Under the turnkey model, our foundry suppliers are responsible for delivering fully assembled and tested integrated circuits. Under the two-stage manufacturing model, we purchase die in singular or wafer form from semiconductor manufacturing foundries and contract with separate third-party suppliers for manufacturing services such as wafer bump, probe, assembly and the majority of our final test requirements. The semiconductor manufacturing foundries that supply products to our QCT segment are primarily located in Asia, as are our primary warehouses where we store finished goods for fulfillment of customer orders. The following could have an adverse effect on our ability to meet customer demands and/or negatively impact our revenues, business operations, profitability and/or cash flows:

- 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;
- our suppliers' inability to react to shifts in product demand or an increase in raw material or component prices;
- our suppliers' delay in developing leading process technologies, or inability to develop or maintain leading process technologies, including transitions to smaller geometry process technologies;
- the loss of a supplier or the inability of a supplier to meet performance, quality or yield specifications or delivery schedules; and/or
- additional expense and/or production delays as a result of qualifying a new supplier and commencing volume production or testing in the event of a loss of or a decision to add or change a supplier.

While we have established alternate suppliers for certain technologies, we rely on sole- or limited-source suppliers for certain products, subjecting us to significant risks, including: possible shortages of raw materials or manufacturing capacity;

40

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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 and reduce our suppliers' willingness to negotiate pricing, which could negatively impact our ability to achieve cost reductions and/or increase our manufacturing costs. Our arrangements with our suppliers may obligate 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 impact our ability to introduce new products and meet customer demand, could increase our costs (possibly decreasing our margins) and could 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 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 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 and/or make non-refundable payments for capacity commitments that are not used.

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.

Additionally, we place orders with our suppliers using our forecasts of customer demand, which are based on a number of assumptions and estimates, and are generally only partially covered by commitments from our customers. If we overestimate customer demand, we may experience increased excess and/or obsolete inventory, which would negatively impact our operating results.

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 or services were found to infringe another company's intellectual property rights, we could be subject to an injunction or be required to redesign our products or services, 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 or services, license such intellectual property rights used in our products or services or otherwise distribute our products (e.g., through a licensed supplier), we could be prohibited from making and selling such products or providing such services. 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 on 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 United States 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 is very broad and may include, for example, monetary damages or fines or other orders to pay money, royalty payments, injunctions on the sale of certain of our integrated circuit products (and/or on the sale of our customers' devices using such products) and/or the issuance of orders to cease certain conduct and/or modify our business practices. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region. In addition, 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 worldwide chipset sales and/or a reduction in our licensees' sales to wireless operators, causing corresponding declines in our chipset and/or licensing revenues.

Certain legal matters, including certain claims by other companies that we infringe their intellectual property, are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies."

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

We engage in strategic acquisitions and other transactions, including joint ventures, and make investments, which we believe are important to the future of our business, with the goal of maximizing stockholder value. We acquire businesses and other assets, including patents, technology, wireless spectrum 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 or expanding opportunities for our technologies and supporting the design and introduction of new products and services (or enhancing existing products or services) for voice and data communications and new industry segments. Recent material transactions include our acquisition of CSR plc, our pending joint venture with TDK Corporation and our proposed acquisition of NXP. Many of our strategic activities entail a high degree of risk and require the use of domestic and/or foreign capital, and investments may not become liquid for several years after the date of the investment, if at all. Our strategic activities may not generate financial returns or result in increased adoption or continued use of our technologies, products or services. 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 strategic activities. Any losses or impairment charges that we incur related to strategic activities 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. 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 or other strategic activities, our results of operations may be adversely affected, and we may not enhance stockholder value by engaging in these transactions.

