

QUALCOMM INC/DE  
Form 10-Q  
February 01, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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(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, 2011  
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-19528

QUALCOMM Incorporated  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

95-3685934  
(I.R.S. Employer  
Identification No.)

5775 Morehouse Dr., San Diego, California  
(Address of principal executive offices)  
(858) 587-1121

92121-1714  
(Zip Code)

(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):

Non-accelerated filer ☐  
Large accelerated filer ☒ Accelerated filer ☐ (Do not check if a smaller reporting  
company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on January 30, 2012, was as follows:

| Class                                      | Number of Shares |
|--------------------------------------------|------------------|
| Common Stock, \$0.0001 per share par value | 1,691,418,257    |

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## 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,<br>2011 | September 25,<br>2011 |
|------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| <b>ASSETS</b>                                                                                                          |                      |                       |
| Current assets:                                                                                                        |                      |                       |
| Cash and cash equivalents                                                                                              | \$4,964              | \$5,462               |
| Marketable securities                                                                                                  | 6,576                | 6,190                 |
| Accounts receivable, net                                                                                               | 1,035                | 993                   |
| Inventories                                                                                                            | 714                  | 765                   |
| Deferred tax assets                                                                                                    | 509                  | 537                   |
| Other current assets                                                                                                   | 236                  | 346                   |
| Total current assets                                                                                                   | 14,034               | 14,293                |
| Marketable securities                                                                                                  | 10,438               | 9,261                 |
| Deferred tax assets                                                                                                    | 1,626                | 1,703                 |
| Assets held for sale                                                                                                   | 746                  | 746                   |
| Property, plant and equipment, net                                                                                     | 2,607                | 2,414                 |
| Goodwill                                                                                                               | 3,624                | 3,432                 |
| Other intangible assets, net                                                                                           | 3,093                | 3,099                 |
| Other assets                                                                                                           | 1,438                | 1,474                 |
| Total assets                                                                                                           | \$37,606             | \$36,422              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                            |                      |                       |
| Current liabilities:                                                                                                   |                      |                       |
| Trade accounts payable                                                                                                 | \$974                | \$969                 |
| Payroll and other benefits related liabilities                                                                         | 542                  | 644                   |
| Unearned revenues                                                                                                      | 543                  | 610                   |
| Loans payable                                                                                                          | 928                  | 994                   |
| Income taxes payable                                                                                                   | 40                   | 18                    |
| Other current liabilities                                                                                              | 1,967                | 2,054                 |
| Total current liabilities                                                                                              | 4,994                | 5,289                 |
| Unearned revenues                                                                                                      | 3,535                | 3,541                 |
| Other liabilities                                                                                                      | 580                  | 620                   |
| Total liabilities                                                                                                      | 9,109                | 9,450                 |
| Commitments and contingencies (Note 6)                                                                                 |                      |                       |
| Stockholders' equity:                                                                                                  |                      |                       |
| Qualcomm stockholders' equity:                                                                                         |                      |                       |
| Preferred stock, \$0.0001 par value; 8 shares authorized; none outstanding                                             | —                    | —                     |
| Common stock, \$0.0001 par value; 6,000 shares authorized; 1,687 and 1,681 shares issued and outstanding, respectively | —                    | —                     |
| Paid-in capital                                                                                                        | 10,749               | 10,394                |
| Retained earnings                                                                                                      | 17,237               | 16,204                |

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|                                            |          |          |
|--------------------------------------------|----------|----------|
| Accumulated other comprehensive income     | 495      | 353      |
| Total Qualcomm stockholders' equity        | 28,481   | 26,951   |
| Noncontrolling interests                   | 16       | 21       |
| Total stockholders' equity                 | 28,497   | 26,972   |
| Total liabilities and stockholders' equity | \$37,606 | \$36,422 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

|                                                             | Three Months Ended   |                       |
|-------------------------------------------------------------|----------------------|-----------------------|
|                                                             | December 25,<br>2011 | December 26,<br>2010* |
| Revenues:                                                   |                      |                       |
| Equipment and services                                      | \$3,167              | \$2,213               |
| Licensing                                                   | 1,514                | 1,135                 |
| Total revenues                                              | 4,681                | 3,348                 |
| Operating expenses:                                         |                      |                       |
| Cost of equipment and services revenues                     | 1,754                | 1,043                 |
| Research and development                                    | 873                  | 649                   |
| Selling, general and administrative                         | 503                  | 409                   |
| Total operating expenses                                    | 3,130                | 2,101                 |
| Operating income                                            | 1,551                | 1,247                 |
| Investment income, net (Note 3)                             | 170                  | 223                   |
| Income from continuing operations before income taxes       | 1,721                | 1,470                 |
| Income tax expense                                          | (321)                | (218)                 |
| Income from continuing operations                           | 1,400                | 1,252                 |
| Discontinued operations, net of income taxes (Note 8)       | (5)                  | (82)                  |
| Net income                                                  | 1,395                | 1,170                 |
| Net loss attributable to noncontrolling interests           | 6                    | —                     |
| Net income attributable to Qualcomm                         | \$1,401              | \$1,170               |
| Basic earnings (loss) per share attributable to Qualcomm:   |                      |                       |
| Continuing operations                                       | \$0.83               | \$0.77                |
| Discontinued operations                                     | —                    | (0.05)                |
| Net income                                                  | \$0.83               | \$0.72                |
| Diluted earnings (loss) per share attributable to Qualcomm: |                      |                       |
| Continuing operations                                       | \$0.81               | \$0.76                |
| Discontinued operations                                     | —                    | (0.05)                |
| Net income                                                  | \$0.81               | \$0.71                |
| Shares used in per share calculations:                      |                      |                       |
| Basic                                                       | 1,684                | 1,623                 |
| Diluted                                                     | 1,721                | 1,648                 |
| Dividends per share announced                               | \$0.215              | \$0.190               |

\*As adjusted for discontinued operations (Note 8)

See Accompanying Notes to Condensed Consolidated Financial Statements.



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

|                                                                                   | Three Months Ended   |                      |
|-----------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                   | December 25,<br>2011 | December 26,<br>2010 |
| Operating Activities:                                                             |                      |                      |
| Net income                                                                        | \$1,395              | \$1,170              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Depreciation and amortization                                                     | 208                  | 201                  |
| Revenues related to non-monetary exchanges                                        | (31)                 | (31)                 |
| Income tax provision in excess of (less than) income tax payments                 | 118                  | (1,474)              |
| Non-cash portion of share-based compensation expense                              | 247                  | 174                  |
| Incremental tax benefit from stock options exercised                              | (23)                 | (45)                 |
| Net realized gains on marketable securities and other investments                 | (44)                 | (127)                |
| Gains on derivative instruments                                                   | (45)                 | (1)                  |
| Net impairment losses on marketable securities and other investments              | 20                   | 11                   |
| Other items, net                                                                  | 6                    | (1)                  |
| Changes in assets and liabilities, net of effects of acquisitions:                |                      |                      |
| Accounts receivable, net                                                          | (38)                 | 76                   |
| Inventories                                                                       | 50                   | (45)                 |
| Other assets                                                                      | (24)                 | (23)                 |
| Trade accounts payable                                                            | 26                   | (234)                |
| Payroll, benefits and other liabilities                                           | (43)                 | 21                   |
| Unearned revenues                                                                 | (43)                 | 376                  |
| Net cash provided by operating activities                                         | 1,779                | 48                   |
| Investing Activities:                                                             |                      |                      |
| Capital expenditures                                                              | (359)                | (102)                |
| Purchases of available-for-sale securities                                        | (2,027)              | (2,309)              |
| Proceeds from sale of available-for-sale securities                               | 1,603                | 3,024                |
| Purchases of trading securities                                                   | (1,137)              | —                    |
| Proceeds from sale of trading securities                                          | 148                  | —                    |
| Acquisitions and other investments, net of cash acquired                          | (300)                | (66)                 |
| Other items, net                                                                  | 4                    | 7                    |
| Net cash (used) provided by investing activities                                  | (2,068)              | 554                  |
| Financing Activities:                                                             |                      |                      |
| Borrowing under loans payable                                                     | —                    | 1,083                |
| Repayment of loans payable                                                        | —                    | (1,083)              |
| Proceeds from issuance of common stock                                            | 228                  | 791                  |
| Incremental tax benefit from stock options exercised                              | 23                   | 45                   |
| Repurchase and retirement of common stock                                         | (99)                 | —                    |
| Dividends paid                                                                    | (362)                | (309)                |
| Change in obligation under securities lending                                     | 20                   | 38                   |
| Other items, net                                                                  | (1)                  | (4)                  |
| Net cash (used) provided by financing activities                                  | (191)                | 561                  |
| Effect of exchange rate changes on cash                                           | (18)                 | 1                    |
| Net (decrease) increase in cash and cash equivalents                              | (498)                | 1,164                |
| Cash and cash equivalents at beginning of period                                  | 5,462                | 3,547                |
| Cash and cash equivalents at end of period                                        | \$4,964              | \$4,711              |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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 footnotes required by GAAP for complete financial statements. In the opinion of management, the interim data includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 25, 2011. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month periods ended December 25, 2011 and December 26, 2010 both included 13 weeks.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's condensed consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. Certain prior period amounts have been adjusted to reflect the presentation of the FLO TV business as discontinued operations (Note 8).

**Earnings Per Common Share.** Basic earnings per common share is 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 is computed by dividing net income attributable to Qualcomm by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an award, if any, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the estimated tax benefits that would be recorded in paid-in capital, if any, when an award is settled are assumed to be used to repurchase shares in the current period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months ended December 25, 2011 and December 26, 2010 were 37,052,000 and 25,507,000, respectively.

Employee stock options to purchase approximately 4,471,000 and 60,792,000 shares of common stock during the three months ended December 25, 2011 and December 26, 2010, respectively, were outstanding but not included in the computation of diluted earnings per common share because the effect would be anti-dilutive. Put options outstanding during the three months ended December 25, 2011 to purchase 11,800,000 shares of common stock were not included in the earnings per common share computation because the put options' exercise prices were less than the average market price of the common stock while they were outstanding, and therefore, the effect on diluted earnings per common share would be anti-dilutive (Note 5). In addition, 675,000 and 467,000 shares of other common stock equivalents outstanding during the three months ended December 25, 2011 and December 26, 2010, respectively, were not included in the computation of diluted earnings per common share because either the effect would be anti-dilutive or certain performance conditions were not satisfied at the end of the period.

**Comprehensive Income.** Total comprehensive income attributable to Qualcomm consisted of the following (in millions):



QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

|                                                                                                                                                                  | Three Months Ended   |                       |   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|---|
|                                                                                                                                                                  | December 25,<br>2011 | December 26,<br>2010  |   |
| Net income                                                                                                                                                       | \$1,395              | \$1,170               |   |
| Other comprehensive income:                                                                                                                                      |                      |                       |   |
| Foreign currency translation                                                                                                                                     | (27                  | ) 5                   |   |
| Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain available-for-sale debt securities, net of income taxes | 1                    | (4                    | ) |
| Net unrealized gains on other available-for-sale securities and derivative instruments, net of income taxes                                                      | 175                  | 131                   |   |
| Reclassification of net realized gains on available-for-sale securities and derivative instruments included in net income, net of income taxes                   | (18                  | ) (76                 | ) |
| Reclassification of other-than-temporary losses on available-for-sale securities included in net income, net of income taxes                                     | 9                    | 4                     |   |
| Total other comprehensive income                                                                                                                                 | 140                  | 60                    |   |
| Total comprehensive income                                                                                                                                       | 1,535                | 1,230                 |   |
| Comprehensive loss attributable to noncontrolling interests                                                                                                      | 8                    | —                     |   |
| Comprehensive income attributable to Qualcomm                                                                                                                    | \$1,543              | \$1,230               |   |
| Components of accumulated other comprehensive income in Qualcomm stockholders' equity consisted of the following (in millions):                                  |                      |                       |   |
|                                                                                                                                                                  | December 25,<br>2011 | September 25,<br>2011 |   |
| Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain available-for-sale debt securities, net of income taxes | \$29                 | \$27                  |   |
| Net unrealized gains on other available-for-sale securities, net of income taxes                                                                                 | 581                  | 427                   |   |
| Net unrealized losses on derivative instruments, net of income taxes                                                                                             | (4                   | ) (15                 | ) |
| Foreign currency translation                                                                                                                                     | (111                 | ) (86                 | ) |
|                                                                                                                                                                  | \$495                | \$353                 |   |

At December 25, 2011 and September 25, 2011, accumulated other comprehensive income included \$12 million and \$13 million, respectively, of other-than-temporary losses on certain available-for-sale debt securities related to factors other than credit, net of income taxes.

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

|                                              | Three Months Ended   |                       |
|----------------------------------------------|----------------------|-----------------------|
|                                              | December 25,<br>2011 | December 26,<br>2010* |
| Cost of equipment and services revenues      | \$20                 | \$14                  |
| Research and development                     | 126                  | 85                    |
| Selling, general and administrative          | 101                  | 70                    |
| Continuing operations                        | 247                  | 169                   |
| Related income tax benefit                   | (53                  | ) (55                 |
| Continuing operations, net of income taxes   | 194                  | 114                   |
| Discontinued operations                      | —                    | 3                     |
| Related income tax benefit                   | —                    | (1                    |
| Discontinued operations, net of income taxes | —                    | 2                     |

\$194

\$116

\*As adjusted for discontinued operations (Note 8)

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## QUALCOMM Incorporated

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company recorded \$33 million and \$13 million in share-based compensation expense during the three months ended December 25, 2011 and December 26, 2010, respectively, related to share-based awards granted during those periods. In addition, for the three months ended December 25, 2011 and December 26, 2010, \$23 million and \$45 million, respectively, were reclassified to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities to reflect the incremental tax benefit from stock options exercised in those periods.

At December 25, 2011, total unrecognized compensation costs related to non-vested stock options and restricted stock units granted prior to that date were \$537 million and \$1.1 billion, respectively, which are expected to be recognized over a weighted-average period of 1.8 years and 2.3 years, respectively. Net share-based awards, after forfeitures and cancellations, granted during the three months ended December 25, 2011 and December 26, 2010 represented 0.5% and 0.4%, respectively, of outstanding shares as of the beginning of each fiscal period. Total share-based awards granted during the three months ended December 25, 2011 and December 26, 2010 each represented 0.5% of outstanding shares as of the end of each fiscal period.

