

QUALCOMM INC/DE  
Form 10-Q  
July 23, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 29, 2014

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

92121-1714

(Address of Principal Executive Offices)

(Zip Code)

(858) 587-1121

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 July 21, 2014, was as follows:

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| Class                                      | Number of Shares |
|--------------------------------------------|------------------|
| Common Stock, \$0.0001 per share par value | 1,676,023,571    |

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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)

|                                                                                                                                            | June 29,<br>2014 | September 29,<br>2013 |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------------|
| <b>ASSETS</b>                                                                                                                              |                  |                       |
| Current assets:                                                                                                                            |                  |                       |
| Cash and cash equivalents                                                                                                                  | \$7,944          | \$6,142               |
| Marketable securities                                                                                                                      | 10,209           | 8,824                 |
| Accounts receivable, net                                                                                                                   | 2,084            | 2,142                 |
| Inventories                                                                                                                                | 1,185            | 1,302                 |
| Deferred tax assets                                                                                                                        | 451              | 573                   |
| Other current assets                                                                                                                       | 535              | 572                   |
| Total current assets                                                                                                                       | 22,408           | 19,555                |
| Marketable securities                                                                                                                      | 14,563           | 14,440                |
| Deferred tax assets                                                                                                                        | 1,195            | 1,059                 |
| Property, plant and equipment, net                                                                                                         | 2,555            | 2,995                 |
| Goodwill                                                                                                                                   | 4,183            | 3,976                 |
| Other intangible assets, net                                                                                                               | 2,608            | 2,553                 |
| Other assets                                                                                                                               | 843              | 938                   |
| Total assets                                                                                                                               | \$48,355         | \$45,516              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                |                  |                       |
| Current liabilities:                                                                                                                       |                  |                       |
| Trade accounts payable                                                                                                                     | \$1,900          | \$1,554               |
| Payroll and other benefits related liabilities                                                                                             | 740              | 839                   |
| Unearned revenues                                                                                                                          | 705              | 501                   |
| Other current liabilities                                                                                                                  | 2,676            | 2,319                 |
| Total current liabilities                                                                                                                  | 6,021            | 5,213                 |
| Unearned revenues                                                                                                                          | 3,168            | 3,666                 |
| Other liabilities                                                                                                                          | 379              | 550                   |
| Total liabilities                                                                                                                          | 9,568            | 9,429                 |
| Commitments and contingencies (Note 6)                                                                                                     |                  |                       |
| Stockholders' equity:                                                                                                                      |                  |                       |
| Qualcomm stockholders' equity:                                                                                                             |                  |                       |
| Preferred stock, \$0.0001 par value; 8 shares authorized; none outstanding                                                                 | —                | —                     |
| Common stock and paid-in capital, \$0.0001 par value; 6,000 shares authorized; 1,678 and 1,685 shares issued and outstanding, respectively | 8,346            | 9,874                 |
| Retained earnings                                                                                                                          | 29,618           | 25,461                |
| Accumulated other comprehensive income                                                                                                     | 825              | 753                   |
| Total Qualcomm stockholders' equity                                                                                                        | 38,789           | 36,088                |
| Noncontrolling interests                                                                                                                   | (2)              | (1)                   |
| Total stockholders' equity                                                                                                                 | 38,787           | 36,087                |

|                                            |          |          |
|--------------------------------------------|----------|----------|
| Total liabilities and stockholders' equity | \$48,355 | \$45,516 |
|--------------------------------------------|----------|----------|

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 |                  | Nine Months Ended |                  |
|-------------------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                                       | June 29,<br>2014   | June 30,<br>2013 | June 29,<br>2014  | June 30,<br>2013 |
| Revenues:                                             |                    |                  |                   |                  |
| Equipment and services                                | \$4,922            | \$4,286          | \$13,803          | \$12,474         |
| Licensing                                             | 1,884              | 1,957            | 5,992             | 5,911            |
| Total revenues                                        | 6,806              | 6,243            | 19,795            | 18,385           |
| Costs and expenses:                                   |                    |                  |                   |                  |
| Cost of equipment and services revenues               | 2,740              | 2,497            | 7,929             | 7,106            |
| Research and development                              | 1,429              | 1,298            | 4,113             | 3,618            |
| Selling, general and administrative                   | 582                | 613              | 1,745             | 1,861            |
| Other                                                 | (20)               | ) 158            | 450               | 158              |
| Total costs and expenses                              | 4,731              | 4,566            | 14,237            | 12,743           |
| Operating income                                      | 2,075              | 1,677            | 5,558             | 5,642            |
| Investment income, net (Note 3)                       | 422                | 233              | 968               | 730              |
| Income from continuing operations before income taxes | 2,497              | 1,910            | 6,526             | 6,372            |
| Income tax expense                                    | (260)              | ) (332)          | ) (886)           | ) (1,028)        |
| Income from continuing operations                     | 2,237              | 1,578            | 5,640             | 5,344            |
| Discontinued operations, net of income taxes (Note 8) | —                  | —                | 430               | —                |
| Net income                                            | 2,237              | 1,578            | 6,070             | 5,344            |
| Net loss attributable to noncontrolling interests     | 1                  | 2                | 3                 | 8                |
| Net income attributable to Qualcomm                   | \$2,238            | \$1,580          | \$6,073           | \$5,352          |
| Basic earnings per share attributable to Qualcomm:    |                    |                  |                   |                  |
| Continuing operations                                 | \$1.33             | \$0.91           | \$3.35            | \$3.11           |
| Discontinued operations                               | —                  | —                | 0.25              | —                |
| Net income                                            | \$1.33             | \$0.91           | \$3.60            | \$3.11           |
| Diluted earnings per share attributable to Qualcomm:  |                    |                  |                   |                  |
| Continuing operations                                 | \$1.31             | \$0.90           | \$3.28            | \$3.04           |
| Discontinued operations                               | —                  | —                | 0.25              | —                |
| Net income                                            | \$1.31             | \$0.90           | \$3.53            | \$3.04           |
| Shares used in per share calculations:                |                    |                  |                   |                  |
| Basic                                                 | 1,683              | 1,727            | 1,686             | 1,720            |
| Diluted                                               | 1,714              | 1,765            | 1,718             | 1,760            |
| Dividends per share announced                         | \$0.42             | \$0.35           | \$1.12            | \$0.85           |

See Accompanying Notes to Condensed Consolidated Financial Statements.