Achieving the anticipated benefits of business acquisitions, including joint ventures and other strategic investments in which we have management and operational control, depends in part upon our ability to integrate the businesses in an efficient and effective manner and achieve anticipated synergies. Such integration is complex and time consuming and involves significant challenges, including, among others: retaining key employees; successfully integrating new employees, technology, products, processes, operations (including manufacturing operations), sales and distribution channels, business models and business systems; retaining customers and suppliers of the businesses; consolidating research and development and/or supply operations; minimizing the diversion of management's attention from ongoing business matters; and consolidating corporate and administrative infrastructures; and managing the increased scale, complexity and globalization of our business, operations and employee base. We may not derive any commercial value from associated technologies or products or from future technologies or products based on these technologies, and we may be subject to liabilities that are not covered by indemnification protection that we may obtain, and we may become subject to litigation. Additionally, we may not be successful in entering or expanding into new sales or distribution channels, business or operational models (including manufacturing), geographic regions, industry segments and/or categories of products served by or adjacent to the associated businesses or in addressing potential new opportunities that may arise out of the combination.

Our use of open source software may harm our business.



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. 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 employ 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.

Our stock price, earnings and the fair value of our investments 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 those identified throughout this Risk Factors section, volatility of the stock market in general and technology-based companies in particular, announcements concerning us, our suppliers, our competitors or our customers or licensees, and variations between our actual results or guidance and expectations of securities analysts, among others. Further, increased volatility in the financial markets and/or overall economic conditions may reduce the amounts that we realize in the future on our cash equivalents and/or marketable securities and may reduce our earnings as a result of any impairment charges that we record to reduce recorded values of marketable securities to their fair values.

In the past, securities class action litigation 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 are and may in the future be the target of securities litigation. Securities litigation could result in substantial uninsured costs and divert management's attention and our resources. Certain legal matters, including certain securities litigation brought against us, are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies."

We maintain an extensive investment portfolio of varied holdings, which are generally classified as available-for-sale and are therefore recorded on our consolidated balance sheet at fair value, with unrealized gains or losses reported as a component of accumulated other comprehensive income. The fair value of our investments are subject to fluctuation based primarily on market price volatility, as well as the underlying operations of the associated investment, among other things. If the fair value of such investments decreases below their cost basis, as some of our previous investments have, we may be required in certain circumstances to recognize a loss in our results of operations. The sensitivity of and risks associated with the market value of our investment portfolio are described more fully in our Annual Report on Form 10-K for our fiscal year ended September 25, 2016 and "Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk" in this Quarterly Report.

There are risks associated with our indebtedness.

Our outstanding indebtedness and any additional indebtedness we incur, including in connection with our proposed acquisition of NXP, may have negative consequences on our business, including, among others:

- requiring us to use cash to pay the principal of and interest on our indebtedness, thereby reducing the amount of cash available for other purposes;

- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, stock repurchases, dividends or other general corporate and other purposes;

- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and/or

- increasing our vulnerability to interest rate fluctuations to the extent a portion of our debt has variable interest rates.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things: repatriate funds to the United States at substantial tax cost; refinance or restructure all or a portion of our indebtedness; reduce or delay planned capital or operating expenditures; or sell selected assets. Such measures might not be sufficient to enable us to service our debt. In addition, any such refinancing, restructuring or sale of assets might not be available on economically favorable terms or at all, and if

prevailing interest rates at the time of any such refinancing and/or restructuring are higher than our current rates, interest expense related to such refinancing and/or restructuring would increase. If there are adverse changes in the ratings assigned to our debt securities by credit rating

agencies, our borrowing costs, our ability to access debt in the future and/or the terms of such debt could be adversely affected.

Global, regional or local economic conditions that impact the mobile communications industry or the other industries in which we operate 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, regional or local economic conditions or a slow-down in economic growth, particularly in geographic regions with high concentrations of wireless voice and data users or high concentrations of our customers or licensees, 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 technologies; the insolvency of key suppliers, customers or licensees; 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 customers' ability to purchase or pay for our products and services and network operators' ability to 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.

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 identify, attract, retain and motivate them, particularly in an environment of cost reductions. Implementing our business strategy requires specialized engineering and other talent, as 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. If we are unable to attract and retain qualified employees, our business may be harmed.

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.

Our customers sell their products throughout the world in various currencies. Our consolidated revenues from international customers as a percentage of our total revenues were greater than 90% in 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; and/or

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.