## Note 2 — Composition of Certain Financial Statement Items

## Inventories.

|                 | December 25,<br>2011 | September 25,<br>2011 |
|-----------------|----------------------|-----------------------|
|                 | (In millions)        |                       |
| Raw materials   | \$14                 | \$15                  |
| Work-in-process | 235                  | 384                   |
| Finished goods  | 465                  | 366                   |
|                 | \$714                | \$765                 |

## Other Current Liabilities.

|                                                            | December 25,<br>2011 | September 25,<br>2011 |
|------------------------------------------------------------|----------------------|-----------------------|
|                                                            | (In millions)        |                       |
| Customer incentives and other customer-related liabilities | \$1,401              | \$1,180               |
| Current portion of payable to Broadcom (Note 6)            | 170                  | 170                   |
| Payable for unsettled securities trades                    | 75                   | 298                   |
| Other                                                      | 321                  | 406                   |
|                                                            | \$1,967              | \$2,054               |

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 3 — Investment Income, Net

|                                             | Three Months Ended   |                       |
|---------------------------------------------|----------------------|-----------------------|
|                                             | December 25,<br>2011 | December 26,<br>2010* |
| Interest and dividend income                | \$ 130               | \$ 131                |
| Interest expense                            | (27                  | ) (24                 |
| Net realized gains on marketable securities | 37                   | 127                   |
| Net realized gains on other investments     | 7                    | —                     |
| Impairment losses on marketable securities  | (14                  | ) (8                  |
| Impairment losses on other investments      | (6                   | ) (3                  |
| Gains on derivative instruments             | 45                   | 1                     |
| Equity in losses of investees               | (2                   | ) (1                  |
|                                             | \$ 170               | \$ 223                |

\*As adjusted for discontinued operations (Note 8)

Note 4 — Income Taxes

The Company estimates its annual effective income tax rate for continuing operations to be approximately 18% for fiscal 2012, compared to the 20% effective income tax rate for fiscal 2011. The United States federal research and development tax credit expired on December 31, 2011. Therefore, the annual effective rate for fiscal 2012 only reflects the federal research and development credit generated through December 31, 2011. The annual effective rate for fiscal 2012 also reflects a lower state rate as a result of California tax legislation enacted in 2009.

The estimated annual effective tax rate for continuing operations for fiscal 2012 of 18% is less than the United States federal statutory rate primarily due to benefits of approximately 17% related to foreign earnings taxed at less than the United States federal rate. The prior fiscal year rate was lower than the United States federal statutory rate primarily due to benefits related to foreign earnings taxed at less than the United States federal rate, partially offset by state taxes and tax expense related to the valuation of deferred tax assets to reflect changes in California law.

Note 5 — Stockholders' Equity

Changes in stockholders' equity for the three months ended December 25, 2011 were as follows (in millions):

|                                                                                                               | Qualcomm<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|---------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------|----------------------------------|
| Balance at September 25, 2011                                                                                 | \$26,951                            | \$21                        | \$26,972                         |
| Net income (loss) <sup>(1)</sup>                                                                              | 1,401                               | (6                          | ) 1,395                          |
| Other comprehensive income (loss)                                                                             | 142                                 | (2                          | ) 140                            |
| Common stock issued under employee benefit plans and the related tax benefits, net of shares withheld for tax | 203                                 | —                           | 203                              |
| Share-based compensation                                                                                      | 251                                 | —                           | 251                              |
| Dividends                                                                                                     | (368                                | ) —                         | (368                             |
| Stock repurchases                                                                                             | (99                                 | ) —                         | (99                              |
| Other                                                                                                         | —                                   | 3                           | 3                                |
| Balance at December 25, 2011                                                                                  | \$28,481                            | \$16                        | \$28,497                         |

<sup>(1)</sup> Loss from discontinued operations, net of income taxes, (Note 8) was attributable to Qualcomm.



QUALCOMM Incorporated

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Stock Repurchase Program.** During the three months ended December 25, 2011, the Company repurchased and retired 2,046,000 shares of the Company's common stock for \$99 million, before commissions. The Company did not repurchase any shares during the three months ended December 26, 2010. At December 25, 2011, approximately \$948 million remained authorized for repurchase under the Company's stock repurchase program, net of put options outstanding.

In connection with the Company's stock repurchase program, the Company sold three put options on its own stock during fiscal 2011. At December 25, 2011, the Company had three outstanding put options enabling holders to sell 11,800,000 shares of the Company's common stock to the Company for approximately \$511 million (net of the \$75 million in put option premiums received). The put option liability of \$35 million at December 25, 2011 was recorded in other current liabilities. During the three months ended December 25, 2011, the Company recognized gains of \$45 million in net investment income due to a decrease in the fair value of the put options. No put options were outstanding during the three months ended December 26, 2010.

**Dividends.** Cash dividends announced in the three months ended December 25, 2011 and December 26, 2010 were \$0.215 and \$0.190 per share, respectively. During the three months ended December 25, 2011 and December 26, 2010, dividends charged to retained earnings were \$368 million and \$314 million, respectively. On January 10, 2012, the Company announced a cash dividend of \$0.215 per share on the Company's common stock, payable on March 23, 2012 to stockholders of record as of March 2, 2012.

**Note 6 — Commitments and Contingencies**

**Legal Proceedings. Tessera, Inc. v. QUALCOMM Incorporated:** On April 17, 2007, Tessera filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas and a complaint with the United States International Trade Commission (ITC) pursuant to Section 337 of the Tariff Act of 1930 against the Company and other companies, alleging infringement of two patents. The district court action is stayed pending resolution of the ITC proceeding, including all appeals. On May 20, 2009, the ITC issued a limited exclusion order and a cease and desist order, both of which were terminated when the patents expired on September 24, 2010. During the period of the exclusion order, the Company shifted supply of accused chips for customers who manufacture products that may be imported to the United States to a licensed supplier of Tessera, and the Company continued to supply those customers without interruption. The appeals court affirmed the ITC's orders, and on November 28, 2011, the U.S. Supreme Court denied the Company's petition for review. On January 18, 2012, pursuant to the parties' stipulation, the district court in the Eastern District of Texas lifted the stay and ordered the case be moved to the United States District Court for the Northern District of California. Once the stay is lifted, Tessera may continue to seek back damages in the district court, but it may not seek injunctive relief due to the expiration of the patents.

**MicroUnity Systems Engineering, Inc. v. QUALCOMM Incorporated, et al.:** MicroUnity filed a total of three patent infringement complaints, on March 16, 2010, June 3, 2010 and January 27, 2011, against the Company and a number of other technology companies, including Texas Instruments, Samsung, Apple, Nokia, Google and HTC, in the United States District Court for the Eastern District of Texas. The complaints against the Company alleged infringement of a total of 15 patents, appear to accuse the Company's Snapdragon products and seek unspecified damages and other relief. The court consolidated the actions in May 2011. On September 30, 2011, the court denied the Company's motion to sever its case from the other defendants and to transfer the case to the Northern District of California. On January 6, 2012, MicroUnity filed a notice that it will no longer assert two of the patents against the Company and reduce the number of claims in the 13 remaining asserted patents. Trial is scheduled for June 3, 2013.

**Broadcom Corporation et al. v. Commonwealth Scientific and Industrial Research Organisation (CSIRO):** On November 10, 2009, Broadcom and Atheros (which was acquired by the Company in May 2011) filed a complaint for declaratory judgment against CSIRO in the United States District Court for the Eastern District of Texas, requesting the court to declare, among other things, that United States patent number 5,487,069 (the '069 Patent) assigned to

CSIRO is invalid and unenforceable and that Atheros does not infringe any valid claims of the '069 Patent. On October 14, 2010, CSIRO filed a complaint against Atheros and Broadcom (amended and consolidated with complaints against other third parties on April 6, 2011) alleging infringement of the '069 Patent by Atheros' 802.11/a/g/n products. A claim construction hearing was held on October 4, 2011, and trial is scheduled for April 9, 2012.

MOSAID Technologies Incorporated v. Dell, Inc. et al.: On March 16, 2011, MOSAID filed a complaint against Atheros and 32 other entities in the United States District Court for the Eastern District of Texas alleging that certain of

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Atheros' WiFi products infringe United States patent numbers 5,131,006, 5,151,920, 5,422,887, 5,706,428, 6,563,786 and 6,992,972. MOSAID seeks unspecified damages and other relief. The case is early in the discovery phase. Trial is scheduled for August 4, 2014.

India BWA Spectrum: In connection with the BWA spectrum won in India in June 2010, the Company recorded a payment in noncurrent other assets, which was \$928 million and \$994 million at December 25, 2011 and September 25, 2011, respectively. In addition, the Company created four wholly-owned subsidiaries. On August 9, 2010, each subsidiary filed an application to obtain a license to operate a wireless network on this spectrum for one of the respective regions. Thereafter, two Indian companies each acquired 13% of each subsidiary. On September 21, 2011, the Company received a letter dated September 7, 2011 from the Government of India's Department of Telecommunications (DoT) (the DoT Letter) notifying the Company that its applications had been rejected based on its conclusion that the applications were filed after the deadline and that the Company was restricted to filing one application rather than four. On September 27, 2011, the Company filed a petition with the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) seeking to overturn the DoT Letter. On September 28, 2011, the TDSAT issued an order granting the Company interim relief, pending a final determination of the case, directing the DoT to (i) not issue the spectrum that has been earmarked to the Company to anyone else and (ii) not forfeit or appropriate the payment that the Company made for the spectrum. On October 10, 2011, one of the Company's subsidiaries received a letter from the DoT offering to issue it a license that would cover all of India, including the four regions for which the Company won spectrum at the June 2010 auction, assuming that the subsidiary met certain requirements by November 9, 2011. On October 18, 2011, the subsidiary submitted to the DoT a letter accepting the DoT's offer, requesting issuance of a license as soon as possible after the requirements were met, and stating that upon issuance of the license, the Company's three other subsidiaries would merge into the subsidiary that had been granted a license. On October 19, 2011, the DoT filed a reply to the Company's September 27, 2011 petition with the TDSAT. In its reply, the DoT stated that upon issuance of a license, the Company's subsidiary could apply for assignment of the spectrum, and at that time, the DoT would decide whether to grant the requested assignment and whether the Company's applications for licenses were timely filed in accordance with its rules. On October 20, 2011, the TDSAT conducted a second hearing on the Company's case. At the conclusion of the hearing, the TDSAT ordered the DoT to clarify the aforementioned statements in its October 19, 2011 reply in light of its October 10, 2011 offer. On November 2, 2011, the subsidiary made a filing with the DoT to meet the four requirements of the DoT Letter, which included certification by the Company's subsidiary that no dues were payable to the DoT by either the subsidiary or its shareholders. The TDSAT conducted a hearing on November 8, 2011 and ordered that the subsidiary and the DoT meet to expedite the licensing process. The Company met with the DoT on November 14, 2011 and thereafter provided additional documentation to the DoT. At a December 2, 2011 hearing before the TDSAT, the DoT stated that it had served a provisional assessment on one of the subsidiary's Indian partners in the amount of approximately \$28 million (based on the applicable foreign currency exchange rate on December 25, 2011) in unpaid dues, including interest and penalties. The TDSAT conducted hearings on this matter on December 9, 2011, January 2, 2012 and January 31, 2012. The next hearing is scheduled for February 6, 2012. On January 22, 2012, the Company filed an application requesting that the TDSAT order the DoT to issue the license pursuant to the DoT's October 10, 2011 letter. In the application, the Company argued that the provisional assessment was not a legal basis for the DoT to delay issuing the license. The Company also offered to have its subsidiary execute an undertaking that would take effect upon issuance of the license. In the undertaking, the Company's subsidiary would agree that if the Indian partner did not pay an amount ultimately found to be due (up to the amount of the assessment), the subsidiary would pay such amount. In addition, the Company offered to have the subsidiary provide a bank guarantee to cover the amount found to be payable if the DoT has any concern about the creditworthiness of the subsidiary. The DoT has been ordered to file a response to the Company's application on February 3, 2012. If the Company does not ultimately prevail in this matter, the Company's subsidiary may not receive a license or an assignment of the spectrum that the Company won in

the auction; and in either of those events, the Company's payment for the spectrum may not be returned.

Icera Complaint to the European Commission: On June 7, 2010, the European Commission (the Commission) notified and provided the Company with a redacted copy of a complaint filed with the Commission by Icera, Inc. alleging that the Company has engaged in anticompetitive activity. The Company has been 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. On October 19, 2011, the Commission notified the Company that it should provide to the Commission additional documents and information. The Company continues to cooperate fully with the Commission's preliminary investigation.

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**Korea Fair Trade Commission (KFTC) Complaint:** On January 4, 2010, the KFTC issued a written decision, finding that the Company had violated South Korean law by offering certain discounts and rebates for purchases of its CDMA chips and for including in certain agreements language requiring the continued payment of royalties after all licensed patents have expired. The KFTC levied a fine, which the Company paid in the second quarter of fiscal 2010. The Company is appealing that decision in the Korean courts.

**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 eleven different dates, with an additional hearing day scheduled on February 17, 2012 and additional hearing days yet to be scheduled.

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

**Other:** The Company has been named, along with many other manufacturers of wireless phones, wireless operators and industry-related organizations, as a defendant in three lawsuits pending in Washington D.C. superior court, seeking monetary damages arising out of its sale of cellular phones.

While there can be no assurance of favorable outcomes, the Company believes the claims made by other parties in the foregoing matters are without merit and will vigorously defend the actions. The Company has not recorded any accrual at December 25, 2011 for contingent liabilities or recognized any asset impairment charges associated with the legal proceedings described above based on the Company's belief that liabilities, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. 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 actions will not have a material adverse effect on its operating results, liquidity or financial position.

**Litigation Settlement, Patent License and Other Related Items.** On April 26, 2009, the Company entered into a Settlement and Patent License and Non-Assert Agreement with Broadcom. The Company agreed to pay Broadcom \$891 million, of which \$632 million was paid through December 25, 2011, and the remainder will be paid ratably through April 2013. At December 25, 2011, the carrying value of the liability was \$253 million, which also approximated the fair value of the contractual liability net of imputed interest.

Loans Payable Related to India BWA Spectrum. In connection with the India BWA spectrum won in India in June 2010, certain of the Company's subsidiaries in India entered into loan agreements with multiple lenders that are denominated in Indian rupees. The loans bear interest at an annual rate based on the highest rate among the bank lenders, which is reset quarterly, plus 0.25% (10.25% at December 25, 2011) with interest payments due monthly. The loans can be prepaid without penalty on certain dates and are guaranteed by QUALCOMM Incorporated and one of its subsidiaries. In December 2011, the lender that could demand prepayment of its portion of the loans exercised its right requiring the Company to prepay the amount outstanding on February 28, 2012 (\$142 million at December 25, 2011).

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The Company intends to refinance this amount with new loans. The remaining loans (\$786 million at December 25, 2011) are due and payable in full in December 2012. The loan agreements also define certain events of default, including, among other things, if certain government authorizations are revoked, terminated, withdrawn, suspended, modified or withheld. If the DoT's rejection of the Company's license applications were to be considered an event of default, the bank lenders could have declared the loans due and payable immediately. The Company has received waivers from each of the bank lenders related to this matter until at least April 1, 2012, which are conditioned upon the Company continuing to pursue its legal rights in this matter. The lenders have agreed that any default will be deemed cured under certain circumstances, including if one of the relevant subsidiaries is granted the license and the other three are pursuing a merger into the subsidiary that has been offered a license. The loan agreements contain standard covenants, which, among other things, limit actions by the subsidiaries that are party to the loan agreements, including the incurrence of loans and equity investments, disposition of assets, mergers and consolidations and other matters customarily restricted in such agreements. At December 25, 2011, the aggregate carrying value of the loans was \$928 million, which approximated fair value.