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

|                                                                                                                                             | Three Months Ended |                  | Nine Months Ended |                  |   |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|-------------------|------------------|---|
|                                                                                                                                             | June 29,<br>2014   | June 30,<br>2013 | June 29,<br>2014  | June 30,<br>2013 |   |
| Net income                                                                                                                                  | \$2,237            | \$1,578          | \$6,070           | \$5,344          |   |
| Other comprehensive income (loss), net of income taxes:                                                                                     |                    |                  |                   |                  |   |
| Foreign currency translation                                                                                                                | 8                  | (16              | ) 14              | (23              | ) |
| Reclassification of foreign currency translation losses included in net income                                                              | —                  | 11               | 1                 | 11               |   |
| Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain available-for-sale debt securities | 1                  | —                | 1                 | (1               | ) |
| Reclassification of other-than-temporary losses on available-for-sale securities included in net income                                     | 5                  | 14               | 96                | 24               |   |
| Net unrealized gains (losses) on other available-for-sale securities and derivative instruments                                             | 176                | (298             | ) 364             | (51              | ) |
| Reclassification of net realized gains on available-for-sale securities and derivative instruments included in net income                   | (175               | ) (35            | ) (404            | ) (129           | ) |
| Total other comprehensive income (loss)                                                                                                     | 15                 | (324             | ) 72              | (169             | ) |
| Total comprehensive income                                                                                                                  | 2,252              | 1,254            | 6,142             | 5,175            |   |
| Comprehensive loss attributable to noncontrolling interests                                                                                 | 1                  | 3                | 3                 | 9                |   |
| Comprehensive income attributable to Qualcomm                                                                                               | \$2,253            | \$1,257          | \$6,145           | \$5,184          |   |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

|                                                                                   | Nine Months Ended |                  |
|-----------------------------------------------------------------------------------|-------------------|------------------|
|                                                                                   | June 29,<br>2014  | June 30,<br>2013 |
| Operating Activities:                                                             |                   |                  |
| Net income                                                                        | \$6,070           | \$5,344          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |
| Depreciation and amortization expense                                             | 853               | 744              |
| Gain on sale of discontinued operations                                           | (665)             | ) —              |
| Revenues related to non-monetary exchanges                                        | (93)              | ) (93)           |
| Long-lived asset and goodwill impairment charges                                  | 642               | 191              |
| Income tax provision in excess of income tax payments                             | 244               | 220              |
| Non-cash portion of share-based compensation expense                              | 806               | 831              |
| Incremental tax benefits from share-based compensation                            | (239)             | ) (178)          |
| Net realized gains on marketable securities and other investments                 | (685)             | ) (239)          |
| Impairment losses on marketable securities and other investments                  | 170               | 49               |
| Other items, net                                                                  | 88                | 34               |
| Changes in assets and liabilities:                                                |                   |                  |
| Accounts receivable, net                                                          | 43                | (445)            |
| Inventories                                                                       | 116               | (699)            |
| Other assets                                                                      | 136               | (111)            |
| Trade accounts payable                                                            | 321               | 598              |
| Payroll, benefits and other liabilities                                           | (337)             | ) 52             |
| Unearned revenues                                                                 | (202)             | ) (30)           |
| Net cash provided by operating activities                                         | 7,268             | 6,268            |
| Investing Activities:                                                             |                   |                  |
| Capital expenditures                                                              | (955)             | ) (808)          |
| Purchases of available-for-sale securities                                        | (10,315)          | ) (12,112)       |
| Proceeds from sales and maturities of available-for-sale securities               | 9,744             | 7,337            |
| Purchases of trading securities                                                   | (2,868)           | ) (2,658)        |
| Proceeds from sales and maturities of trading securities                          | 2,619             | 2,365            |
| Purchases of other marketable securities                                          | (220)             | ) —              |
| Proceeds from sale of discontinued operations, net of cash sold                   | 788               | —                |
| Acquisitions and other investments, net of cash acquired                          | (447)             | ) (179)          |
| Other items, net                                                                  | 102               | 68               |
| Net cash used by investing activities                                             | (1,552)           | ) (5,987)        |
| Financing Activities:                                                             |                   |                  |
| Borrowing under loans and debentures                                              | —                 | 534              |
| Repayment of loans and debentures                                                 | —                 | (492)            |
| Proceeds from issuance of common stock                                            | 1,147             | 964              |
| Incremental tax benefits from share-based compensation                            | 239               | 178              |
| Repurchases and retirements of common stock                                       | (3,354)           | ) (1,289)        |
| Dividends paid                                                                    | (1,884)           | ) (1,463)        |
| Other items, net                                                                  | (65)              | ) 35             |
| Net cash used by financing activities                                             | (3,917)           | ) (1,533)        |
| Changes in cash and cash equivalents held for sale                                | —                 | (15)             |
| Effect of exchange rate changes on cash and cash equivalents                      | 3                 | (7)              |

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|                                                                        |         |         |   |
|------------------------------------------------------------------------|---------|---------|---|
| Net increase (decrease) in cash and cash equivalents                   | 1,802   | (1,274  | ) |
| Cash and cash equivalents at beginning of period                       | 6,142   | 3,807   |   |
| Cash and cash equivalents at end of period                             | \$7,944 | \$2,533 |   |
| 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 notes required by GAAP for complete financial statements. In the opinion of management, the interim data includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2013. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. Each of the three-month and nine-month periods ended June 29, 2014 and June 30, 2013 included 13 weeks and 39 weeks, respectively.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's condensed consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation.

Earnings Per Common Share. Basic earnings per common share are computed by dividing net income attributable to Qualcomm by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed by dividing net income attributable to Qualcomm by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options, if any, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an award, if any, the amount of compensation cost for future service that the Company has not yet recognized, if any, and the estimated tax benefits that would be recorded in paid-in capital when an award is settled, if any, are assumed to be used to repurchase shares in the current period. The dilutive common share equivalents, calculated using the treasury stock method, for the three and nine months ended June 29, 2014 were 30,642,000 and 31,985,000, respectively. The dilutive common share equivalents, calculated using the treasury stock method, for the three and nine months ended June 30, 2013 were 37,927,000 and 40,132,000, respectively.

Shares of common stock equivalents outstanding that were not included in the computation of diluted earnings per common share because the effect would be anti-dilutive or certain performance conditions were not satisfied at the end of the period were 7,000 and 278,000 during the three and nine months ended June 29, 2014, respectively, and 720,000 and 589,000 during the three and nine months ended June 30, 2013, respectively.

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

|                                         | Three Months Ended |                  | Nine Months Ended |                  |
|-----------------------------------------|--------------------|------------------|-------------------|------------------|
|                                         | June 29,<br>2014   | June 30,<br>2013 | June 29,<br>2014  | June 30,<br>2013 |
| Cost of equipment and services revenues | \$12               | \$18             | \$37              | \$55             |
| Research and development                | 174                | 166              | 510               | 479              |
| Selling, general and administrative     | 88                 | 96               | 259               | 297              |

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|                                                      |       |       |        |        |
|------------------------------------------------------|-------|-------|--------|--------|
| Share-based compensation expense before income taxes | 274   | 280   | 806    | 831    |
| Related income tax benefit                           | (42   | ) (58 | ) (151 | ) (169 |
|                                                      | \$232 | \$222 | \$655  | \$662  |

The Company recorded \$177 million and \$152 million in share-based compensation expense during the nine months ended June 29, 2014 and June 30, 2013, respectively, related to share-based awards granted during those periods.

QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

At June 29, 2014, total unrecognized compensation costs related to non-vested restricted stock units granted prior to that date were \$1.5 billion, which are expected to be recognized over a weighted-average period of 2.0 years. During the nine months ended June 29, 2014 and June 30, 2013, net share-based awards granted, after forfeitures and cancelations, represented 0.8% and 0.7%, respectively, of outstanding shares as of the beginning of each fiscal period, and total share-based awards granted represented 0.9% and 0.8%, respectively, of outstanding shares as of the end of each fiscal period.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. ASU 2014-09 will be effective for the Company starting in the first quarter of fiscal 2018. ASU 2014-09 allows for two methods of adoption: (a) "full retrospective" adoption, meaning the standard is applied to all periods presented, or (b) "modified retrospective" adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal 2018 opening retained earnings balance. The Company is in the process of determining the adoption method as well as the effects the adoption of ASU 2014-09 will have on its consolidated financial statements.

Note 2 — Composition of Certain Financial Statement Items

Inventories (in millions)

|                 | June 29,<br>2014 | September 29,<br>2013 |
|-----------------|------------------|-----------------------|
| Raw materials   | \$2              | \$2                   |
| Work-in-process | 480              | 631                   |
| Finished goods  | 703              | 669                   |
|                 | \$1,185          | \$1,302               |

Property, Plant and Equipment (in millions)

|                                                | June 29,<br>2014 | September 29,<br>2013 |
|------------------------------------------------|------------------|-----------------------|
| Land                                           | \$220            | \$212                 |
| Buildings and improvements                     | 1,587            | 1,733                 |
| Computer equipment and software                | 1,534            | 1,425                 |
| Machinery and equipment                        | 2,200            | 2,013                 |
| Furniture and office equipment                 | 88               | 87                    |
| Leasehold improvements                         | 245              | 218                   |
| Construction in progress                       | 196              | 480                   |
|                                                | 6,070            | 6,168                 |
| Less accumulated depreciation and amortization | (3,515)          | (3,173)               |
|                                                | \$2,555          | \$2,995               |

During the first quarter of fiscal 2014, as a result of discussions with potential buyers and consideration of alternative uses for the separate asset groups that comprise one of the QMT division's manufacturing facilities in Taiwan, the Company decreased its estimates of expected cash flows from those assets and recorded an impairment charge of \$444 million in other expenses. The Company concluded that a triggering event had not occurred in the first quarter of fiscal 2014 that would have required impairment testing for its remaining QMT assets, including goodwill, as QMT's licensing business plan did not utilize this manufacturing facility. During the third quarter of fiscal 2014, the Company

updated QMT's licensing business plan and related internal forecasts to reflect a decrease in expected cash flows. The updated business plan reflects an acceleration of the Company's plans to transition from QMT's current generation technology to the licensing of its next generation IMOD display technology and to focus on wearable devices. QMT will continue to make and sell current generation products for a period of time in support of certain existing customer requirements. As a result of this triggering event, the Company assessed the recoverability of the QMT division's long-lived assets, performed a goodwill impairment test of the QMT reporting unit and recorded impairment charges of \$64 million on long-lived assets and \$100 million on goodwill in other expenses in the third quarter of fiscal 2014. At

## QUALCOMM Incorporated

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 29, 2014, the carrying values of the QMT division's goodwill and property, plant and equipment were \$35 million and \$162 million, respectively, including \$44 million in property, plant and equipment that was classified as held for sale and included in other assets.

## Other Current Liabilities (in millions)

|                                                            | June 29,<br>2014 | September 29,<br>2013 |
|------------------------------------------------------------|------------------|-----------------------|
| Customer incentives and other customer-related liabilities | \$2,111          | \$1,706               |
| Other                                                      | 565              | 613                   |
|                                                            | \$2,676          | \$2,319               |

## Note 3 — Investment Income, Net (in millions)

|                                              | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                              | June 29,<br>2014   | June 30,<br>2013 | June 29,<br>2014  | June 30,<br>2013 |
| Interest and dividend income                 | \$139              | \$182            | \$460             | \$529            |
| Interest expense                             | —                  | (7               | ) (4              | ) (22            |
| Net realized gains on marketable securities  | 290                | 21               | 660               | 189              |
| Net realized gains on other investments      | 8                  | 39               | 25                | 50               |
| Impairment losses on marketable securities   | (8                 | ) (22            | ) (149            | ) (37            |
| Impairment losses on other investments       | (3                 | ) (5             | ) (21             | ) (12            |
| Net (losses) gains on derivative instruments | (6                 | ) 5              | (1                | ) 17             |
| Equity in net losses of investees            | (2                 | ) (1             | ) (7              | ) (5             |
| Net gains on deconsolidation of subsidiaries | 4                  | 21               | 5                 | 21               |
|                                              | \$422              | \$233            | \$968             | \$730            |

## Note 4 — Income Taxes

The Company estimates its annual effective income tax rate for continuing operations to be approximately 14% for fiscal 2014, which is less than the 16% effective income tax rate for fiscal 2013. Tax benefits from foreign income taxed at rates lower than rates in the United States are expected to be approximately 20% in fiscal 2014, compared to 17% in fiscal 2013. The estimated annual effective tax rate for fiscal 2014 reflects the United States federal research and development tax credit generated through December 31, 2013, the date on which the credit expired. The annual effective tax rate for fiscal 2013 included a tax benefit of \$64 million related to fiscal 2012 due to the retroactive extension of the United States federal research and development tax credit in fiscal 2013.

The Company had unrecognized tax benefits of \$85 million and \$221 million at June 29, 2014 and September 29, 2013, respectively. The total amount of unrecognized tax benefits decreased due to an agreement reached with the Internal Revenue Service on components of the Company's fiscal 2013 tax return. As a result, the Company recorded a tax benefit of \$66 million in the third quarter of fiscal 2014. Additionally, the Company believes that several other audits will be resolved within the next 12 months, further decreasing the unrecognized tax benefits, which will reduce the effective tax rate to the extent tax benefits are sustained or in the settlement of the liability with the tax authorities to the extent not sustained.

## Note 5 — Stockholders' Equity

Changes in stockholders' equity for the nine months ended June 29, 2014 were as follows (in millions):



QUALCOMM Incorporated  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

|                                                                                                             | Qualcomm<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------|----------------------------------|
| Balance at September 29, 2013                                                                               | \$36,088                            | \$(1 )                      | \$36,087                         |
| Net income (loss) <sup>(1)</sup>                                                                            | 6,073                               | (3 )                        | 6,070                            |
| Other comprehensive income                                                                                  | 72                                  | —                           | 72                               |
| Common stock issued under employee benefit plans and related tax benefits, net of shares withheld for taxes | 987                                 | —                           | 987                              |
| Share-based compensation                                                                                    | 838                                 | —                           | 838                              |
| Dividends                                                                                                   | (1,916 )                            | —                           | (1,916 )                         |
| Stock repurchases                                                                                           | (3,354 )                            | —                           | (3,354 )                         |
| Other                                                                                                       | 1                                   | 2                           | 3                                |
| Balance at June 29, 2014                                                                                    | \$38,789                            | \$(2 )                      | \$38,787                         |