Failures in our products or services or in the products or services of our customers or licensees, 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 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. The design process interface in new domains of technology and the migration to integrated circuit technologies with smaller geometric feature sizes are complex and add risk to manufacturing yields and reliability. Further, 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 products or services could

44

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have an adverse impact on us, on our customers and/or on the end users of our customers' products. Such adverse impact could include product liability claims or recalls, write-offs of our inventories and/or intangible assets; unfavorable purchase commitments; a shift of business to our competitors; 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. Further, security failures, defects or errors in the products of our customers or licensees, such as the recent issues with the Galaxy Note 6 that caused Samsung to discontinue that product, could have an adverse impact on our operating results due to a delay or decrease in demand for our products or services generally, and our premium-tier products in particular, among other factors.

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

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 any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability. We expect to continue to devote 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, including Singapore where our QCT segment's non-United States headquarters is located. 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 legal proceedings 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.

We have tax incentives in Singapore provided that we meet specified employment and other criteria, and as a result of the 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 fiscal 2027, and our results of operations could 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 reinvested outside the United States based on our current needs for those earnings to be reinvested offshore as well as estimates that future domestic cash generated from operations and/or borrowings will be sufficient to meet future domestic cash needs for the foreseeable future. No provision has been made for United States federal, 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, if the shares of these foreign subsidiaries were sold or otherwise transferred or if the United States international tax rules change as part of comprehensive tax reform or other tax legislation.

Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting (BEPS) project that was undertaken by the Organization for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, recommended changes to numerous long-standing tax principles related to transfer pricing. These changes, if adopted by countries, could increase tax uncertainty and may adversely affect our provision for income taxes. We have not yet determined what changes, if any, may be needed to our operations or structure to address BEPS. If our effective tax rates were to increase, particularly in the United States or Singapore, our operating results, cash flows and/or financial condition could be adversely affected.

### 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 2016 Annual Report on Form 10-K. At December 25, 2016, there have been no material changes to the financial market risks described at September 25, 2016, except as described below. 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.

**Equity Price Risk.** We hold a diversified marketable securities portfolio that includes equity securities and fund shares that are subject to equity price risk. We have made investments in marketable equity securities of companies of varying size, style, industry and geography and changes in investment allocations may affect the price volatility of our investments. On October 27, 2016, we announced a definitive agreement under which Qualcomm River Holdings will acquire NXP for estimated total cash consideration of \$38 billion. We intend to fund the transaction with cash held by foreign entities, which will result in the use of a substantial portion of our cash, cash equivalents and marketable securities, as well as new debt. As a result, in the first quarter of fiscal 2017, we began and expect to continue divesting a substantial portion of our marketable securities portfolio, including our equity securities and fund shares. The recorded values of our marketable equity securities and fund shares decreased to \$564 million at December 25, 2016 from \$1.7 billion at September 25, 2016. At December 25, 2016, we had no gross unrealized losses related to our marketable equity securities and fund shares. A 10% decrease in the market price of our marketable equity securities and fund shares at December 25, 2016 would have caused a decrease in the carrying amounts of these securities of \$56 million.

### 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 terms are defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). 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 were no changes in our internal control over financial reporting in the first quarter of fiscal 2017 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

Information regarding certain legal proceedings is provided in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." 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 in the first quarter of fiscal 2017 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	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
	(In thousands)		(In thousands)	(In millions)
September 26, 2016 to October 23, 2016	1,307	\$ 65.70	1,307	\$ 2,900
October 24, 2016 to November 20, 2016	1,770	67.40	1,770	2,781
November 21, 2016 to December 25, 2016	3,570	66.78	3,570	2,543
Total	6,647		6,647	

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

On March 9, 2015, we announced a repurchase program authorizing us to repurchase up to \$15 billion of our (2) common stock. At December 25, 2016, \$2.5 billion remained authorized 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

Not applicable.

## ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Form	File No./ Film No.	Date of First Filing	Exhibit Number	Filed Herewith
2.2	Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated. (2)	8-K	000-19528/ 161339867	1/13/2016	2.1	
2.3	Amendment #1, dated December 20, 2016, to Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated. (2)					X
2.4	Amendment #2, dated January 19, 2017, to Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM					X



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	Incorporated. (2)				
2.5	Purchase Agreement dated as of October 27, 2016 by and between Qualcomm River Holdings, B.V. and NXP Semiconductors N.V. (2)	8-K	000-19528/ 161956228	10/27/2016	2.1
3.1	Restated Certificate of Incorporation, as amended.	10-Q	000-19528/ 161775595	7/20/2016	3.1
3.2	Amended and Restated Bylaws.	8-K	000-19528/ 161769723	7/15/2016	3.2
4.1	Indenture, dated May 20, 2015, between the Company and U.S. Bank National Association, as trustee.	8-K	000-19528/ 15880967	5/21/2015	4.1
4.2	Officers' Certificate, dated May 20, 2015, for the Floating Rate Notes due 2018, the Floating Rate Notes due 2020, the 1.400% Notes due 2018, the 2.250% Notes due 2020, the 3.000% Notes due 2022, the 3.450% Notes due 2025, the 4.650% Notes due 2035 and the 4.800% Notes due 2045.	8-K	000-19528/ 15880967	5/21/2015	4.2
4.3	Form of Floating Rate Notes due 2018.	8-K	000-19528/ 15880967	5/21/2015	4.3
4.4	Form of Floating Rate Notes due 2020.	8-K	000-19528/ 15880967	5/21/2015	4.4
4.5	Form of 1.400% Notes due 2018.	8-K	000-19528/ 15880967	5/21/2015	4.5
4.6	Form of 2.250% Notes due 2020.	8-K	000-19528/ 15880967	5/21/2015	4.6
4.7	Form of 3.000% Notes due 2022.	8-K	000-19528/ 15880967	5/21/2015	4.7
4.8	Form of 3.450% Notes due 2025.	8-K	000-19528/ 15880967	5/21/2015	4.8
4.9	Form of 4.650% Notes due 2035.	8-K	000-19528/ 15880967	5/21/2015	4.9
4.10	Form of 4.800% Notes due 2045.	8-K	000-19528/ 15880967	5/21/2015	4.10
10.35	Qualcomm Incorporated 2017 Director Compensation Plan (1)	8-K	000-19528/ 161931217	10/11/2016	99.1
10.39	Letter Agreement, dated as of October 27, 2016, by and between QUALCOMM Incorporated and Qualcomm River Holdings B.V.	8-K	000-19528/ 161956228	10/27/2016	10.1
10.40	Credit Agreement among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as Administrative Agent, dated as of November 8, 2016.	8-K	000-19528/ 161985209	11/9/2016	10.1
10.41	Amended and Restated Credit Agreement among QUALCOMM Incorporated, the lenders party thereto and Bank of America, N.A., as Administrative Agent, dated as of November 8, 2016.	8-K	000-19528/ 161985209	11/9/2016	10.2
10.42	Letter of Credit and Reimbursement Agreement between Qualcomm River Holdings B.V. and Mizuho Bank, Ltd., dated as of November 22, 2016.	8-K	000-19528/ 162023573	11/29/2016	10.1

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10.43	First Amendment to Letter of Credit and Reimbursement Agreement between Qualcomm River Holdings B.V. and Mizuho Bank, Ltd., dated as of November 23, 2016.	8-K	000-19528/ 162023573	11/29/2016	10.2	
10.44	Continuing Agreement for Standby Letters of Credit between Qualcomm River Holdings B.V. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., dated as of November 22, 2016.	8-K	000-19528/ 162023573	11/29/2016	10.3	
10.45	Reimbursement and Security Agreement between Qualcomm River Holdings B.V. and Sumitomo Mitsui Banking Corporation, dated as of November 22, 2016.	8-K	000-19528/ 162023573	11/29/2016	10.4	
10.46	Letter of Credit Application by QUALCOMM Incorporated to Bank of America, N.A., dated as of November 23, 2016.	8-K	000-19528/ 162023573	11/29/2016	10.5	
10.47	Form of 2017 Annual Cash Incentive Plan Performance Unit Agreement (1)					X
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Steve Mollenkopf.					X
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for George S. Davis.					X
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 Steve Mollenkopf.					X
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.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase.					X



- (1) Indicates management contract or compensatory plan or arrangement required to be identified pursuant to Item 15 (a).
- (2) The Company shall furnish supplementally a copy of any omitted schedule to the Commission upon request.

49

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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 25, 2017

50