**Indemnifications.** With the exception of the practices of Atheros, 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 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. Under Atheros' indemnification agreements, software license agreements and product sale agreements, including its standard software license agreements and standard terms and conditions of semiconductor sales, Atheros agrees, subject to restrictions and after certain conditions are met, to indemnify and defend its licensees and customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay any judgments entered on such claims against the licensees or customers. Through December 25, 2011, Atheros 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 Atheros' products. These indemnification arrangements are not initially measured and recognized at fair value because they are deemed to be similar to product warranties in that they relate to claims and/or other actions that could impair the ability of the Company's direct or indirect customers to use the Company's products or services. Accordingly, the Company records liabilities resulting from the arrangements when they are probable and can be reasonably estimated. Reimbursements under indemnification arrangements have not been material to the Company's consolidated financial statements. The Company has not recorded any accrual for contingent liabilities at December 25, 2011 associated with these indemnification arrangements, other than negligible amounts for reimbursement of legal costs, based on the Company's belief that additional liabilities, while possible, are not probable. Further, any possible range of loss cannot be 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. Noncancelable obligations under these agreements at December 25, 2011 for the remainder of fiscal 2012 and for each of the subsequent four years from fiscal 2013 through 2016 were approximately \$2.1 billion, \$75 million, \$39 million, \$36 million and \$25 million, respectively, and \$8 million thereafter. Of these amounts, for the remainder of fiscal 2012 and for fiscal 2013, commitments to purchase integrated circuit product inventories comprised \$1.7 billion and \$3 million, respectively.



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Leases. The future minimum lease payments for all capital leases and operating leases at December 25, 2011 were as follows (in millions):

|                                                      | Capital<br>Leases | Operating<br>Leases | Total |
|------------------------------------------------------|-------------------|---------------------|-------|
| Remainder of fiscal 2012                             | \$8               | \$100               | \$108 |
| 2013                                                 | 11                | 112                 | 123   |
| 2014                                                 | 11                | 92                  | 103   |
| 2015                                                 | 11                | 43                  | 54    |
| 2016                                                 | 12                | 28                  | 40    |
| Thereafter                                           | 293               | 164                 | 457   |
| Total minimum lease payments                         | \$346             | \$539               | \$885 |
| Deduct: Amounts representing interest                | 196               |                     |       |
| Present value of minimum lease payments              | 150               |                     |       |
| Deduct: Current portion of capital lease obligations | 1                 |                     |       |
| Long-term portion of capital lease obligations       | \$149             |                     |       |

The Company leases certain of its land, facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 35 years and with provisions in certain leases for cost-of-living increases. The Company leases certain property under capital lease agreements associated with its discontinued operations (Note 8), primarily related to site leases that have an initial term of five to seven years with renewal options of up to five additional renewal periods. In determining the capital lease classification for the site leases upon commencement of each lease, the Company included all renewal options. As a result of its restructuring plan, the Company does not intend to renew its existing site capital leases. At December 25, 2011, the Company had \$130 million of site capital lease assets (which are included in buildings and improvements in property, plant and equipment) and \$149 million of capital lease obligations (which are included in other liabilities) that pertain to lease optional renewal periods. The Company expects to write off these amounts at the end of the current contractual lease terms. Any early terminations may impact the amounts that are written off.

Note 7 — Segment Information

The Company is organized on the basis of products and services. The Company aggregates four of its divisions into the Qualcomm Wireless & Internet (QWI) segment and three of its divisions into the Qualcomm Strategic Initiatives (QSI) segment. Reportable segments are as follows:

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

Qualcomm Technology Licensing (QTL) — grants licenses or otherwise provides rights to use portions of the Company's intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing cdmaOne, CDMA2000, WCDMA, CDMA TDD (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards, and collects fixed license fees and royalties in partial consideration for such licenses;

Qualcomm Wireless & Internet (QWI) — comprised of:

Qualcomm Internet Services (QIS) — provides content enablement services for the wireless industry and push-to-talk and other products and services for wireless network operators;

Qualcomm Government Technologies (QGOV) — provides development, hardware, analytical expertise and services to United States government agencies involving wireless communications technologies;

•

Qualcomm Enterprise Services (QES) — provides satellite- and terrestrial-based two-way wireless connectivity and position location services and sells mobile information units to transportation and

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logistics companies and other enterprise companies with fleet vehicles; and

Firethorn — builds and manages software applications that enable certain mobile commerce services.

Qualcomm Strategic Initiatives (QSI) — comprised of the Company's Qualcomm Ventures, Structured Finance & Strategic Investments and FLO TV divisions. QSI makes strategic investments that the Company believes will open new opportunities for its technologies, support the design and introduction of new products or services for voice and data communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum. The results of QSI's FLO TV business are presented as discontinued operations (Note 8) and are therefore not included in QSI's revenues or loss before income taxes. The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT) from continuing operations. Segment EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Certain income and charges are not allocated to segments in the Company's management reports because they are not considered in evaluating the segments' operating performance. Unallocated income and charges include certain investment income (loss); share-based compensation (Note 1); and certain research and development expenses and other selling and marketing expenses that were deemed to be not directly related to the businesses of the segments. Additionally, starting with acquisitions in the third quarter of fiscal 2011, unallocated charges include recognition of the step-up of inventories to fair value and amortization of certain intangible assets. Such charges related to acquisitions that were completed prior to the third quarter of fiscal 2011 are allocated to the respective segments. The table below presents revenues and EBT for reportable segments (in millions):

|                             | QCT     | QTL     | QWI   | QSI* | Reconciling<br>Items* | Total*  |
|-----------------------------|---------|---------|-------|------|-----------------------|---------|
| For the three months ended: |         |         |       |      |                       |         |
| December 25, 2011           |         |         |       |      |                       |         |
| Revenues                    | \$3,085 | \$1,440 | \$152 | \$—  | \$4                   | \$4,681 |
| EBT                         | 739     | 1,267   | 1     | (34  | ) (252                | ) 1,721 |
| December 26, 2010           |         |         |       |      |                       |         |
| Revenues                    | \$2,116 | \$1,057 | \$172 | \$—  | \$3                   | \$3,348 |
| EBT                         | 640     | 892     | —     | (21  | ) (41                 | ) 1,470 |

\*As adjusted for discontinued operations (Note 8)

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

|                                                          | Three Months Ended   |                       |
|----------------------------------------------------------|----------------------|-----------------------|
|                                                          | December 25,<br>2011 | December 26,<br>2010* |
| Revenues                                                 |                      |                       |
| Elimination of intersegment revenues                     | \$(1                 | ) \$(1                |
| Other nonreportable segments                             | 5                    | 4                     |
|                                                          | \$4                  | \$3                   |
| EBT                                                      |                      |                       |
| Unallocated cost of equipment and services revenues      | \$(70                | ) \$(14               |
| Unallocated research and development expenses            | (162                 | ) (117                |
| Unallocated selling, general and administrative expenses | (115                 | ) (85                 |
| Unallocated investment income, net                       | 190                  | 244                   |
| Other nonreportable segments                             | (95                  | ) (69                 |
|                                                          | \$(252               | ) \$(41               |

\*As adjusted for discontinued operations (Note 8)



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Reconciling items for the three months ended December 25, 2011 included \$51 million and \$9 million of unallocated cost of equipment and services revenues and unallocated selling, general and administrative expenses, respectively, related to the amortization of intangible assets resulting from acquisitions. Other nonreportable segments' losses before taxes during the three months ended December 25, 2011 and December 26, 2010 were primarily attributable to the Company's QMT division, a nonreportable segment developing display technology for mobile devices and other applications.

Revenues from external customers and intersegment revenues were as follows (in millions):

|                                  | QCT     | QTL     | QWI   |
|----------------------------------|---------|---------|-------|
| For the three months ended:      |         |         |       |
| December 25, 2011                |         |         |       |
| Revenues from external customers | \$3,084 | \$1,440 | \$152 |
| Intersegment revenues            | 1       | —       | —     |
| December 26, 2010                |         |         |       |
| Revenues from external customers | \$2,115 | \$1,057 | \$172 |
| Intersegment revenues            | 1       | —       | —     |

Segment assets are comprised of accounts receivable and inventories for all reportable segments other than QSI. QSI segment assets include certain marketable securities, notes receivable, spectrum licenses, other investments and all assets of QSI's consolidated subsidiaries. QSI segment assets related to the discontinued FLO TV business totaled \$901 million and \$913 million at December 25, 2011 and September 25, 2011, respectively. Reconciling items for total assets included \$1.0 billion and \$806 million at December 25, 2011 and September 25, 2011, respectively, of goodwill and other assets related to the Company's QMT division. Total segment assets also differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of certain cash, cash equivalents, marketable securities, property, plant and equipment, deferred tax assets, goodwill, other intangible assets and assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

|                           | December 25,<br>2011 | September 25,<br>2011 |
|---------------------------|----------------------|-----------------------|
| QCT                       | \$1,519              | \$1,569               |
| QTL                       | 70                   | 36                    |
| QWI                       | 133                  | 136                   |
| QSI                       | 2,320                | 2,386                 |
| Reconciling items         | 33,564               | 32,295                |
| Total consolidated assets | \$37,606             | \$36,422              |

## Note 8 — Discontinued Operations

On December 27, 2011, after the close of the first fiscal quarter, the Company completed the sale of substantially all of its 700 MHz spectrum for \$1.9 billion. As a result, the Company will recognize a gain in discontinued operations of \$1.2 billion in the second quarter of fiscal 2012 related to the close of this transaction. The FLO TV business and network were shut down on March 27, 2011. Since then, the Company has been working to sell the remaining assets and exit contracts. The 700 MHz spectrum is classified as held for sale. All other assets were considered disposed of at December 25, 2011. Accordingly, the results of operations of the FLO TV business are presented as discontinued operations. Loss from discontinued operations includes share-based payments and excludes certain general corporate expenses allocated to the FLO TV business during the periods presented.



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Summarized results from discontinued operations were as follows (in millions):

|                                              | Three Months Ended   |                      |
|----------------------------------------------|----------------------|----------------------|
|                                              | December 25,<br>2011 | December 26,<br>2010 |
| Revenues                                     | \$—                  | \$—                  |
| Loss from discontinued operations            | \$(8                 | \$(141               |
| Income tax benefit                           | 3                    | 59                   |
| Discontinued operations, net of income taxes | \$(5                 | \$(82                |

At December 25, 2011, total assets and liabilities of the discontinued operations in the condensed consolidated balance sheet were \$901 million and \$225 million, respectively. The assets primarily consisted of the spectrum held for sale of \$746 million and capital lease assets of \$130 million. Liabilities primarily consisted of capital lease liabilities of \$149 million. The Company has a significant number of site leases, and the Company has corresponding capital lease assets, capital lease liabilities and asset retirement obligations (Note 6). The capital lease assets, included in property, plant and equipment, net, were considered disposed of at March 27, 2011 when the Company shut down the FLO TV business.

Restructuring activities under the Company's plan related to discontinued operations were initiated in the fourth quarter of fiscal 2010 and are expected to be substantially complete by the end of fiscal 2012 as the Company continues to negotiate the exit of certain contracts and removes certain of its equipment from the network sites. Restructuring charges primarily consist of lease exit and other contract termination costs and certain severance costs. The Company estimates that it will incur future restructuring charges of up to \$20 million. The Company may also realize certain gains, primarily due to the potential release of liabilities associated with ongoing efforts to exit certain contracts, the amount of which cannot be reasonably estimated at this time. The restructuring liability, which is reported as a component of other liabilities, consisted of contract termination costs of \$37 million and other costs of \$3 million at December 25, 2011. During the three months ended December 25, 2011, the Company made payments on amounts previously accrued of \$3 million. Future cash expenditures are expected to be in the range of \$70 million to \$110 million.

#### Note 9 — Acquisitions

During the three months ended December 25, 2011, the Company acquired five businesses for total cash consideration of \$288 million. Technology-based intangible assets recognized in the amount of \$32 million are being amortized on a straight-line basis over a weighted-average useful life of six years. The Company recorded \$46 million related to two in-process research and development (IPR&D) projects, which are expected to be completed within the next two years. The acquired IPR&D will not be amortized until completion, and upon completion, IPR&D projects will be amortized over their useful lives, which are expected to be nine years. Goodwill recognized in these transactions, of which \$61 million is expected to be deductible for tax purposes, was assigned to the Company's reportable segments as follows: \$39 million to QCT, \$22 million to QTL and \$135 million to a non-reportable segment.

#### Note 10 — Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors

that market participants would use in valuing the asset or liability. There are three levels of inputs that may be used to measure fair value:

- Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets.

- Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level

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1 that are observable for the instrument.

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements.

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at December 25, 2011 (in millions):

|                                                            | Level 1 | Level 2  | Level 3 | Total    |
|------------------------------------------------------------|---------|----------|---------|----------|
| <b>Assets</b>                                              |         |          |         |          |
| Cash equivalents                                           | \$1,192 | \$2,857  | \$—     | \$4,049  |
| Marketable securities                                      |         |          |         |          |
| U.S. Treasury securities and government-related securities | 371     | 792      | —       | 1,163    |
| Corporate bonds and notes                                  | —       | 6,320    | —       | 6,320    |
| Mortgage- and asset-backed securities                      | —       | 671      | 23      | 694      |
| Auction rate securities                                    | —       | —        | 122     | 122      |
| Non-investment-grade debt securities                       | —       | 4,045    | 34      | 4,079    |
| Common and preferred stock                                 | 1,212   | 694      | —       | 1,906    |
| Equity mutual and exchange-traded funds                    | 922     | —        | —       | 922      |
| Debt mutual funds                                          | 1,327   | 481      | —       | 1,808    |
| Total marketable securities                                | 3,832   | 13,003   | 179     | 17,014   |
| Derivative instruments                                     | —       | 17       | —       | 17       |
| Other investments                                          | 175     | —        | —       | 175      |
| Total assets measured at fair value                        | \$5,199 | \$15,877 | \$179   | \$21,255 |
| <b>Liabilities</b>                                         |         |          |         |          |
| Derivative instruments                                     | \$—     | \$56     | \$—     | \$56     |
| Other liabilities                                          | 175     | —        | 6       | 181      |
| Total liabilities measured at fair value                   | \$175   | \$56     | \$6     | \$237    |

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

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

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

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

The fair value of highly rated mortgage- and asset-backed securities is derived from the use of matrix pricing (prices for similar securities) or, in some cases, cash flow pricing models with observable inputs such as contractual terms,

maturity, credit rating and/or securitization structure to determine the timing and amount of future cash flows. Certain

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mortgage- and asset-backed securities, principally those rated below AAA, may require the use of significant unobservable inputs to estimate fair value, such as default likelihood, recovery rates and prepayment speed.

The fair value of auction rate securities is estimated by the Company using a discounted cash flow model that incorporates transaction details such as contractual terms, maturity and timing and amount of future cash flows, as well as assumptions related to liquidity, default likelihood and recovery, the future state of the auction rate market and credit valuation adjustments of market participants. Though certain of the securities held by the Company are pools of student loans guaranteed by the U.S. government, prepayment speeds and illiquidity discounts are considered significant unobservable inputs. These additional inputs are generally unobservable, and therefore, auction rate securities are included in Level 3.