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

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in Qualcomm stockholders' equity during the nine months ended June 29, 2014 were as follows (in millions):

|                                                               | Foreign<br>Currency<br>Translation<br>Adjustment | Noncredit<br>Other-than-Temporary<br>Impairment Losses<br>and Subsequent<br>Changes in Fair<br>Value for Certain<br>Available-for-Sale<br>Debt Securities | Net Unrealized<br>Gain (Loss) on<br>Other<br>Available-for-Sale<br>Securities | Net<br>Unrealized<br>Gain<br>(Loss) on<br>Derivative<br>Instruments | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------|
| Balance at September 29, 2013                                 | \$(115 )                                         | \$ 25                                                                                                                                                     | \$ 825                                                                        | \$ 18                                                               | \$753                                                    |
| Other comprehensive income before reclassifications           | 14                                               | 1                                                                                                                                                         | 356                                                                           | 8                                                                   | 379                                                      |
| Reclassifications from accumulated other comprehensive income | 1                                                | (a) (1 )                                                                                                                                                  | (a) (287 )                                                                    | (a) (20 )                                                           | (b) (307 )                                               |
| Other comprehensive income (loss)                             | 15                                               | —                                                                                                                                                         | 69                                                                            | (12 )                                                               | 72                                                       |
| Balance at June 29, 2014                                      | \$(100 )                                         | \$ 25                                                                                                                                                     | \$ 894                                                                        | \$ 6                                                                | \$825                                                    |

(a) Reclassifications from accumulated other comprehensive income of \$163 million and \$287 million for the three and nine months ended June 29, 2014, respectively, were recorded in investment income, net (Note 3).

Reclassifications from accumulated other comprehensive income of \$7 million and \$20 million for the three and (b) nine months ended June 29, 2014, respectively, were recorded in revenues, cost of equipment and services revenues, research and development expenses and selling, general and administrative expenses.

Stock Repurchase Program. During the nine months ended June 29, 2014 and June 30, 2013, the Company repurchased and retired 44,609,000 and 21,009,000 shares, respectively, of the Company's common stock for \$3.4

billion and \$1.3 billion, respectively, before commissions. On March 4, 2014, the Company announced that it had been authorized to repurchase up to \$7.8 billion of the Company's common stock. The stock repurchase program has no expiration date. At June 29, 2014, approximately \$6.5 billion remained available for repurchase.

**Dividends.** On July 18, 2014, the Company announced a cash dividend of \$0.42 per share on the Company's common stock, payable on September 24, 2014 to stockholders of record as of the close of business on September 3, 2014.

During the nine months ended June 29, 2014 and June 30, 2013, dividends charged to retained earnings were as follows (in millions, except per share data):

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|                | 2014      |         | 2013      |         |
|----------------|-----------|---------|-----------|---------|
|                | Per Share | Total   | Per Share | Total   |
| First quarter  | \$0.35    | \$599   | \$0.25    | \$435   |
| Second quarter | 0.35      | 599     | 0.25      | 439     |
| Third quarter  | 0.42      | 718     | 0.35      | 615     |
|                | \$1.12    | \$1,916 | \$0.85    | \$1,489 |

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 was stayed pending resolution of the ITC proceeding, including all appeals. On January 18, 2012, pursuant to the parties' stipulation, the District Court for the Eastern District of Texas lifted the stay and ordered that the case be moved to the United States District Court for the Northern District of California. On March 27, 2014, Tessera and the Company reached an agreement that the lawsuit against the Company would be dismissed with prejudice, and the parties will engage in discussions to explore potential technical collaborations. The court dismissed the lawsuit on April 1, 2014 based on the parties' stipulation.

ParkerVision, Inc. v. QUALCOMM Incorporated: On July 20, 2011, ParkerVision filed a complaint against the Company in the United States District Court for the Middle District of Florida alleging that certain of the Company's products infringe seven of its patents alleged to cover direct down-conversion receivers. ParkerVision's complaint sought damages and injunctive and other relief. Subsequently, ParkerVision narrowed its allegations to assert only four patents. The trial began on October 7, 2013. On October 17, 2013, the jury returned a verdict finding all asserted claims of the four at-issue patents to be infringed and finding that none of the asserted claims are invalid. On October 24, 2013, the jury returned a separate verdict assessing total past damages of approximately \$173 million and finding that the Company's infringement was not willful. The Company recorded the verdict amount in fiscal 2013 as a charge in other expenses. Post-verdict motions, including the Company's motions for judgment as a matter of law and a new trial on invalidity and non-infringement and ParkerVision's motions for injunctive relief and ongoing royalties, were filed by January 24, 2014. A hearing on these motions was held on May 1, 2014. On June 20, 2014, the court granted the Company's motion to overturn the infringement verdict, denied the Company's motion to overturn the invalidity verdict, and denied the remaining motions as moot. The court then entered judgment in the Company's favor. On June 25, 2014, ParkerVision filed a notice of appeal with the court. As a result of the court's judgment, the Company is not liable for any damages to ParkerVision, and therefore, the Company has reversed all recorded amounts related to the damages verdict. On May 1, 2014, ParkerVision filed another complaint, captioned ParkerVision, Inc. v. QUALCOMM Incorporated, Qualcomm Atheros, Inc., HTC Corporation and HTC America, Inc., also in the United States District Court for the Middle District of Florida, alleging that certain of the Company's products infringe seven additional ParkerVision patents. The complaint seeks damages and injunctive and other relief. The Company has not been served with the complaint in this action.

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. (subsequently acquired by Nvidia Corporation) alleging that the Company has engaged in anticompetitive activity. The Company was asked by the Commission to submit a preliminary response to the portions of the complaint disclosed to it, and the Company submitted its response in July 2010. Subsequently, the Company has provided and

continues to provide additional documents and information as requested by the Commission. The Company continues to cooperate fully with the Commission's preliminary investigation.

**Korea Fair Trade Commission (KFTC) Complaint:** On January 4, 2010, the KFTC issued a written decision finding that the Company had violated South Korean law by offering certain discounts and rebates for purchases of its CDMA chips and for including in certain agreements language requiring the continued payment of royalties after all licensed patents have expired. The KFTC levied a fine, which the Company paid in the second quarter of fiscal 2010. The Company appealed to the Seoul High Court, and on June 19, 2013, the Seoul High Court affirmed the KFTC's decision. On July 4, 2013, the Company filed an appeal with the Korea Supreme Court.

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**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 23 different dates, with additional hearing dates yet to be scheduled.