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

**Other Investments and Other Liabilities.** Other investments and other liabilities included in Level 1 are comprised of the Company's deferred compensation plan liability and related assets, which are invested in mutual funds. Other liabilities included in Level 3 are comprised of put rights held by third parties representing interests in certain of the Company's subsidiaries. These put rights are valued with a standard option pricing model using significant unobservable inputs.

**Activity between Levels of the Fair Value Hierarchy.** There were no significant transfers between Level 1 and Level 2 during the three months ended December 25, 2011 or December 26, 2010. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The following table includes the activity for marketable securities and other liabilities classified within Level 3 of the valuation hierarchy (in millions):

|                                                | Three Months Ended December 25, 2011 |                             |                   |
|------------------------------------------------|--------------------------------------|-----------------------------|-------------------|
|                                                | Auction Rate Securities              | Other Marketable Securities | Other Liabilities |
| Beginning balance of Level 3                   | \$124                                | \$27                        | \$7               |
| Total realized and unrealized gains or losses: |                                      |                             |                   |
| Included in investment income, net             | —                                    | —                           | (1 )              |
| Included in other comprehensive income         | (1 )                                 | —                           | —                 |
| Purchases                                      | —                                    | 35                          | —                 |
| Settlements                                    | (1 )                                 | (5 )                        | —                 |
| Ending balance of Level 3                      | \$122                                | \$57                        | \$6               |
|                                                | Three Months Ended December 26, 2010 |                             |                   |
|                                                | Auction Rate Securities              | Other Marketable Securities |                   |
| Beginning balance of Level 3                   | \$126                                | \$18                        |                   |
| Total realized and unrealized gains or losses: |                                      |                             |                   |

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|                                        |       |      |   |
|----------------------------------------|-------|------|---|
| Included in other comprehensive income | 2     | —    |   |
| Settlements                            | (2    | ) (1 | ) |
| Ending balance of Level 3              | \$126 | \$17 |   |

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. There were no transfers into or out

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of Level 3 during the three months ended December 25, 2011 and December 26, 2010.

**Nonrecurring Fair Value Measurements.** The Company measures certain assets at fair value on a nonrecurring basis. These assets include cost and equity method investments when they are deemed to be other-than-temporarily impaired, assets acquired and liabilities assumed in an acquisition or in a nonmonetary exchange, and property, plant and equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the three months ended December 25, 2011 and December 26, 2010, 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 11 — Marketable Securities**

Marketable securities were comprised as follows (in millions):

|                                                            | Current<br>December 25,<br>2011 | September 25,<br>2011 | Noncurrent<br>December 25,<br>2011 | September 25,<br>2011 |
|------------------------------------------------------------|---------------------------------|-----------------------|------------------------------------|-----------------------|
| <b>Trading:</b>                                            |                                 |                       |                                    |                       |
| U.S. Treasury securities and government-related securities | \$230                           | \$—                   | \$330                              | \$—                   |
| Corporate bonds and notes                                  | 266                             | —                     | 91                                 | —                     |
| Mortgage- and asset-backed securities                      | —                               | —                     | 35                                 | —                     |
| Non-investment-grade debt securities                       | —                               | —                     | 54                                 | —                     |
| Total trading                                              | 496                             | —                     | 510                                | —                     |
| <b>Available-for-sale:</b>                                 |                                 |                       |                                    |                       |
| U.S. Treasury securities and government-related securities | 573                             | 516                   | 30                                 | 6                     |
| Corporate bonds and notes                                  | 3,503                           | 3,665                 | 2,460                              | 2,353                 |
| Mortgage- and asset-backed securities                      | 527                             | 587                   | 132                                | 91                    |
| Auction rate securities                                    | —                               | —                     | 122                                | 124                   |
| Non-investment-grade debt securities                       | 20                              | 19                    | 4,005                              | 3,653                 |
| Common and preferred stock                                 | 130                             | 76                    | 1,776                              | 1,713                 |
| Equity mutual and exchange-traded funds                    | —                               | —                     | 922                                | 845                   |
| Debt mutual funds                                          | 1,327                           | 1,327                 | —                                  | —                     |
| Total available-for-sale                                   | 6,080                           | 6,190                 | 9,447                              | 8,785                 |
| <b>Fair value option:</b>                                  |                                 |                       |                                    |                       |
| Debt mutual fund                                           | —                               | —                     | 481                                | 476                   |
| Total marketable securities                                | \$6,576                         | \$6,190               | \$10,438                           | \$9,261               |

The Company holds an investment in a debt mutual fund for which the Company elected the fair value option. The investment would have otherwise been recorded using the equity method. The debt mutual fund has no single maturity date. At December 25, 2011, the Company had an effective ownership interest in the debt mutual fund of 21%.

Increases in fair value associated with this investment of \$5 million were recognized in net investment income during each of the three months ended December 25, 2011 and December 26, 2010. The Company believes that recording the investment at fair value and reporting the investment as a marketable security is preferable to applying the equity method because the Company is able to redeem its shares at net asset value, which is determined daily.

The Company classifies portfolios of debt securities that involve the purchase or sale of derivative instruments to acquire or reduce foreign exchange and/or equity and credit risk as trading. Net losses recognized on debt securities classified as trading still held at December 25, 2011 were \$2 million for the three months ended December 25, 2011.

The Company did not hold any securities classified as trading at September 25, 2011.

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At December 25, 2011, the contractual maturities of available-for-sale debt securities were as follows (in millions):

| Less Than<br>One Year | One to<br>Five Years | Five to<br>Ten Years | Greater Than<br>Ten Years | No Single<br>Maturity<br>Date | Total    |
|-----------------------|----------------------|----------------------|---------------------------|-------------------------------|----------|
| \$799                 | \$4,878              | \$2,716              | \$1,034                   | \$3,272                       | \$12,699 |

Securities with no single maturity date included debt mutual funds, non-investment-grade debt securities, 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<br>Gains | Gross Realized<br>Losses | Net Realized<br>Gains |
|----------------------------|-------------------------|--------------------------|-----------------------|
| For the three months ended |                         |                          |                       |
| December 25, 2011          | \$36                    | \$(2)                    | ) \$34                |
| December 26, 2010          | 128                     | (5)                      | ) 123                 |

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

|                    | Cost     | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value |
|--------------------|----------|---------------------|----------------------|------------|
| December 25, 2011  |          |                     |                      |            |
| Equity securities  | \$2,428  | \$443               | \$(43)               | ) \$2,828  |
| Debt securities    | 12,500   | 322                 | (123)                | ) 12,699   |
|                    | \$14,928 | \$765               | \$(166)              | ) \$15,527 |
| September 25, 2011 |          |                     |                      |            |
| Equity securities  | \$2,426  | \$278               | \$(70)               | ) \$2,634  |
| Debt securities    | 12,179   | 294                 | (132)                | ) 12,341   |
|                    | \$14,605 | \$572               | \$(202)              | ) \$14,975 |

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, 2011   |                      |                     |                      |
|------------------------------------------------------------|---------------------|----------------------|---------------------|----------------------|
|                                                            | Less than 12 months |                      | More than 12 months |                      |
|                                                            | Fair Value          | Unrealized<br>Losses | Fair Value          | Unrealized<br>Losses |
| U.S. Treasury securities and government-related securities | \$419               | \$(2)                | ) \$4               | \$—                  |
| Corporate bonds and notes                                  | 1,930               | (44)                 | ) 58                | (5)                  |
| Auction rate securities                                    | 3                   | —                    | 119                 | (3)                  |
| Non-investment-grade debt securities                       | 1,396               | (60)                 | ) 32                | (4)                  |
| Common and preferred stock                                 | 313                 | (27)                 | ) 4                 | —                    |
| Equity mutual and exchange-traded funds                    | 153                 | (16)                 | ) —                 | —                    |
| Debt mutual funds                                          | 1,320               | (5)                  | ) 1                 | —                    |
|                                                            | \$5,534             | \$(154)              | ) \$218             | \$(12)               |



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|                                      | September 25, 2011  |                   | More than 12 months |                   |
|--------------------------------------|---------------------|-------------------|---------------------|-------------------|
|                                      | Less than 12 months |                   |                     |                   |
|                                      | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses |
| Corporate bonds and notes            | \$1,862             | \$(41 )           | \$41                | \$—               |
| Auction rate securities              | 3                   | —                 | 121                 | (2 )              |
| Non-investment-grade debt securities | 1,867               | (86 )             | 19                  | (3 )              |
| Common and preferred stock           | 750                 | (70 )             | 4                   | —                 |
|                                      | \$4,482             | \$(197 )          | \$185               | \$(5 )            |

At December 25, 2011, the Company concluded that the unrealized losses on its available-for-sale securities were temporary. Further, for common and preferred stock with unrealized losses, the Company has the ability and the intent to hold such securities until they recover, which is expected to be within a reasonable period of time. For debt securities with unrealized losses, the Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, such securities before recovery or maturity.

The following table shows the activity for the credit loss portion of other-than-temporary impairments on debt securities held by the Company (in millions):

|                                                                                      | Three Months Ended |                   |
|--------------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                      | December 25, 2011  | December 26, 2010 |
| Beginning balance of credit losses                                                   | \$46               | \$109             |
| Reductions in credit losses related to securities the Company intends to sell        | —                  | (11 )             |
| Additional credit losses recognized on securities previously impaired                | 1                  | —                 |
| Reductions in credit losses related to securities sold                               | (1 )               | (7 )              |
| Accretion of credit losses due to an increase in cash flows expected to be collected | —                  | (2 )              |
| Ending balance of credit losses                                                      | \$46               | \$89              |

## 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 Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 25, 2011 contained in our 2011 Annual Report on Form 10-K.

This Quarterly Report (including, but not limited to, the following section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements regarding our business, financial condition, results of operations and prospects. 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. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements.

Although forward-looking statements in this Quarterly Report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this Quarterly Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

### Overview

#### Recent Developments

Revenues for the first quarter of fiscal 2012 were \$4.7 billion, with net income of \$1.4 billion, which were impacted by the following key items:

• We shipped approximately 156 million MSM integrated circuits for CDMA- and OFDMA-based wireless devices, an increase of 32% compared to approximately 118 million MSM integrated circuits in the year ago quarter. <sup>(1)</sup>

• Total reported device sales were approximately \$41.4 billion, an increase of approximately 22%, compared to approximately \$34.0 billion in the year ago quarter. <sup>(2)</sup>

Against this backdrop, the following recent developments occurred during the first quarter of fiscal 2012 with respect to key elements of our business or our industry:

• Worldwide wireless subscriptions grew by approximately 3% to reach approximately 6.1 billion. <sup>(3)</sup>

• Worldwide 3G connections (all CDMA-based) grew to approximately 1.6 billion, approximately 26% of total wireless subscriptions, including approximately 546 million CDMA2000 1X/1xEV-DO subscriptions and approximately 1.0 billion WCDMA/HSPA/TD-SCDMA subscriptions. <sup>(3)</sup>

(1) Some customers built devices that incorporated two MSMs. In such cases, which represent approximately 1% of our gross volume, we count only one MSM in reporting the MSM shipments.

(2) 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 multimode CDMA/OFDMA subscriber devices (including handsets, modules, modem cards and other subscriber devices) by our licensees during a particular period. Not all licensees report sales the same way (e.g., some licensees report sales net of permitted deductions, such as transportation, insurance and packing costs, while other licensees report sales and then identify the amount of permitted deductions in their reports), and the way in which licensees report such information may change from time to time.

(3) Total reported device sales for a particular period may include prior period activity that was not reported by the licensee until such particular period.

(3)

According to Wireless Intelligence estimates as of January 30, 2012, for the quarter ending December 31, 2011. Wireless Intelligence estimates for CDMA2000 1X/1xEV-DO subscribers do not include Wireless Local Loop.

## Our Business and Operating Segments

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

We conduct business primarily through four reportable segments. These segments are: Qualcomm CDMA Technologies, or QCT; Qualcomm Technology Licensing, or QTL; Qualcomm Wireless & Internet, or QWI; and Qualcomm Strategic Initiatives, or QSI.

QCT is a leading developer and supplier of integrated circuits and system software based on CDMA, OFDMA and other technologies for use in voice and data communications, networking, application processing, multimedia and global positioning system products. QCT's integrated circuit products and system software are sold to or licensed to manufacturers that use our products in wireless devices, particularly mobile phones, tablets, laptops, data modules, handheld wireless computers and gaming devices, access points and routers, data cards and infrastructure equipment, and in wired devices, particularly broadband gateway equipment, desktop computers, televisions and Blu-ray players. The MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Qualcomm Snapdragon devices, perform the core baseband modem functionality in wireless devices providing voice and data communications, as well as multimedia applications and global positioning functions. In addition, our Snapdragon enabled integrated circuits provide advanced application processing capabilities. QCT's system software enables the other device components to interface with the integrated circuit products and is the foundation software enabling manufacturers to develop devices utilizing the functionality within the integrated circuits. QCT revenues comprised 66% and 63% of total consolidated revenues in the first quarter of fiscal 2012 and 2011, respectively.

QCT utilizes a fabless production business model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. Integrated circuits are die, cut from silicon wafers, that have been assembled into packages or modules and have completed the final test manufacturing processes. We rely on independent third-party suppliers to perform the manufacturing and assembly, and most of the testing, of our integrated circuits based primarily on our proprietary designs and test programs. Our suppliers are also responsible for the procurement of most of the raw materials used in the production of our integrated circuits. We employ both turnkey and two-stage manufacturing business 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 business model, we purchase wafers and die from semiconductor manufacturing foundries and contract with separate third-party manufacturers for probe, assembly and final test services.

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 cdmaOne, CDMA2000, WCDMA, CDMA TDD (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards and their derivatives. QTL licensing revenues are comprised of license fees as well as royalties based on sales by licensees of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments. Royalties are generally based upon a percentage of the wholesale (i.e., licensee's) selling price of licensed products, net of certain permissible deductions (e.g., certain shipping costs, packing costs, VAT, etc.). QTL revenues comprised 31% and 32% of total consolidated revenues in the first quarter of fiscal 2012 and 2011, respectively. The vast majority of such revenues were generated through our licensees' sales of cdmaOne, CDMA2000 and WCDMA subscriber equipment products. QWI, which includes Qualcomm Enterprise Services (QES), Qualcomm Internet Services (QIS), Qualcomm Government Technologies (QGOV) and Firethorn, generates revenues primarily through mobile information products and services and software and software development aimed at support and delivery of wireless applications. QES sells mobile information units and provides wireless connectivity and position location services used by transportation and other companies to manage their assets and workforce. Through December 2011, QES has shipped approximately 1,532,000 terrestrial-based and satellite-based mobile information units. QIS provides content enablement services for the wireless industry, including Brew, the Plaza suite and other services. QIS also provides QChat push-to-talk and

other products for wireless operators. QGOV provides development, hardware, analytical expertise and services involving wireless communications technologies to United States government agencies. Firethorn builds and manages software applications that enable mobile commerce services. QWI revenues comprised 3% and 5% of total consolidated revenues in the first quarter of fiscal 2012 and 2011, respectively.

QSI makes strategic investments that we believe will open new opportunities for our technologies, support the design and introduction of new products and services for voice and data communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum. As part of our strategic investment activities, we intend to pursue various exit strategies at some point in the future. The results of QSI's FLO TV business are presented as discontinued operations and are therefore not included in QSI's revenues or loss before income taxes. Since the shut down of the FLO TV business and network on March 27, 2011, we have been working to sell FLO TV's assets and exit contracts. In the second quarter of fiscal 2012, we completed our sale of substantially all of our 700 MHz spectrum for \$1.9 billion.

Nonreportable segments include the Qualcomm MEMS Technologies division, which continues to develop an IMOD display technology based on micro-electro-mechanical-system (MEMS) structure combined with thin film optics, and other product initiatives.

#### Discontinued Operations

On December 27, 2011, after the close of our first fiscal quarter, we completed the sale of substantially all of our 700 MHz spectrum for \$1.9 billion. As a result, we will recognize a gain in discontinued operations of \$1.2 billion in the second quarter of fiscal 2012 related to the close of this transaction. The FLO TV business and network were shut down on March 27, 2011. Since then, we have been working to sell the remaining assets and exit contracts. The 700 MHz spectrum has a carrying value of \$746 million and is classified as held for sale. All other assets were considered disposed of at December 25, 2011. Accordingly, the results of operations of the FLO TV business are presented as discontinued operations. Loss from discontinued operations includes share-based payments and excludes certain general corporate expenses allocated to the FLO TV business during the period presented.

Summarized results from discontinued operations were as follows (in millions):

|                                              | Three Months Ended   |                      |
|----------------------------------------------|----------------------|----------------------|
|                                              | December 25,<br>2011 | December 26,<br>2010 |
| Revenues                                     | \$—                  | \$—                  |
| Loss from discontinued operations            | \$(8                 | \$(141               |
| Income tax benefit                           | 3                    | 59                   |
| Discontinued operations, net of income taxes | \$(5                 | \$(82                |

Restructuring activities under our plan related to discontinued operations were initiated in the fourth quarter of fiscal 2010 and are expected to be substantially complete by the end of fiscal 2012 as we continue to negotiate the exit of certain contracts and remove certain of our equipment from the network sites. We estimate that we will incur future restructuring charges of up to \$20 million, primarily related to lease exit costs. We may also realize certain gains, primarily due to the potential release of liabilities associated with ongoing efforts to exit certain contracts, the amount of which cannot be reasonably estimated at this time. Future cash expenditures are expected to be in the range of \$70 million to \$110 million.

#### Looking Forward

The deployment of 3G networks enables increased voice capacity and higher data rates than prior generation networks, thereby supporting more minutes of use and a wide range of mobile broadband data applications for handsets, 3G connected computing devices and other consumer electronics. Many wireless operators have or are planning to complement their existing 3G networks by deploying OFDMA-based technology, often called 4G, in new spectrum to gain additional capacity for data services. As a result, we expect continued growth in the coming years in consumer demand for 3G and 3G/4G multimode products and services around the world. In addition, we expect an increasing number of devices, such as computers, consumer electronics and networking equipment, to require multiple communications technologies to support a variety of connected applications.

As we look forward to the next several months, the following items are likely to have an impact on our business:

- The worldwide transition from 2G to 3G networks is expected to continue, including the further expansion of 3G in China, India and other emerging regions.

- We expect consumer demand for advanced 3G and 3G/4G multimode devices, including smartphones and data-centric devices, such as tablets and e-readers, to continue at a strong pace. We also expect growth in lower-end



3G devices as 3G expands in emerging regions.

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

We continue to invest significant resources toward the development of technologies and products for voice and data communications, primarily in the wireless industry, including advancements to networks for 3G and 4G LTE (an OFDMA-based standard) networks, wireless baseband chips, our converged computing/communications (Snapdragon) chips, multimedia products, software and services, as well as our IMOD display technology.

On December 27, 2011, after the close of our first fiscal quarter, we completed the sale of substantially all of our 700 MHz spectrum for \$1.9 billion. As a result, we will recognize a gain in discontinued operations of \$1.2 billion in the second quarter of fiscal 2012 related to the close of this transaction.

In addition to the foregoing business and market-based matters, we continue to devote resources to working with and educating participants in the wireless value chain as to the benefits of our business model in promoting a highly competitive and innovative wireless industry. However, we expect that certain companies may continue to be dissatisfied with the need to pay reasonable royalties for the use of our technology and not welcome the success of our business model in enabling new, highly cost-effective competitors to their products. We expect that such companies will continue to challenge our business model in various forums throughout the world.

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

#### First Quarter of Fiscal 2012 Compared to First Quarter of Fiscal 2011

**Revenues.** Total revenues for the first quarter of fiscal 2012 were \$4.68 billion, compared to \$3.35 billion for the first quarter of fiscal 2011. Revenues from sales of equipment and services for the first quarter of fiscal 2012 were \$3.17 billion, compared to \$2.21 billion for the first quarter of fiscal 2011. The increase in revenues from sales of equipment and services was primarily due to a \$962 million increase in QCT equipment and services revenues. Revenues from licensing and royalty fees for the first quarter of fiscal 2012 were \$1.51 billion, compared to \$1.14 billion for the first quarter of fiscal 2011. The increase in revenues from licensing and royalty fees was primarily due to a \$383 million increase in QTL revenues.

**Cost of Equipment and Services Revenues.** Cost of equipment and services revenues for the first quarter of fiscal 2012 was \$1.75 billion, compared to \$1.04 billion for the first quarter of fiscal 2011. Cost of equipment and services revenues as a percentage of equipment and services revenues was 55% for the first quarter of fiscal 2012, compared to 47% for the first quarter of fiscal 2011. The decrease in margin percentage in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was primarily attributable to a decrease in QCT gross margin percentage. Cost of equipment and services revenues in the first quarter of fiscal 2012 included \$20 million in share-based compensation, compared to \$14 million in the first quarter of fiscal 2011. Cost of equipment and services revenues as a percentage of equipment and services revenues may fluctuate in future periods depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

**Research and Development Expenses.** Research and development expenses for the first quarter of fiscal 2012 were \$873 million, compared to \$649 million for the first quarter of fiscal 2011, or 19% of revenues in both quarters. The dollar increase was primarily attributable to a \$178 million increase in costs related to the development of integrated circuit products (including connectivity products), next generation technologies and other initiatives to support the acceleration of advanced wireless products and services, including lower-cost devices, the integration of wireless with consumer electronics and computing, the convergence of multiband, multimode, multinet network products and technologies, third-party operating systems and services platforms. Research and development expenses for the first quarter of fiscal 2012 included share-based compensation of \$126 million, compared to \$85 million in the first quarter of fiscal 2011.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses for the first quarter of fiscal 2012 were \$503 million or 11% of revenues, compared to \$409 million or 12% of revenues for the first quarter of fiscal 2011. The dollar increase was primarily attributable to a \$21 million increase in employee-related expenses, a \$12 million increase in foreign exchange transaction losses, an \$11 million increase in marketing expenses and an

increase of \$8 million in the amortization of intangible assets primarily related to the acquisition of Atheros in the third quarter of

fiscal 2011. Selling, general and administrative expenses for the first quarter of fiscal 2012 included share-based compensation of \$101 million, compared to \$70 million in the first quarter of fiscal 2011.

Net Investment Income. Net investment income was \$170 million for the first quarter of fiscal 2012, compared to \$223 million for the first quarter of fiscal 2011. The net decrease was comprised as follows (in millions):

|                                       | Three Months Ended   |                      |         |
|---------------------------------------|----------------------|----------------------|---------|
|                                       | December 25,<br>2011 | December 26,<br>2010 | Change  |
| Interest and dividend income:         |                      |                      |         |
| Corporate and other segments          | \$ 126               | \$ 130               | \$(4 )  |
| QSI                                   | 4                    | 1                    | 3       |
| Interest expense                      | (27 )                | (24 )                | (3 )    |
| Net realized gains on investments:    |                      |                      |         |
| Corporate and other segments          | 37                   | 127                  | (90 )   |
| QSI                                   | 7                    | —                    | 7       |
| Net impairment losses on investments: |                      |                      |         |
| Corporate and other segments          | (14 )                | (8 )                 | (6 )    |
| QSI                                   | (6 )                 | (3 )                 | (3 )    |
| Gains on derivative instruments       | 45                   | 1                    | 44      |
| Equity in losses of investees         | (2 )                 | (1 )                 | (1 )    |
|                                       | \$ 170               | \$ 223               | \$(53 ) |

The net decrease in realized gains on investments in the first quarter of fiscal 2012 as compared to the first quarter of fiscal 2011 is primarily due to adjustments in the allocation of our marketable securities portfolios in fiscal 2011. The increase in gains on derivative instruments resulted from a decrease in the fair value of put options sold in connection with our stock repurchase program.

Income Tax Expense. Income tax expense was \$321 million for the first quarter of fiscal 2012, compared to \$218 million for the first quarter of fiscal 2011. The effective tax rate for the first quarter of fiscal 2012 was 19%, compared to 15% for the first quarter of fiscal 2011. The effective tax rate for the first quarter of fiscal 2012 was higher than the effective tax rate for fiscal 2011 primarily because the effective tax rate for the first quarter of fiscal 2011 included a tax benefit of \$32 million related to fiscal 2010 resulting from the retroactive extension of the federal research and development tax credit. The effective tax rate for fiscal 2012 only reflects the federal research and development credit generated through December 31, 2011, the date on which the credit expired.

The estimated annual effective tax rate for fiscal 2012 of 18% is less than the United States federal statutory rate primarily due to benefits of approximately 17% related to foreign earnings taxed at less than the United States federal rate.

In fiscal 2012, we plan to establish QCT's non-United States headquarters in Singapore. We expect to obtain tax incentives in Singapore so that the location of the headquarters in Singapore will not result in an increase in foreign tax, as compared to tax that would be owed under the current structure of QCT's non-United States operations, for the first five years as long as we meet specified employment and investment criteria in Singapore. Our Singapore tax rate is expected to increase in fiscal 2017 and again in fiscal 2027 as the result of expiration of these incentives.

#### Our Segment Results for the First Quarter of Fiscal 2012 Compared to the First Quarter of Fiscal 2011

The following should be read in conjunction with the first quarter financial results of fiscal 2012 for each reporting segment. See "Notes to Condensed Consolidated Financial Statements, Note 7 - Segment Information."

QCT Segment. QCT revenues for the first quarter of fiscal 2012 were \$3.09 billion, compared to \$2.12 billion for the first quarter of fiscal 2011. Equipment and services revenues, mostly related to sales of MSM and accompanying RF and PM integrated circuits, were \$3.03 billion for the first quarter of fiscal 2012, compared to \$2.07 billion for the first quarter of fiscal 2011. The increase in equipment and services revenues resulted primarily from a \$783 million increase related to higher unit shipments and a \$308 million increase related to sales of connectivity products, primarily resulting from the acquisition of Atheros, partially offset by a \$154 million decrease related to the net effects of changes in product mix and lower average selling prices of such products. Approximately 156 million MSM integrated circuits for CDMA-



and OFDMA- based wireless devices were sold during the first quarter of fiscal 2012, compared to approximately 118 million during the first quarter of fiscal 2011.

QCT earnings before taxes for the first quarter of fiscal 2012 were \$739 million, compared to \$640 million for the first quarter of fiscal 2011. The increase in QCT earnings before taxes was primarily attributable to the increase in QCT revenues, partially offset by the impact of a decrease in gross margin percentage, a \$173 million increase in research and development expenses and a \$42 million increase in selling, general and administrative expenses. QCT operating income as a percentage of revenues (operating margin percentage) was 24% in the first quarter of fiscal 2012, compared to 30% in the first quarter of fiscal 2011. The decrease in operating margin percentage was primarily due to a decrease in gross margin percentage, partially offset by a higher increase in QCT revenues relative to the increase in research and development expenses. QCT gross margin percentage decreased as a result of the net effects of lower average selling prices, unfavorable product mix and higher product support costs, partially offset by a decrease in average unit costs. Starting with acquisitions in the third quarter of fiscal 2011, expenses related to the step-up of acquired inventories to fair value and amortization of acquired intangible assets are not allocated to our operating segments. Expenses related to acquisitions that were not included in QCT's earnings before taxes were \$59 million in the first quarter of fiscal 2012.

QCT inventories decreased by 7% to \$663 million in the first quarter of fiscal 2012 from \$714 million at September 25, 2011 primarily due to an increase in product shipments and a decrease in work-in-process related to the timing of inventory receipts and builds.

QTL Segment. QTL revenues for the first quarter of fiscal 2012 were \$1.44 billion, compared to \$1.06 billion for the first quarter of fiscal 2011. The \$383 million increase in revenues was primarily due to an increase in sales of CDMA-based devices by licensees and higher average royalties per unit of CDMA-based devices as well as increased current period revenues from two licensees following settlement of disputes in the second quarter of fiscal 2011. QTL earnings before taxes for the first quarter of fiscal 2012 were \$1.27 billion, compared to \$892 million for the first quarter of fiscal 2011. QTL operating margin percentage was 88% in the first quarter of fiscal 2012, compared to 84% in the first quarter of fiscal 2011. The increase in QTL operating margin percentage was attributable to the 36% increase in revenues relative to the 5% increase in QTL operating expenses.

QWI Segment. QWI revenues for the first quarter of fiscal 2012 were \$152 million, compared to \$172 million for the first quarter of fiscal 2011. The decrease in QWI revenues was primarily due to a \$10 million decrease in QIS revenues and a \$10 million decrease in QES revenues. The decrease in QIS revenues was primarily attributable to a decrease in Brew revenues resulting from lower customer demand. The decrease in QES revenues was primarily attributable to lower shipments of our mobile information units and lower messaging revenues. QWI earnings before taxes for the first quarter of fiscal 2012 were \$1 million, compared to negligible earnings before taxes for the first quarter of fiscal 2011. QWI operating margin percentage remained consistent at less than 1% in the first quarter of both fiscal 2012 and 2011.

QSI Segment. QSI loss before taxes from continuing operations for the first quarter of fiscal 2012 was \$34 million, compared to \$21 million for the first quarter of fiscal 2011. The \$13 million increase in QSI loss before taxes from continuing operations was primarily due to a \$5 million increase in interest expense attributable to the loans related to the BWA spectrum won in the India auction in June 2010.

#### Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations and proceeds from the issuance of common stock under our stock option and employee stock purchase plans. Cash, cash equivalents and marketable securities were \$22.0 billion at December 25, 2011, an increase of \$1.1 billion from September 25, 2011. Our cash, cash equivalents and marketable securities at December 25, 2011 consisted of \$6.1 billion held domestically and \$15.9 billion held by foreign subsidiaries. Of the amount of cash, cash equivalents and marketable securities held by our foreign subsidiaries at December 25, 2011, \$14.5 billion is indefinitely reinvested and would be subject to material tax effects if repatriated. Due to tax and accounting considerations, we derive liquidity for operations primarily from domestic cash flow and investments held domestically. Total cash provided by operating activities increased to \$1.8 billion during the first quarter of fiscal 2012, compared to \$48 million during the first quarter of fiscal 2011. The increase was primarily due to the payment of \$1.5 billion to the United States tax authorities in the first quarter of fiscal 2011 and an increase in net income in

the first quarter of fiscal 2012, compared to the first quarter of fiscal 2011.