**Securities and Exchange Commission (SEC) Formal Order of Private Investigation and Department of Justice Investigation:** On September 8, 2010, the Company was notified by the SEC's Los Angeles Regional office of a formal order of private investigation. The Company understands that the investigation arose from a "whistleblower's" allegations made in December 2009 to the audit committee of the Company's Board of Directors and to the SEC. In 2010, the audit committee completed an internal review of the allegations with the assistance of independent counsel and independent forensic accountants. This internal review into the whistleblower's allegations and related accounting practices did not identify any errors in the Company's financial statements. On January 27, 2012, the Company learned that the U.S. Attorney's Office for the Southern District of California/Department of Justice (collectively, DOJ) had begun an investigation regarding the Company's compliance with the Foreign Corrupt Practices Act (FCPA). The audit committee conducted an internal review of the Company's compliance with the FCPA and its related policies and procedures with the assistance of independent counsel and independent forensic accountants. The audit committee has completed this comprehensive review, made findings consistent with the Company's findings described below and suggested enhancements to the Company's overall FCPA compliance program. In part as a result of the audit committee's review, the Company has made and continues to make enhancements to its FCPA compliance program, including implementation of the audit committee's recommendations.

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

On March 13, 2014, the Company received a Wells Notice from the SEC's Los Angeles Regional Office indicating that the staff has made a preliminary determination to recommend that the SEC file an enforcement action against the Company for violations of the anti-bribery, books and records and internal control provisions of the FCPA. The bribery allegations relate to benefits offered or provided to individuals associated with Chinese state-owned companies or agencies. The Wells Notice indicated that the recommendation could involve a civil injunctive action and could seek remedies that include disgorgement of profits, the retention of an independent compliance monitor to review the Company's FCPA policies and procedures, an injunction, civil monetary penalties and prejudgment interest. A Wells Notice is not a formal allegation or finding by the SEC of wrongdoing or violation of law. Rather, the purpose of a Wells Notice is to give the recipient an opportunity to make a "Wells submission" setting forth reasons why the proposed enforcement action should not be filed and/or bringing additional facts to the SEC's attention before any decision is made by the SEC as to whether to commence a proceeding. On April 4, 2014 and May 29, 2014, the

Company made Wells submissions to the staff of the Los Angeles Regional Office explaining why the Company believes it has not violated the FCPA and therefore enforcement action is not warranted.

The Company is continuing to cooperate with the SEC and the DOJ, but is unable to predict the outcome of their investigations or any action that the SEC may decide to file.

China National Development and Reform Commission (NDRC) Investigation: In November 2013, the NDRC notified the Company that it had commenced an investigation of the Company relating to the Chinese Anti-Monopoly Law (AML). The Company understands that the investigation concerns primarily the Company's licensing business and certain interactions between the Company's licensing business and its chipset business, including how royalties are calculated in the Company's patent licenses, the value exchanged for cross-licenses to patents of the Company's

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licensees, whether the Company will offer license agreements limited to patents essential to certain standards, whether royalties are sought for the Company's expired patents, the Company's policy of selling chipsets only to the Company's patent licensees, the alleged refusal of the Company to grant patent licenses to chipset manufacturers, and certain other terms and conditions in the Company's patent license and chipset sale agreements. A broad range of remedies with respect to business practices deemed to violate the AML is potentially available to the NDRC, including but not limited to issuing an order to cease conduct deemed illegal, confiscating gains deemed illegally obtained, imposing a fine in the range of 1% to 10% of the prior year's revenues and requiring modifications to business practices. Given the limited precedent of enforcement actions and penalties under the AML, it is difficult to predict the outcome of this matter or what remedies may be imposed by the NDRC. The Company continues to cooperate with the NDRC as it conducts its investigation.

The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain. Accordingly, the Company cannot predict the outcome of these matters. The Company has not recorded any accrual at June 29, 2014 for contingent losses associated with these matters based on its belief that, with the exception of the NDRC matter, losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. Regarding the NDRC matter, the Company believes that a loss is probable but that any possible range of loss cannot be reasonably estimated at this time. The unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. The Company is engaged in numerous other legal actions not described above arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition or cash flows.

**Indemnifications.** The Company generally does not indemnify its customers and licensees for losses sustained from infringement of third-party intellectual property rights. However, the Company is contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent, copyright, trademark or trade secret infringement by products or services sold or provided by the Company. The Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by the Company. Through June 29, 2014, the Company has received a number of claims from its direct and indirect customers and other third parties for indemnification under such agreements with respect to alleged infringement of third-party intellectual property rights by its products.

These indemnification arrangements are not initially measured and recognized at fair value because they are deemed to be similar to product warranties in that they relate to claims and/or other actions that could impair the ability of the Company's direct or indirect customers to use the Company's products or services. Accordingly, the Company records liabilities resulting from the arrangements when they are probable and can be reasonably estimated. Reimbursements under indemnification arrangements have not been material to the Company's consolidated financial statements. The Company has not recorded any accrual for contingent liabilities at June 29, 2014 associated with these indemnification arrangements, other than insignificant amounts, based on the Company's belief that additional liabilities, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time.

**Purchase Obligations.** The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Obligations, which generally have a remaining term of less than one year, under these agreements at June 29, 2014 for the remainder of fiscal 2014 and for each of the subsequent four years from fiscal 2015 through fiscal 2018 were approximately \$3.0 billion, \$387 million, \$64 million, \$19 million and \$17 million, respectively, and \$40 million thereafter. Of these amounts, for the remainder of fiscal 2014 and for fiscal

2015, commitments to purchase integrated circuit product inventories comprised \$2.6 billion and \$228 million, respectively. Integrated circuit product inventory obligations represent purchase commitments for wafers, die and assembly and test services. Under the Company's manufacturing relationships with its foundry suppliers and assembly and test service providers, cancelation of outstanding purchase orders is generally allowed but requires payment of costs incurred through the date of cancelation.

Leases. The future minimum lease payments for all capital leases and operating leases at June 29, 2014 by fiscal year were as follows (in millions):

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|                                                      | Capital<br>Leases | Operating<br>Leases | Total |
|------------------------------------------------------|-------------------|---------------------|-------|
| Remainder of fiscal 2014                             | \$—               | \$25                | \$25  |
| 2015                                                 | 1                 | 93                  | 94    |
| 2016                                                 | 1                 | 79                  | 80    |
| 2017                                                 | 1                 | 58                  | 59    |
| 2018                                                 | 1                 | 31                  | 32    |
| Thereafter                                           | 18                | 50                  | 68    |
| Total minimum lease payments                         | 22                | \$336               | \$358 |
| Deduct: Amounts representing interest                | 10                |                     |       |
| Present value of minimum lease payments              | 12                |                     |       |
| Deduct: Current portion of capital lease obligations | 1                 |                     |       |
| Long-term portion of capital lease obligations       | \$11              |                     |       |

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

## Note 7 — Segment Information

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

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

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

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

During the first quarter of fiscal 2014, the Company reassessed its management reporting as a result of the sale of the North and Latin America operations of its Omnitrac division (Note 8), which comprised substantially all of the Omnitrac division, among other reasons. The Omnitrac division was previously aggregated with three other divisions into the Qualcomm Wireless & Internet (QWI) reportable segment. Starting in fiscal 2014, the QWI segment was eliminated, and revenues and operating results for the divisions that comprised the QWI reportable segment are included in nonreportable segments as components of reconciling items. Prior period segment information has been adjusted to conform to the new segment presentation.