During the first quarter of fiscal 2012, we repurchased 2,046,000 shares of our common stock for \$99 million. In connection with the stock repurchase program, we sold three put options in fiscal 2011 with expiration dates during fiscal 2012, that may require us to repurchase an aggregate of 11,800,000 shares of our common stock upon exercise for \$586 million, which would result in an average price per share of \$49.64. Any shares repurchased are retired. At December 25,

2011, approximately \$948 million remained authorized for repurchase under our stock repurchase program, net of put options outstanding. The stock repurchase program has no expiration date. We continue to evaluate repurchases under this program subject to capital availability and our view that such repurchases are in the best interest of our stockholders.

We paid cash dividends totaling \$362 million, or \$0.215 per share on December 21, 2011. On January 10, 2012, we announced a cash dividend per share of \$0.215 per share on our common stock, payable on March 23, 2012 to stockholders of record as of March 2, 2012. 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.

Accounts receivable increased 4% during the first quarter of fiscal 2012. Days sales outstanding, on a consolidated basis, were 20 days at December 25, 2011 compared to 22 days at September 25, 2011. The increase in accounts receivable was primarily due to the effects of increased revenues and the timing of licensee payments for receivables related to the licensing business. The decrease in days sales outstanding was primarily due to the effects of increased revenues and the timing of customer payments for receivables related to integrated circuits.

We believe our current cash and cash equivalents, marketable securities and our expected cash flow generated from operations will provide us with flexibility and satisfy our working and other capital requirements over the next fiscal year and beyond based on our current business plans.

In the second quarter of fiscal 2012, we received \$1.9 billion from the closing of the sale of substantially all of our 700 MHz spectrum.

Our research and development expenditures were \$873 million in the first quarter of fiscal 2012 and \$3.0 billion in fiscal 2011, and we expect to continue to invest heavily in research and development for new technologies, applications and services for voice and data communications, primarily in the wireless industry.

Capital expenditures were \$359 million in the first quarter of fiscal 2012 and \$593 million in fiscal 2011. We anticipate that capital expenditures will be higher in fiscal 2012 as compared to fiscal 2011, primarily due to estimated capital expenditures of more than \$600 million in fiscal 2012 related to the continued construction of a new manufacturing facility in Taiwan for our QMT division. The initial phase of the facility is primarily being funded using cash held by foreign subsidiaries, and the facility is expected to be operational in fiscal 2012. Future capital expenditures may also be impacted by transactions that are currently not forecasted.

- Our purchase obligations for the remainder of fiscal 2012, some of which relate to research and development activities and capital expenditures, totaled \$2.1 billion at December 25, 2011.

The acquisition of Atheros in fiscal 2011 was more significant than others we have made in the past. We expect to continue making strategic investments and acquisitions, the amounts of which could vary significantly, to open new opportunities for our technologies, obtain development resources, grow our patent portfolio or pursue new business. At December 25, 2011, loans related to the BWA spectrum won in India in the aggregate of \$142 million and \$786 million, which are denominated in Indian rupees, are due and payable in full in February 2012 and December 2012, respectively, and bear interest at an annual rate based on the highest base rate among the bank lenders, which is reset quarterly, plus 0.25% (10.25% at December 25, 2011) with interest payments due monthly. We intend to refinance the amount due in February 2012 with new loans. In September 2011, we received a letter from the Government of India's Department of Telecommunications (DoT) notifying us that our applications to obtain licenses to utilize the spectrum had been rejected. In response, we filed a petition with the Telecom Disputes Settlement and Appellate Tribunal seeking to overturn this letter. If the DoT's rejection of such applications were to be considered an event of default, the bank lenders could have declared the loans due and payable immediately. We have received waivers from each of the bank lenders related to this matter until at least April 1, 2012, conditioned upon our continuing to pursue our legal rights in this matter, and agreeing that any default will be deemed cured under certain circumstances.

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

We have no significant contractual obligations not fully recorded on our condensed consolidated balance sheets or fully disclosed in the notes to our condensed consolidated financial statements. Our consolidated balance sheet at December 25, 2011 includes an aggregate of \$142 million and \$786 million in loans that are payable in full in Indian rupees in February 2012 and December 2012, respectively. We have no material off-balance sheet arrangements as

defined in S-K 303(a)(4)(ii).

Additional information regarding our financial commitments at December 25, 2011 is provided in the notes to our condensed consolidated financial statements. See “Notes to Condensed Consolidated Financial Statements, Note 4 — Income Taxes,” “Note 6 — Commitments and Contingencies” and “Note 8 — Discontinued Operations.”

#### Risk Factors

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 25, 2011, including our financial statements and the related notes.

#### Risks Related to Our Businesses

Our revenues are dependent on the commercial deployment of technologies based on CDMA and OFDMA, among others, and upgrades of 2G, 3G and 3G/4G multimode wireless communications equipment, products and services based on these technologies.

We develop, patent and commercialize technology and products based on CDMA and OFDMA, among others. Our revenues are dependent upon the commercial deployment of these technologies and products and upgrades of 2G, 3G and 3G/4G multimode wireless communications equipment, products and services based on these technologies. Our business may be harmed, and our investments in these technologies may not provide us an adequate return if:

- wireless operators delay moving 2G customers to 3G devices;
- wireless operators delay 3G and/or 3G/4G multimode deployments, expansions or upgrades;
- government regulators delay the reallocation of 2G spectrum to allow wireless operators to upgrade to 3G, which will restrict the expansion of 3G wireless connectivity, primarily outside of major population areas;
- wireless operators are unable to drive improvements in 3G network performance and/or capacity;
- LTE, an OFDMA-based wireless standard, is not widely deployed or commercial deployment is delayed; or
- wireless operators and other industries using these technologies deploy other technologies.

Our business is dependent on our ability to increase our share of components sold and to continue to drive the adoption of our products and services into 3G, 3G/4G multimode and 4G wireless devices and networks. We are also dependent on the success of our customers, licensees and CDMA- and OFDMA-based wireless operators and other industries using our technologies, as well as the timing of their deployment of new services, and they may incur lower gross margins on products or services based on these technologies than on products using alternative technologies as a result of greater competition or other factors. If commercial deployment of these technologies, upgrade of 2G subscribers to 3G devices and upgrades to 3G, 3G/4G multimode or 4G wireless communications equipment, products and services based on these technologies do not continue or are delayed, our revenues could be negatively impacted, and our business could suffer.

Our licensing revenues can be impacted by the deployment of other technologies in place of technologies based on CDMA, OFDMA and their derivatives or by the need to extend certain existing license agreements to cover additional later patents.

Although we own a very strong portfolio of issued and pending patents related to GSM, GPRS, EDGE, OFDM, OFDMA, WLAN and Multiple Input, Multiple Output (MIMO) technologies, our patent portfolio licensing program in these areas is less established and might not be as successful in generating licensing income as our CDMA licensing program. Many wireless operators are investigating or have selected LTE (or to a lesser extent WiMAX) as next-generation technologies for deployment in existing or future spectrum bands as complementary to their existing CDMA-based networks. Although we believe that our patented technology is essential and useful to implementation of the LTE and WiMAX industry standards and have granted royalty-bearing licenses to more than 15 companies (including LG, Nokia and Samsung) to make and sell products implementing those standards but not implementing 3G standards, the royalty rates for such products are generally lower than our royalty rates for 3G products (whether or not such 3G products also incorporate a LTE or WiMAX mode of operation), and therefore, we might not achieve the same licensing revenues on such LTE or WiMAX products as on CDMA-based or multimode

CDMA/OFDMA-based products.

The licenses granted to and from us under a number of our license agreements include only patents that are either

filed or issued prior to a certain date and, in a small number of agreements, royalties are payable on those patents for a specified time period. As a result, there are agreements with some licensees where later patents are not licensed by or to us under our license agreements. In order to license any such later patents, we will need to extend or modify our license agreements or enter into new license agreements with such licensees. We might not be able to modify such license agreements in the future to license any such later patents or extend such date(s) to incorporate later patents without affecting the material terms and conditions of our license agreements with such licensees, and such modifications may impact our revenues.

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

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

Our industry is subject to competition in an environment of rapid technological change that could result in decreased demand for our products and the products of our customers and licensees, declining average selling prices for our licensees' products and our products and/or new specifications or requirements placed upon our products, each of which could negatively affect our revenues and operating results.

Our industry is subject to rapid technological change, and we must make substantial investments in new products, services and technologies to compete successfully. Technological innovations generally require a substantial investment before they are commercially viable. We intend to continue to make substantial investments in developing new products and technologies, and it is possible that our development efforts will not be successful and that our new technologies will not result in meaningful revenues. Our products, services and technologies face significant competition, and the revenues generated or the timing of their deployment, which may be dependent on the actions of others, may not meet our expectations. Competition in the communications industry is affected by various factors that include, among others: evolving industry standards; evolving methods of transmission for voice and data communications; networking; value-added features that drive replacement rates and selling prices; turnkey, integrated product offerings that incorporate hardware, software, user interface and applications; scalability and the ability of the system technology to meet customers' immediate and future network requirements.

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

- increase demand for our integrated circuit products and drive their adoption across a broad spectrum of devices, such as smartphones and tablets, and into new areas of wireless connectivity, including gaming, wireless charging and the connected home;

- strengthen our integrated circuit product roadmap for, and develop channel relationships in, emerging geographic regions requiring turnkey product offerings for low-end smartphones;

- be a preferred partner for operating system platforms, such as Android and Windows Phone, and effectively commercialize Windows 8 on ARM processor-equipped devices;

- focus our service businesses on key opportunities, such as eHealth and machine-to-machine technologies (allowing both wireless and wired systems to communicate with other devices), among others, that create standalone value and/or contribute to the success of our other businesses;

- be a leader in the 4G technology evolution, including expansion of our LTE (and WiMAX) single mode licensing program and timely introduction of 4G turnkey, integrated products and services; and

- succeed in significant foreign regions, such as China, India and Europe.

Companies that promote WWAN (Wireless Wide Area Network) technologies that are neither CDMA- nor OFDMA-based (e.g., GSM) and companies that design integrated circuits based on CDMA, OFDMA or their

derivatives are generally competitors or potential competitors. Examples (some of which are strategic partners of ours in other areas) include Broadcom, CSR plc, Freescale, Fujitsu, Intel, Lantiq, Marvell Technology, Mediatek, nVidia, Renesas

Electronics, Spreadtrum Communications, ST-Ericsson (a joint venture between Ericsson Mobile Platforms and ST-NXP Wireless), Texas Instruments and VIA Telecom. Many of these current and potential competitors have advantages over us that include, among others: motivation by our customers in certain circumstances to find alternate suppliers; foreign government support of other technologies; and more extensive relationships with indigenous distribution and original equipment manufacturer companies in developing territories (e.g., China).

Certain of our 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 chipsets, that will incorporate open source software elements and operate in an open source environment, which, under certain open source licenses, may offer accessibility to a portion of a product's source code and may expose related intellectual property to adverse licensing conditions. Licensing of such software may impose certain obligations on us if we were to distribute derivative works of the open source software. For example, these obligations may require us to make source code for the derivative works available to our customers in a manner that allows them to make such source code available to their customers, or license such derivative works under a particular type of license that is different than what we customarily use to license our software. Developing open source products, while adequately protecting the intellectual property rights upon which our licensing business depends, may prove burdensome and time-consuming under certain circumstances, thereby placing us at a competitive disadvantage for new product designs. Also, our use and our customers' use of open source software may subject our products and our customers' products to governmental scrutiny and delays in product certification, which could cause customers to view our products as less desirable than our competitors' products. While we believe we have taken appropriate steps and employed adequate controls to protect our intellectual property rights, our use of open source software presents risks that could have an adverse effect on these rights and on our business.

Competition may reduce average selling prices for our chipset products and the products of our customers and licensees. Reductions in the average selling prices of our licensees' products, unless offset by an increase in volumes, generally result in reduced total royalties payable to us. We anticipate that additional competitors will introduce products as a result of growth opportunities in wireless communications, the trend toward global expansion by foreign and domestic competitors, technological and public policy changes and relatively low barriers to entry in selected segments of the industry.

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, our operating results could be negatively affected. Our QCT segment derives a significant portion of revenues from a small number of customers. The loss of any one of our QCT segment's significant customers or the delay, even if only temporary, or cancellation of significant orders from any of these customers would reduce our revenues in the period of the delay or cancellation and harm our ability to achieve or sustain expected operating results. Accordingly, unless and until our QCT segment diversifies and expands its customer base, our future success will largely depend upon the timing and size of any future purchase orders from these customers.

Although we have more than 205 licensees, our QTL segment derives a significant portion of licensing revenues from a limited number of licensees. Our future success depends upon the ability of our licensees to develop, introduce and deliver high-volume products that achieve and sustain customer acceptance. We have little or no control over the sales efforts of our licensees, and our licensees might not be successful. Reductions in the average selling price of wireless devices sold by our major licensees, without a sufficient increase in the volumes of such devices sold, could have an adverse effect on our revenues.

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

A small number of companies, in the past, have initiated various strategies in an attempt to renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property in order to negatively affect our business model and that of our other licensees. These strategies have included (i) litigation, often alleging infringement of patents held by such companies, patent misuse, patent exhaustion and patent and license

unenforceability, or some form of unfair competition, (ii) taking positions contrary to our understanding of their contracts with us, (iii) appeals to governmental authorities, (iv) collective action, including working with wireless operators, standards bodies, other like-minded companies and other organizations, on both formal and informal bases, to adopt intellectual property policies and

practices that could have the effect of limiting returns on intellectual property innovations, and (v) lobbying with 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. Some companies or entities have proposed significant changes to existing intellectual property policies for implementation by SDOs and other industry organizations, some of which would require a maximum aggregate intellectual property royalty rate for the use of all 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 essential patents based upon the number of essential patents held by such company. 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 our alleged failure to abide by these policies. Others have made proposals that could severely limit damage awards and other remedies by courts for patent infringement. There is a risk that relevant courts or governmental agencies will interpret some or all of those proposals in a manner adverse to our interests. If such proposals and strategies continue and are successful in the future, our business model would be harmed, either by artificially limiting our return on investment with respect to new technologies or forcing us to work outside of the SDOs or such other industry groups to promote our new technologies, and our results of operations could be negatively impacted. As well, the legal and other costs associated with defending our position 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 to explain and defend our position.