Nonreportable segments include the Company's QIS (Qualcomm Internet Services), QGOV (Qualcomm Government Technologies) and QMT (Qualcomm MEMS Technologies) divisions and other display, wireless technology and service initiatives. Nonreportable segments develop and offer products and services that include, but are not limited to: software products and content enablement services to wireless operators; development, other services and related products to U.S. government agencies and their contractors; low power consumption, high optical performance flat

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display modules; products designed for implementation of small cells; medical device connectivity and related data management; augmented reality; and device-to-device communication.

The Company evaluates the performance of its segments based on earnings (loss) before income taxes (EBT) from continuing operations. Segment EBT includes the allocation of certain corporate expenses to the segments, including depreciation and amortization expense related to unallocated corporate assets. Certain income and charges are not allocated to segments in the Company's management reports because they are not considered in evaluating the segments' operating performance. Unallocated income and charges include certain net investment income; certain share-based compensation; and certain research and development expenses, selling, general and administrative expenses and other expenses or income that were deemed to be not directly related to the businesses of the segments. Additionally, unallocated charges include recognition of the step-up of inventories to fair value, amortization and impairment of certain intangible assets and certain other acquisition-related charges. The table below presents revenues and EBT for reportable segments (in millions):

|                             | QCT      | QTL     | QSI | Reconciling<br>Items | Total    |
|-----------------------------|----------|---------|-----|----------------------|----------|
| For the three months ended: |          |         |     |                      |          |
| June 29, 2014               |          |         |     |                      |          |
| Revenues                    | \$4,957  | \$1,803 | \$— | \$46                 | \$6,806  |
| EBT                         | 1,116    | 1,550   | (1  | ) (168               | ) 2,497  |
| June 30, 2013*              |          |         |     |                      |          |
| Revenues                    | \$4,222  | \$1,867 | \$— | \$154                | \$6,243  |
| EBT                         | 738      | 1,633   | 51  | (512                 | ) 1,910  |
| For the nine months ended:  |          |         |     |                      |          |
| June 29, 2014               |          |         |     |                      |          |
| Revenues                    | \$13,816 | \$5,774 | \$— | \$205                | \$19,795 |
| EBT                         | 2,762    | 5,054   | (36 | ) (1,254             | ) 6,526  |
| June 30, 2013*              |          |         |     |                      |          |
| Revenues                    | \$12,258 | \$5,680 | \$— | \$447                | \$18,385 |
| EBT                         | 2,487    | 4,968   | 66  | (1,149               | ) 6,372  |

\*As adjusted

QCT revenues for both of the three and nine months ended June 29, 2014 and June 30, 2013 included \$1 million and \$3 million of intersegment revenues, respectively. All other revenues for reportable segments were from external customers for all periods presented.

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

|                                                          | Three Months Ended |                | Nine Months Ended |                |
|----------------------------------------------------------|--------------------|----------------|-------------------|----------------|
|                                                          | June 29,<br>2014   | June 30, 2013* | June 29,<br>2014  | June 30, 2013* |
| Revenues                                                 |                    |                |                   |                |
| Nonreportable segments                                   | \$47               | \$156          | \$208             | \$451          |
| Intersegment eliminations                                | (1)                | (2)            | (3)               | (4)            |
|                                                          | \$46               | \$154          | \$205             | \$447          |
| EBT                                                      |                    |                |                   |                |
| Unallocated cost of equipment and services revenues      | \$(74)             | \$(82)         | \$(223)           | \$(258)        |
| Unallocated research and development expenses            | (220)              | (201)          | (653)             | (591)          |
| Unallocated selling, general and administrative expenses | (107)              | (112)          | (318)             | (376)          |
| Unallocated other income, net                            | 184                | —              | 173               | —              |
| Unallocated investment income, net                       | 413                | 176            | 985               | 644            |
| Nonreportable segments                                   | (364)              | (293)          | (1,218)           | (568)          |
|                                                          | \$(168)            | \$(512)        | \$(1,254)         | \$(1,149)      |

\*As adjusted

Nonreportable segments EBT for the three and nine months ended June 29, 2014 included a total of \$164 million and \$607 million, respectively, in impairment charges related to the Company's QMT division (Note 2).

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

|                                              | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                              | June 29,<br>2014   | June 30,<br>2013 | June 29,<br>2014  | June 30,<br>2013 |
| Cost of equipment and services revenues      | \$62               | \$64             | \$186             | \$203            |
| Research and development expenses            | 3                  | 1                | 26                | 2                |
| Selling, general and administrative expenses | 6                  | 6                | 19                | 20               |

Segment assets are comprised of accounts receivable and inventories for all reportable segments other than QSI. QSI segment assets include marketable securities, notes receivable, wireless spectrum, other investments and all assets of consolidated subsidiaries included in QSI. Reconciling items for total consolidated assets included \$299 million and \$892 million at June 29, 2014 and September 29, 2013, respectively, of goodwill and other assets related to the Company's QMT division. The decrease in QMT assets was primarily a result of impairments of goodwill and certain property, plant and equipment recorded in the nine months ended June 29, 2014 (Note 2). Total segment assets also differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of certain cash, cash equivalents, marketable securities, property, plant and equipment, deferred tax assets, goodwill, other intangible assets and assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

|     | June 29,<br>2014 | September 29,<br>2013* |
|-----|------------------|------------------------|
| QCT | \$3,046          | \$3,305                |
| QTL | 158              | 28                     |
| QSI | 517              | 511                    |

|                           |          |          |
|---------------------------|----------|----------|
| Reconciling items         | 44,634   | 41,672   |
| Total consolidated assets | \$48,355 | \$45,516 |
| *As adjusted              |          |          |

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Note 8 — Discontinued Operations

On November 25, 2013, the Company completed its sale of the North and Latin America operations of its Omnitracs division to a U.S.-based private equity firm for cash consideration of \$788 million (net of cash sold). As a result, the Company recorded a gain in discontinued operations of \$665 million (\$430 million net of income tax expense) during the nine months ended June 29, 2014. Total assets and total liabilities were reduced by \$150 million and \$45 million, respectively. The revenues and operating results of the North and Latin America operations of the Omnitracs division, which comprised substantially all of the Omnitracs division, were not presented as discontinued operations in any fiscal period because they were immaterial. The related assets (included in other current assets and other noncurrent assets) and liabilities (included in other current liabilities and other noncurrent liabilities) of \$139 million and \$43 million, respectively, were classified as held for sale at September 29, 2013.

Note 9 — Fair Value Measurements

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

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

- Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument.

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 29, 2014 (in millions):

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|                                                            | Level 1 | Level 2  | Level 3 | Total    |
|------------------------------------------------------------|---------|----------|---------|----------|
| <b>Assets</b>                                              |         |          |         |          |
| Cash equivalents                                           | \$2,933 | \$4,235  | \$—     | \$7,168  |
| Marketable securities                                      |         |          |         |          |
| U.S. Treasury securities and government-related securities | 729     | 897      | —       | 1,626    |
| Corporate bonds and notes                                  | —       | 14,815   | —       | 14,815   |
| Mortgage- and asset-backed securities                      | —       | 1,098    | 177     | 1,275    |
| Auction rate securities                                    | —       | —        | 83      | 83       |
| Common and preferred stock                                 | 1,264   | 742      | —       | 2,006    |
| Equity funds                                               | 681     | —        | —       | 681      |
| Debt funds                                                 | 817     | 3,469    | —       | 4,286    |
| Total marketable securities                                | 3,491   | 21,021   | 260     | 24,772   |
| Derivative instruments                                     | —       | 14       | —       | 14       |
| Other investments                                          | 281     | —        | —       | 281      |
| Total assets measured at fair value                        | \$6,705 | \$25,270 | \$260   | \$32,235 |
| <b>Liabilities</b>                                         |         |          |         |          |
| Derivative instruments                                     | \$1     | \$4      | \$—     | \$5      |
| Other liabilities                                          | 280     | —        | —       | 280      |
| Total liabilities measured at fair value                   | \$281   | \$4      | \$—     | \$285    |

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

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

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

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

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

The fair value of auction rate securities is estimated by the Company using a discounted cash flow model that incorporates transaction details such as contractual terms, maturity and timing and amount of future cash flows, as well as assumptions related to liquidity, default likelihood and recovery, the future state of the auction rate market and credit valuation adjustments of market participants. Though most of the securities held by the Company are pools of

student loans guaranteed by the U.S. government, prepayment speeds and illiquidity discounts are considered significant unobservable inputs. These additional inputs are generally unobservable, and therefore, auction rate securities are included in Level 3.

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(Unaudited)

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

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

**Activity between Levels of the Fair Value Hierarchy.** There were no significant transfers between Level 1 and Level 2 during the nine months ended June 29, 2014 or June 30, 2013. 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):

|                                                | Nine Months Ended<br>June 29, 2014 |                                                | Nine Months Ended<br>June 30, 2013 |                                                |
|------------------------------------------------|------------------------------------|------------------------------------------------|------------------------------------|------------------------------------------------|
|                                                | Auction<br>Rate<br>Securities      | Mortgage-<br>and<br>Asset-Backed<br>Securities | Auction<br>Rate<br>Securities      | Mortgage-<br>and<br>Asset-Backed<br>Securities |
| Beginning balance of Level 3                   | \$83                               | \$ 239                                         | \$118                              | \$ 203                                         |
| Total realized and unrealized gains or losses: |                                    |                                                |                                    |                                                |
| Included in investment income, net             | —                                  | 10                                             | —                                  | 4                                              |
| Included in other comprehensive income         | —                                  | (4                                             | ) 1                                | (2                                             |
| Purchases                                      | —                                  | 86                                             | —                                  | 157                                            |
| Sales                                          | —                                  | (124                                           | ) —                                | (10                                            |
| Settlements                                    | —                                  | (28                                            | ) (36                              | ) (66                                          |
| Transfers (out of) into Level 3                | —                                  | (2                                             | ) —                                | 18                                             |
| Ending balance of Level 3                      | \$83                               | \$ 177                                         | \$83                               | \$ 304                                         |

The Company recognizes transfers into and out of levels within the fair value hierarchy at the end of the fiscal month in which the actual event or change in circumstances that caused the transfer occurs. Transfers out of Level 3 during the nine months ended June 29, 2014 primarily consisted of debt securities with significant upgrades in credit ratings. Transfers into Level 3 during the nine months ended June 30, 2013 primarily consisted of debt securities with significant inputs that became unobservable as a result of an increased likelihood of a shortfall in contractual cash flows or significant downgrades in credit ratings.

**Nonrecurring Fair Value Measurements.** The Company measures certain assets at fair value on a nonrecurring basis. These assets include cost and equity method investments when they are deemed to be other-than-temporarily impaired, assets acquired and liabilities assumed in an acquisition or in a nonmonetary exchange, and property, plant and equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the nine months ended June 29, 2014, certain long-lived assets and goodwill related to the

Company's QMT division were written down to their estimated fair values resulting in impairment charges of \$507 million on long-lived assets and \$100 million on goodwill (Note 2). At June 29, 2014, the carrying values of the QMT division's property, plant and equipment and goodwill were \$162 million and \$35 million, respectively. The Company determined the fair values primarily using cost, income and market approaches. The estimation of fair values and cash flows used in these fair value measurements required the use of significant unobservable inputs, and as a result, the fair value measurements were classified as Level 3. During the nine months ended June 29, 2014 and June 30, 2013, the Company did not have any other significant assets or liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

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Note 10 — Marketable Securities

Marketable securities were comprised as follows (in millions):

|                                                            | Current<br>June 29,<br>2014 | September 29,<br>2013 | Noncurrent<br>June 29,<br>2014 | September 29,<br>2013 |
|------------------------------------------------------------|-----------------------------|-----------------------|--------------------------------|-----------------------|
| Trading:                                                   |                             |                       |                                |                       |
| U.S. Treasury securities and government-related securities | \$317                       | \$241                 | \$47                           | \$49                  |
| Corporate bonds and notes                                  | 195                         | 269                   | 380                            | 256                   |
| Mortgage- and asset-backed securities                      | —                           | —                     | 215                            | 104                   |
| Total trading                                              | 512                         | 510                   | 642                            | 409                   |
| Available-for-sale:                                        |                             |                       |                                |                       |
| U.S. Treasury securities and government-related securities | 872                         | 721                   | 390                            | 71                    |
| Corporate bonds and notes                                  | 6,553                       | 4,533                 | 7,687                          | 6,812                 |
| Mortgage- and asset-backed securities                      | 860                         | 745                   | 200                            | 328                   |
| Auction rate securities                                    | —                           | —                     | 83                             | 83                    |
| Common and preferred stock                                 | 342                         | 8                     | 1,664                          | 2,351                 |
| Equity funds                                               | 160                         | —                     | 521                            | 960                   |
| Debt funds                                                 | 910                         | 2,307                 | 2,589                          | 2,889                 |
| Total available-for-sale                                   | 9,697                       | 8,314                 | 13,134                         | 13,494                |
| Fair value option:                                         |                             |                       |                                |                       |
| Debt fund                                                  | —                           | —                     | 787                            | 537                   |
| Total marketable securities                                | \$10,209                    | \$8,824               | \$14,563                       | \$14,440              |

The Company holds an investment in a debt fund for which the Company elected the fair value option because the Company is able to redeem its shares at net asset value, which is determined daily. The investment would have otherwise been recorded using the equity method. The debt fund has no single maturity date. At June 29, 2014, the Company had an effective ownership interest in the debt fund of 27%. Changes in fair value associated with this investment are recognized in net investment income. During the three and nine months ended June 29, 2014, net increases in fair value associated with this investment were \$12 million and \$30 million, respectively. During the three months ended June 30, 2013, the net decrease in fair value associated with this investment was \$4 million. During the nine months ended June 30, 2013, the net increase in fair value associated with this investment was \$14 million. The Company classifies certain portfolios of debt securities that utilize derivative instruments to acquire or reduce foreign exchange, interest rate and/or equity, prepayment and credit risks as trading. Net gains recognized on debt securities classified as trading held at June 29, 2014 were \$7 million and \$8 million for the three and nine months ended June 29, 2014, respectively. Net losses recognized on debt securities classified as trading held at June 30, 2013 were \$21 million and \$36 million for the three and nine months ended June 30, 2013, respectively.