Other companies or entities have commenced, and may again commence, actions seeking to establish the invalidity of one or more of our patents. In the event that one or more of our patents are challenged, a court may invalidate the patent(s) or determine that the patent(s) is not enforceable, which could harm our competitive position. If our key patents are invalidated, or if the scope of the claims in any of these patents is limited by court decision, we could be prevented from licensing the invalidated or limited portion of such patents. Such adverse decisions, depending upon their extent, could negatively impact our revenues. Even if such a patent challenge is not successful, it could be expensive and time consuming to address, divert management attention from our business and harm our reputation. The enforcement and protection of our intellectual property rights may be expensive, could fail to prevent misappropriation or unauthorized use of our proprietary intellectual property rights or could result in the loss of our ability to enforce one or more patents.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary information, technologies and processes, including our patent portfolio. Policing unauthorized use of our products, technologies and proprietary information is difficult and time consuming. We cannot be certain that the steps we have taken, or may take in the future, will prevent the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our proprietary intellectual property rights as fully or as readily as United States laws. We cannot be certain that the laws and policies of any country, including the United States, or the practices of any of the standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing or the adoption of standards, will not be changed in a way detrimental to our licensing program or to the sale or use of our products or technology. We may have difficulty in protecting or enforcing our intellectual property rights and/or contracts in a particular foreign jurisdiction, including: 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 U.S. courts; and challenges pending before foreign competition agencies to the pricing and integration of additional features and functionality into our wireless chipset products.

A substantial portion of our patents and patent applications relate to our wireless communications technology and much of the remainder of our patents and patent applications relate to our other technologies and products. We may need to litigate in the United States or elsewhere in the world to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our ability to enforce one or more patents or incur substantial unexpected operating costs. Any action we

take to enforce our intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results.

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 the complex technical issues and inherent uncertainties in intellectual property litigation. If any of our products were found to infringe on another company's intellectual property rights, we could be subject to an injunction or required to redesign our products, which could be costly, or to license such rights and/or pay damages or other compensation to such other company. If we were unable to redesign our products, license such intellectual property rights used in our products or otherwise distribute our products through a licensed supplier, we could be prohibited from making and selling such products. In any potential dispute involving other companies' patents or other intellectual property, our chipset foundries, semiconductor assembly and test providers and customers could also become the targets of litigation. We are contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent infringement by products or services sold or provided by us. Reimbursements under indemnification arrangements could have an adverse effect on our results of operations. Furthermore, any such litigation could severely disrupt the supply of our products and the businesses of our chipset customers and their wireless operator customers, which in turn could hurt our relationships with them and could result in a decline in our chipset sales and/or reductions in our licensees' sales, causing a corresponding decline in our chipset and/or licensing revenues. Any claims, regardless of their merit, could be time consuming to address, result in costly litigation, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have an adverse effect upon our operating results.

We expect that we may continue to be involved in litigation and may have to appear in front of administrative bodies (such as the U.S. International Trade Commission) to defend against patent assertions against our products by companies, some of whom are attempting to gain competitive advantage or leverage in licensing negotiations. We may not be successful in such proceedings, and if we are not, the range of possible outcomes includes everything from royalty payment to an injunction on the sale of certain of our chipsets (and on the sale of our customers' devices using our chipsets). Any imposition of royalty payments might make purchases of our chipsets less economical for our customers. A negative outcome in any such proceeding could severely disrupt the business of our chipset customers and their wireless operator customers, which in turn could harm our relationships with them and could result in a decline in our share of worldwide chipset sales and/or a reduction in our licensees' sales to wireless operators, causing corresponding declines in our chipset and/or licensing revenues.

A number of other companies have claimed to own patents essential to various CDMA standards, GSM standards and OFDMA standards or implementations of systems based on such standards. If we or other product manufacturers are required to obtain additional licenses and/or pay royalties to one or more of such other patent holders, this could have an adverse effect on the commercial implementation of our CDMA, GSM, OFDMA or multimode products and technologies, demand for our licensees' products and our results of operations.

Our earnings and stock price are subject to substantial quarterly and annual fluctuations and to market downturns. The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future as well. Factors that may have a significant impact on the market price of our stock include, among others:

- volatility of the stock market in general and technology-based companies in particular that is often unrelated to the operating performance of any specific public company;
- announcements concerning us or our competitors, including the selection of wireless communications technology by wireless operators and the timing of the roll-out of those systems;
- international developments, such as technology mandates, political developments or changes in economic policies;
- changes in recommendations of securities analysts;
- proprietary rights or product or patent litigation against us or against our customers or licensees;
- strategic transactions, such as spin-offs, acquisitions and divestitures;
- unexpected and/or significant changes in the average selling price of our licensees' products and our products;
- unresolved disputes with licensees that result in non-payment and/or non-recognition of royalty revenues that may be owed to us; or
- inquiries, rumors or allegations regarding our financial disclosures or practices.

In the past, securities class action litigation often has been brought against a company following periods of volatility



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

Changes in financial market volatility and liquidity may result in declines in the value and performance of our significant portfolio of marketable securities. Net investment income could vary depending on the gains or losses realized on the sale or exchange of securities, impairment charges related to marketable securities and other investments, changes in interest rates and changes in fair values of derivative instruments.

These factors affecting our future earnings are difficult to forecast and could harm our quarterly and/or annual operating results. If our earnings fail to meet the financial guidance we provide to investors, or the expectations of investment analysts or investors in any period, securities class action litigation could be brought against us and/or the market price of our common stock could decline.

We depend on a limited number of third-party suppliers for our procurement, manufacture and testing of product inventories. If these third-party suppliers fail to meet our needs, or if there are any disruptions in the operations of, or a loss of, any of these third-party suppliers, it could harm our ability to meet our delivery obligations to our customers, reduce our revenues, increase our cost of sales and harm our business.

We purchase raw materials, component parts, subassemblies and specialized manufacturing equipment from our suppliers and contract with separate suppliers for probe, assembly, test and other services in the manufacture of our product inventories. A reduction, interruption or delay in our product supply source, a failure by our suppliers to allocate adequate manufacturing or test capacity to our products or their inability to react to shifts in product demand or an increase in raw material or component prices could have an adverse effect on our ability to meet customer demands, our business and/or our profitability. The loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could harm our ability to meet our delivery obligations to our customers and negatively impact our revenues and business operations. In the event of a loss of, or a decision to change, a supplier, qualifying a new foundry supplier and commencing volume production or testing could cause us to incur additional expense and production delays, resulting in possible loss of customers.

While our goal is to establish alternate suppliers for technologies that we consider critical, we rely on sole- or limited-source suppliers for some products, subjecting us to significant risks, including: possible shortages of raw materials or manufacturing capacity; poor product performance; and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs. Our arrangements with our suppliers may oblige us to incur costs to manufacture and test our products that do not decrease at the same rate as decreases in pricing to our customers.

**QCT Segment.** Although we have entered into long-term contracts with our suppliers, these contracts generally do not provide for long-term capacity commitments, except as may be provided in a particular purchase order that has been accepted by our supplier. To the extent that we do not have firm commitments from our suppliers over a specific time period, or for any specific quantity, our suppliers may allocate, and in the past have allocated, capacity to the production and testing of products for their other customers while reducing capacity to manufacture or test our products. Accordingly, capacity for our products may not be available when we need it or at reasonable prices. We have experienced capacity limitations from our suppliers, which resulted in supply constraints and our inability to meet certain customer demand. The readiness of our foundry suppliers to support transitions to smaller geometry process technologies could also impact our ability to meet customer demand and may subject us to the risk of excess inventories. If we experience these or other supply constraints in the future, we may not be able to meet customer demand, and our revenues and results of operations could suffer.

**QMT Division.** Our QMT division needs to further develop its business relationships with raw materials and component supply partners to support the manufacture of IMOD displays and/or modules in commercial volumes. We depend on certain raw materials, components, and specialized manufacturing equipment, primarily from suppliers in Taiwan, Japan and South Korea, to produce our IMOD display panels, and we may not be able to obtain sufficient quantities and acceptable quality of raw materials, components and equipment in the future to support commercial production. The effect of these supplier-related risks could negatively impact the adoption of the IMOD technology. Our suppliers may also be our competitors, putting us at a disadvantage for pricing and capacity allocation.

One or more of our suppliers may obtain rights from us to 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 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.

We may engage in acquisitions or strategic transactions or make investments that could result in significant changes or management disruption and fail to enhance stockholder value.

From time to time, we engage in acquisitions or strategic transactions or make investments with the goal of maximizing stockholder value. We acquire businesses and other assets, including spectrum licenses and other intangible assets, enter into joint ventures or other strategic transactions and purchase equity and debt securities, including minority interests in publicly-traded and private companies. Many of our strategic investments are in early-stage companies to expand the wireless industry and promote the global adoption of CDMA- or OFDMA-based technologies and related services. Most of our acquisitions or strategic investments entail a high degree of risk and will not become liquid until more than one year from the date of investment, if at all. Our acquisitions or strategic investments (either those we have completed or may undertake in the future) may not generate financial returns or result in increased adoption or continued use of our technologies. In some cases, we may be required to consolidate or record our share of the earnings or losses of companies in which we have acquired ownership interests. Our share of any losses will adversely affect our financial results until we exit from or reduce our exposure to these investments. Achieving the anticipated benefits of business acquisitions, such as our recent acquisition of Atheros, depends in part upon our ability to integrate the acquired businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, including, among others: retaining key employees; successfully integrating new employees, business systems and technology; retaining customers and suppliers of the acquired business; minimizing the diversion of management's attention from ongoing business matters; coordinating geographically separate organizations; consolidating research and development operations; and consolidating corporate and administrative infrastructures. We may not derive any commercial value from acquired technology, products and intellectual property or from future technologies and products based on the acquired technology and/or intellectual property, and we may be subject to liabilities that are not covered by indemnification protection we may obtain. Additionally, we may not be successful in expanding into geographic regions and/or categories of products served by or adjacent to an acquired business and in addressing potential new opportunities that may arise out of the combination. Due to our inexperience with products and/or geographic regions served by acquired businesses, we may overestimate the benefits, including product and other synergies and growth opportunities that we expect to realize, and we may fail to achieve them. For example, Atheros' business has focused on LAN connectivity and products for WLAN (also referred to as WiFi) and other technologies primarily for networking, computing and other consumer electronic devices. We may not realize the expected return on our investment in Atheros if we do not effectively execute upon the product and business strategies and/or other opportunities created by the acquisition.

Our QMT division's business does not currently generate operating income and may not succeed or its operating results may not meet our expectations.

While we continue to believe our QMT division's IMOD displays will offer compelling advantages to users of displays, other technologies may continue to improve in ways that reduce the advantages we anticipate from our IMOD displays. Sales of flat panel displays are currently dominated, and we believe will likely continue to be dominated for some time, by displays based on liquid crystal display (LCD) technology. Numerous companies are making substantial investments in, and conducting research to improve characteristics of, LCDs. Additionally, several other flat panel display technologies have been, or are being, developed, including technologies for the production of organic light-emitting diode (OLED), field emission, inorganic electroluminescence, gas plasma and vacuum fluorescent displays. In each case, advances in LCD or other flat panel display technologies could result in technologies that are more cost effective, have fewer display limitations or can be brought to market faster than our IMOD technology. These advances in competing technologies might cause device manufacturers to avoid entering into commercial relationships with us or to not renew planned or existing relationships with us.

We may not evolve our QMT division into a successful display-based subsystem provider if we are unable to cost-effectively manufacture and commercialize our IMOD display product. We are constructing a new facility in Taiwan to manufacture our IMOD display product. We may experience unforeseen difficulties, delays or defects upon

volume production and broad deployment of this product. Delays in volume production of our IMOD display product could result from delays in facility construction, delivery of specialized manufacturing equipment and numerous other factors. In addition, we have limited experience in the display business, and we may be unsuccessful in selling our IMOD display product. Our QMT division had \$1.02 billion in assets (including \$136 million in goodwill) at December 25, 2011. If we do not expect to achieve or do not achieve adequate market penetration with our IMOD display technology, our assets

may become impaired, negatively impacting our operating results, and we may not meet future earnings projections related to this business.

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 the activities of our foreign subsidiaries and international strategic investments.

Our international customers sell their products throughout the world in various currencies. Consolidated revenues from international customers as a percentage of total revenues were greater than 90% in the first three months of fiscal 2012 and in the last three fiscal years. We are exposed to risk from fluctuations in currencies that could negatively affect our operating results. Adverse movements in currency exchange rates may negatively affect our business due to a number of situations, including the following, among others:

- Our products and those of our customers and licensees that are sold outside the United States may become less price-competitive as a result of adverse currency fluctuations;

- Certain of our revenues, such as royalties, are derived from licensee or customer sales that are denominated in foreign currencies. Weakening of currency values versus the U.S. dollar in selected regions could reduce our revenues and cash flows;

- We may engage in foreign exchange hedging transactions that could affect our cash flows and results of operations because they 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;

- Our loans payable are denominated in Indian rupees. If the U.S. dollar weakens, additional cash may be required to settle this obligation and the related interest;

- Currency exchange rate fluctuations may reduce the U.S. dollar value of our marketable securities that are denominated directly or indirectly in foreign currencies; and

- Certain suppliers may price goods in currencies other than the U.S. dollar. A weakening dollar would result in higher than expected costs for these goods.

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

The use of devices containing our products to access untrusted content creates a risk of exposing the system software in those devices to viral or malicious attacks. While we continue to expand our focus on this issue and are taking measures to safeguard our products from cybersecurity threats, device capabilities continue to evolve in a 3G/4G environment, enabling more data and processes, such as mobile computing, and increasing the risk that security failures will occur. Our products are inherently complex and may contain defects or errors that are detected only when the products are in use. For example, as our chipset product complexities increase, we are required to migrate to integrated circuit technologies with smaller geometric feature sizes. The design process interface issues are more complex as we enter into these new domains of technology, which adds risk to yields and reliability. Manufacturing, testing, marketing and use of our products and those of our customers and licensees entail the risk of product liability. Because our products and services are responsible for critical functions in our customers' products and/or networks, security failures, defects or errors in our components, materials or software or those used by our customers could have an adverse impact on us, on our customers and on the end users of their products. Such adverse impact could include product liability claims or recalls, a decrease in demand for connected devices and wireless services, damage to our reputation and to our customer relationships, and other financial liability or harm to our business.

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

Attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated and are sometimes successful. 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. 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 or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential

information, we may incur liability as a result. In addition, we expect to devote additional resources to the security of our

information technology systems.

Potential tax liabilities could adversely affect our results of operations.

We are subject to income taxes in the United States and in numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes. Although we believe that our tax estimates are reasonable, the final determination of tax audits and any related litigation could materially differ from amounts reflected in 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.

In fiscal 2012, we plan to establish QCT's non-United States headquarters in Singapore. We expect to obtain tax incentives in Singapore so that the location of the headquarters in Singapore will not result in any increase in foreign tax, as compared to tax that would be owed under the current structure of QCT's non-United States operations, for the first five years as long as we meet specified employment and investment criteria in Singapore. Our Singapore tax rate is expected to increase in fiscal 2017 and again in fiscal 2027 as the result of expiration of these incentives. If we fail to meet the criteria required to benefit from such incentives, our results of operations may be adversely affected.

Tax rules may change in a manner that adversely affects our future reported financial results or the way we conduct our business. For example, we consider the operating earnings of certain non-United States subsidiaries to be indefinitely invested outside the United States based on estimates that future domestic cash generation will be sufficient to meet future domestic cash needs for at least the next 12 months and the foreseeable future. No provision has been made for United States federal and state or foreign taxes that may result from future remittances of undistributed earnings of our foreign subsidiaries. Our future financial results and liquidity may be adversely affected if tax rules regarding unrepatriated earnings change, if domestic cash needs require us to repatriate foreign earnings, or if the United States international tax rules change as part of comprehensive tax reform or other tax legislation.

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

Concerns over the effects of radio frequency emissions continue. Interest groups have requested that the FCC investigate claims that wireless communications technologies pose health concerns and cause interference with airbags, hearing aids and medical devices. Concerns have also been expressed over, and state laws have been enacted to mitigate, the possibility of safety risks due to a lack of attention associated with the use of wireless devices while driving. Legislation that may be adopted in response to these concerns or adverse news or findings about safety risks could reduce demand for our products and those of our licensees and customers in the United States as well as in foreign countries.

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

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. It may also be difficult to comply with laws and regulations in a timely manner, and we may not have compliant products available in the quantities requested by our customers, which may have an adverse impact on our results of operations. There is also the potential for higher costs driven by environmental regulations. Our costs could increase if our vendors (e.g., third-party manufacturers or utility companies) pass on their costs to us.

As part of the development and commercialization of our IMOD display technology, we are operating both a development and a production fabrication facility. The development and commercialization of IMOD display prototypes is a complex and precise process involving restricted materials subject to environmental and safety regulations. Our failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of development and production activities.

Our products and services, and those of our customers and licensees, are subject to various regulations, including FCC regulations in the United States and other international regulations, as well as the specifications of international, national and regional standards bodies. The adoption of new laws or regulations, changes in the regulation of our activities, or exclusion or limitation of our technology or products by a government or standards body, could have an adverse effect on our business, including, among other factors, changes in laws, policies, practices or enforcement affecting trade, foreign investments, licensing practices, spectrum license issuance, adoption of standards, the

provision of wireless device subsidies by wireless operators to their customers, taxation, environmental protection, loans and employment.

In June 2010, we won a 20 MHz slot of Broadband Wireless Access (BWA) spectrum in four regions (known as telecom circles) in India as a result of the completion of the BWA spectrum auction for which we made a \$1.1 billion payment (\$928 million at December 25, 2011). We created four wholly-owned subsidiaries, and on August 9, 2010, each subsidiary filed an application to obtain a license to operate a wireless network on this spectrum for one of the respective regions. Thereafter, two Indian companies each acquired 13% of each subsidiary. On September 21, 2011, we received a letter dated September 7, 2011 from the Government of India's Department of Telecommunications (DoT) (the DoT Letter) notifying us that our applications had been rejected based on its conclusion that the applications were filed after the deadline and that we were restricted to filing one application rather than four. On September 27, 2011, we filed a petition with the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) seeking to overturn the DoT Letter. On September 28, 2011, the TDSAT issued an order granting us interim relief, pending a final determination of our case, directing the DoT to (i) not issue the spectrum that has been earmarked to us to anyone else and (ii) not forfeit or appropriate the payment that we made for the spectrum. On October 10, 2011, one of our subsidiaries received a letter from the DoT offering to issue it a license that would cover all of India, including the four regions for which we won spectrum at the June 2010 auction, assuming that the subsidiary met certain requirements by November 9, 2011. On October 18, 2011, the subsidiary submitted to the DoT a letter accepting the DoT's offer, requesting issuance of a license as soon as possible after certain requirements are met, and stating that upon issuance of the license, our three other subsidiaries would merge into the subsidiary that had been granted a license. On October 19, 2011, the DoT filed a reply to our September 27, 2011 petition with the TDSAT. In its reply, the DoT stated that upon issuance of a license, our subsidiary could apply for assignment of the spectrum, and at that time, the DoT would decide whether to grant the requested assignment and whether our applications for licenses were timely filed in accordance with its rules. On October 20, 2011, the TDSAT conducted a second hearing on our case. At the conclusion of the hearing, the TDSAT ordered the DoT to clarify the aforementioned statements in its October 19, 2011 reply in light of its October 10, 2011 offer. On November 2, 2011, the subsidiary made a filing with the DoT to meet the four requirements of the DoT Letter, which included certification by the subsidiary that no dues were payable to the DoT by either the subsidiary or its shareholders. The TDSAT conducted a hearing on November 8, 2011 and ordered that the subsidiary and the DoT meet to expedite the licensing process. We met with the DoT on November 14, 2011 and thereafter provided additional documentation to the DoT. At a December 2, 2011 hearing before the TDSAT, the DoT stated that it had served a provisional assessment on one of the subsidiary's Indian partners in the amount of approximately \$28 million (based on the applicable foreign currency exchange rate on December 25, 2011) in unpaid dues, including interest and penalties. The TDSAT conducted hearings on this matter on December 9, 2011, January 2, 2012 and January 31, 2012. The next hearing is scheduled for February 6, 2012. On January 22, 2012, we filed an application requesting that the TDSAT order the DoT to issue the license pursuant to the DoT's October 10, 2011 letter. In the application, we argued that the provisional assessment was not a legal basis for the DoT to delay issuing the license. We also offered to have the subsidiary execute an undertaking that would take effect upon issuance of the license. In the undertaking, the subsidiary would agree that if the Indian partner did not pay an amount ultimately found to be due (up to the amount of the assessment), the subsidiary would pay such amount. In addition, we offered to have the subsidiary provide a bank guarantee to cover the amount found to be payable if the DoT has any concern about the creditworthiness of the subsidiary. The DoT has been ordered to file a response to our application on February 3, 2012. If we do not ultimately prevail in this matter, our subsidiary may not receive a license or an assignment of the spectrum that we won in the auction; and in either of those events, our payment for the spectrum may not be returned.

Also in connection with the BWA spectrum acquisition, each of the subsidiaries entered into loan agreements with multiple lenders, of which \$142 million and \$786 million are due and payable in February 2012 and December 2012, respectively. The loan agreements define certain events as events of default, including, among other things, if certain government authorizations are revoked, terminated, withdrawn, suspended, modified or withheld. If the DoT's rejection of our license applications were to be considered an event of default, the bank lenders could declare the loans due and payable immediately. We have received waivers from each of the bank lenders related to this matter until at least April 1, 2012, conditioned upon our continuing to pursue our legal rights in this matter, and agreeing that any default will be deemed cured under certain circumstances, including if one of the relevant subsidiaries is granted the license and the other three are pursuing a merger into the subsidiary that has been offered a license.

Changing laws, regulations and standards relating to corporate governance, public disclosure and health care may create uncertainty regarding compliance matters. New or changed 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. Evolving interpretations of new or changed legal requirements may cause us to incur higher costs as we revise current practices, policies and/or procedures and may divert management time and attention to compliance activities.

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

Our future success depends largely upon the continued service of our board members, executive officers and other key management and technical personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified personnel. In addition, implementing our product and business strategy requires specialized engineering and other talent, and our revenues are highly dependent on technological and product innovations. The market for such specialized engineering and other talented employees in our industry is extremely competitive. In addition, 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. Key employees represent a significant asset, and the competition for these employees is intense in our industry. We continue to anticipate increases in human resource needs, particularly in engineering. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2011 Annual Report on Form 10-K. At December 25, 2011, there have been no other material changes to the market risks described at September 25, 2011 except as described below. Additionally, we do not anticipate any other near-term changes in the nature of our market risk exposures or in management's objectives and strategies with respect to managing such exposures.

**Interest Rate Risk.** The following table provides information about our interest-bearing cash and cash equivalents, marketable securities and loans payable that are sensitive to changes in interest rates. The table presents principal cash flows, weighted-average yield at cost and contractual maturity dates. Additionally, we have assumed that the interest-bearing securities are similar enough within the specified categories to aggregate the securities for presentation purposes.

Interest Rate Sensitivity  
Principal Amount by Expected Maturity  
Average Interest Rates  
(Dollars in millions)

|                                       | 2012    | 2013    | 2014  | 2015  | 2016  | Thereafter | No Single<br>Maturity | Total   |
|---------------------------------------|---------|---------|-------|-------|-------|------------|-----------------------|---------|
| Fixed interest-bearing securities:    |         |         |       |       |       |            |                       |         |
| Cash and cash equivalents             | \$1,835 | \$—     | \$—   | \$—   | \$—   | \$—        | \$—                   | \$1,835 |
| Interest rate                         | 0.3     | %       |       |       |       |            |                       |         |
| Trading securities:                   |         |         |       |       |       |            |                       |         |
| Investment grade                      | \$302   | \$104   | \$416 | \$16  | \$11  | \$56       | \$26                  | \$931   |
| Interest rate                         | 0.1     | % 2.8   | % 2.7 | % 3.1 | % 3.3 | % 3.8      | % 3.8                 | %       |
| Non-investment grade                  | \$—     | \$2     | \$8   | \$11  | \$19  | \$5        | \$7                   | \$52    |
| Interest rate                         |         | 7.9     | % 8.0 | % 7.9 | % 8.4 | % 7.8      | % 5.2                 | %       |
| Other marketable securities:          |         |         |       |       |       |            |                       |         |
| Investment grade                      | \$995   | \$1,375 | \$792 | \$380 | \$414 | \$605      | \$2,019               | \$6,580 |
| Interest rate                         | 1.2     | % 1.5   | % 3.0 | % 2.5 | % 3.0 | % 5.5      | % 1.8                 | %       |
| Non-investment grade                  | \$2     | \$12    | \$29  | \$103 | \$140 | \$933      | \$19                  | \$1,238 |
| Interest rate                         | 7.2     | % 7.7   | % 9.2 | % 8.9 | % 8.0 | % 7.9      | % 2.2                 | %       |
| Floating interest-bearing securities: |         |         |       |       |       |            |                       |         |
| Cash and cash equivalents             | \$2,214 | \$—     | \$—   | \$—   | \$—   | \$—        | \$—                   | \$2,214 |
| Interest rate                         | 0.1     | %       |       |       |       |            |                       |         |
| Trading securities:                   |         |         |       |       |       |            |                       |         |
| Investment grade                      | \$—     | \$—     | \$13  | \$—   | \$—   | \$—        | \$8                   | \$21    |
| Interest rate                         |         |         | 1.8   | %     |       |            | 2.7                   | %       |
| Non-investment grade                  | \$—     | \$—     | \$—   | \$—   | \$1   | \$—        | \$1                   | \$2     |
| Interest rate                         |         |         |       |       | 7.8   | %          | 2.7                   | %       |
| Other marketable securities:          |         |         |       |       |       |            |                       |         |
| Investment grade                      | \$288   | \$613   | \$664 | \$10  | \$25  | \$405      | \$570                 | \$2,575 |
| Interest rate                         | 0.9     | % 0.9   | % 1.2 | % 5.3 | % 2.8 | % 8.8      | % 2.2                 | %       |
| Non-investment grade                  | \$8     | \$52    | \$195 | \$133 | \$190 | \$1,064    | \$1,145               | \$2,787 |
| Interest rate                         | 6.3     | % 5.1   | % 5.0 | % 5.0 | % 3.6 | % 4.5      | % 4.2                 | %       |
| Loans payable <sup>(1)</sup>          | \$142   | \$786   | \$—   | \$—   | \$—   | \$—        | \$—                   | \$928   |
| Floating interest rate                | 10.3    | % 10.3  | %     |       |       |            |                       |         |

<sup>(1)</sup> Denominated in Indian rupees.

Cash and cash equivalents and marketable securities are recorded at fair value. The loans payable approximate fair value. We intend to refinance the amount due in February 2012 with new loans. If the DOT's rejection of our license applications were to be considered an event of default, the bank lenders could declare the loans due and payable immediately. We have received conditional waivers from each of the bank lenders until at least April 1, 2012. As a result, the due date for all or a portion of the loans payable could be accelerated.

#### ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal

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officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### 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. To reflect the completion of the sale of substantially all of our 700 MHz spectrum on December 27, 2011 (after the close of our first fiscal quarter), we revised the risk factor entitled:

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

Other than with respect to that revision, we do not believe the updates to the Risk Factors 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

During the first quarter of fiscal 2012, we repurchased shares of our common stock as follows (in thousands, except per share data):

|                                        | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid Per<br>Share <sup>(1)</sup> | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs <sup>(1)</sup> | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased Under the<br>Plans or<br>Programs <sup>(2)(3)</sup> |
|----------------------------------------|----------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| September 26, 2011 to October 23, 2011 | 2,045                                  | \$48.30                                           | 2,045                                                                                                       | \$1,459,056                                                                                                               |
| October 24, 2011 to November 20, 2011  | 1                                      | 49.91                                             | 1                                                                                                           | 1,458,996                                                                                                                 |
| November 21, 2011 to December 25, 2011 | —                                      | —                                                 | —                                                                                                           | 1,458,996                                                                                                                 |
| Total                                  | 2,046                                  | \$48.30                                           | 2,046                                                                                                       | \$1,458,996                                                                                                               |

<sup>(1)</sup> Average Price Paid Per Share excludes cash paid for commissions.

<sup>(2)</sup> On March 1, 2010, we announced that we had been authorized to repurchase up to \$3.0 billion of our common stock, and \$948 million of that amount remained available at December 25, 2011, net of shares that may be repurchased subject to put options outstanding. The stock repurchase program has no expiration date.

<sup>(3)</sup> The approximate dollar value of shares that may yet be purchased has not been reduced by the net cost of \$511 million (net of the premiums received) of 11,800,000 shares that may be repurchased related to put options that we sold during fiscal 2011.

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 | Description                                                                                                                                                                                                                                         |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Restated Certificate of Incorporation. (1)                                                                                                                                                                                                          |
| 3.2            | Certificate of Amendment of Certificate of Designation of Series A Junior Participating Preferred Stock. (2)                                                                                                                                        |
| 3.4            | Amended and Restated Bylaws. (3)                                                                                                                                                                                                                    |
| 4.1            | Amended and Restated Rights Agreement dated as of September 26, 2005 between the Company and Computershare Trust Company, N.A., as successor Rights Agent to Computershare Investor Services LLC. (4)                                               |
| 4.2            | Amendment dated as of December 7, 2006 to the Amended and Restated Rights Agreement dated as of September 26, 2005 between the Company and Computershare Trust Company, N.A., as successor Rights Agent to Computershare Investor Services LLC. (5) |
| 31.1           | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Paul E. Jacobs.                                                                                                                                                         |
| 31.2           | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for William E. Keitel.                                                                                                                                                      |
| 32.1           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Paul E. Jacobs.                                                                                                         |
| 32.2           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for William E. Keitel.                                                                                                      |
| 101.INS        | XBRL Instance Document. (6)                                                                                                                                                                                                                         |
| 101.SCH        | XBRL Taxonomy Extension Schema. (6)                                                                                                                                                                                                                 |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase. (6)                                                                                                                                                                                                   |
| 101.LAB        | XBRL Taxonomy Extension Labels Linkbase. (6)                                                                                                                                                                                                        |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase. (6)                                                                                                                                                                                                  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase. (6)                                                                                                                                                                                                    |

(1) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 27, 2009.

(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 30, 2005.

(3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 25, 2009.

(4) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on September 30, 2005.

(5) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 12, 2006.

(6) Furnished, not filed.

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/ William E. Keitel  
William E. Keitel  
Executive Vice President and  
Chief Financial Officer

Dated: February 1, 2012