At June 29, 2014, the contractual maturities of available-for-sale debt securities were as follows (in millions):

Years to Maturity

| 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    |
|-----------------------|----------------------|----------------------|---------------------------|-------------------------------|----------|
| \$2,993               | \$10,255             | \$1,594              | \$660                     | \$4,642                       | \$20,144 |

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

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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 |                         |                          |                       |
| June 29, 2014              | \$267                   | \$(8                     | ) \$259               |
| June 30, 2013              | 52                      | (5                       | ) 47                  |

For the nine months ended

|               |       |       |         |
|---------------|-------|-------|---------|
| June 29, 2014 | \$610 | \$(16 | ) \$594 |
| June 30, 2013 | 204   | (14   | ) 190   |

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

|                                        | Cost     | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value |
|----------------------------------------|----------|---------------------|----------------------|------------|
| June 29, 2014                          |          |                     |                      |            |
| Equity securities                      | \$2,000  | \$692               | \$(5                 | ) \$2,687  |
| Debt securities (including debt funds) | 19,741   | 423                 | (20                  | ) 20,144   |
|                                        | \$21,741 | \$1,115             | \$(25                | ) \$22,831 |
| September 29, 2013                     |          |                     |                      |            |
| Equity securities                      | \$2,570  | \$793               | \$(44                | ) \$3,319  |
| Debt securities (including debt funds) | 18,255   | 396                 | (162                 | ) 18,489   |
|                                        | \$20,825 | \$1,189             | \$(206               | ) \$21,808 |

The following table shows the gross unrealized losses and fair values of the Company's investments in individual securities that are classified as available-for-sale and have been in a continuous unrealized loss position deemed to be temporary for less than 12 months and for more than 12 months, aggregated by investment category (in millions):

|                           | June 29, 2014       |                      |                     |                      |
|---------------------------|---------------------|----------------------|---------------------|----------------------|
|                           | Less than 12 months |                      | More than 12 months |                      |
|                           | Fair Value          | Unrealized<br>Losses | Fair Value          | Unrealized<br>Losses |
| Corporate bonds and notes | \$2,033             | \$(5 )               | \$96                | \$(2 )               |
| Auction rate securities   | —                   | —                    | 83                  | (1 )                 |
| Debt funds                | 50                  | (1 )                 | 394                 | (11 )                |
| Equity funds              | 30                  | —                    | 115                 | (5 )                 |
|                           | \$2,113             | \$(6 )               | \$688               | \$(19 )              |

## QUALCOMM Incorporated

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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|                                                            | September 29, 2013  |                   |                     |                   |
|------------------------------------------------------------|---------------------|-------------------|---------------------|-------------------|
|                                                            | Less than 12 months |                   | More than 12 months |                   |
|                                                            | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses |
| U.S. Treasury securities and government-related securities | \$42                | \$(1              | ) \$—               | \$—               |
| Corporate bonds and notes                                  | 2,084               | (31               | ) 24                | (1                |
| Mortgage- and asset-backed securities                      | 367                 | (5                | ) 24                | —                 |
| Auction rate securities                                    | —                   | —                 | 83                  | (1                |
| Common and preferred stock                                 | 291                 | (41               | ) —                 | —                 |
| Debt funds                                                 | 2,776               | (123              | ) 4                 | —                 |
| Equity funds                                               | 82                  | (3                | ) —                 | —                 |
|                                                            | \$5,642             | \$(204            | ) \$135             | \$(2              |

At June 29, 2014, the Company concluded that the unrealized losses on its available-for-sale securities were temporary. Further, for common and preferred stock and for equity and debt funds with unrealized losses, the Company has the ability and the intent to hold such securities until they recover, which is expected to be within a reasonable period of time. For debt securities with unrealized losses, the Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, such securities before recovery or maturity. The following table shows the activity for the credit loss portion of other-than-temporary impairments on debt securities held by the Company (in millions):

|                                                                                      | Three Months Ended |                  | Nine Months Ended |                  |
|--------------------------------------------------------------------------------------|--------------------|------------------|-------------------|------------------|
|                                                                                      | June 29,<br>2014   | June 30,<br>2013 | June 29,<br>2014  | June 30,<br>2013 |
| Beginning balance of credit losses                                                   | \$8                | \$8              | \$4               | \$31             |
| Reduction in credit losses related to securities the Company intends to sell         | —                  | —                | —                 | (6               |
| Credit losses recognized on securities not previously impaired                       | —                  | —                | 5                 | 1                |
| Additional credit losses recognized on securities previously impaired                | —                  | —                | —                 | 1                |
| Reductions in credit losses related to securities sold                               | (3                 | ) (3             | ) (4              | ) (21            |
| Accretion of credit losses due to an increase in cash flows expected to be collected | —                  | —                | —                 | (1               |
| Ending balance of credit losses                                                      | \$5                | \$5              | \$5               | \$5              |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended September 29, 2013 contained in our 2013 Annual Report on Form 10-K.

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

### Overview

#### Recent Developments

Revenues for the third quarter of fiscal 2014 were \$6.8 billion, with net income attributable to Qualcomm of \$2.2 billion, which primarily resulted from the following key items:

We shipped approximately 225 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, an increase of approximately 31%, compared to approximately 172 million MSM integrated circuits in the year ago quarter.

Total reported device sales were approximately \$58.1 billion, an increase of approximately 3%, compared to approximately \$56.5 billion in the year ago quarter.<sup>(1)</sup>

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

Worldwide cellular connections grew sequentially by approximately 2% to reach approximately 7.0 billion.<sup>(2)</sup>

Worldwide 3G/4G connections (CDMA-based, OFDMA-based and CDMA/OFDMA multimode) grew sequentially by approximately 5% to approximately 2.7 billion, which was approximately 39% of total cellular connections.<sup>(2)</sup>

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

particular period.

(2) According to GSMA Intelligence estimates as of July 21, 2014, for the quarter ended June 30, 2014 (estimates excluded Wireless Local Loop).

## Our Business and Operating Segments

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

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

QCT (Qualcomm CDMA Technologies) is a leading developer and supplier of integrated circuits and system software based on CDMA, OFDMA and other technologies for use in voice and data communications, networking, application processing, multimedia and global positioning system products. QCT's integrated circuit products and system software are sold to or licensed to manufacturers that use our products in wireless devices, particularly mobile phones, tablets, laptops, data modules, handheld wireless computers and gaming devices, access points and routers, data cards and infrastructure equipment, and in wired devices, particularly broadband gateway equipment, desktop computers and streaming media players. The MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Qualcomm Snapdragon processor devices, perform the core baseband modem functionality in wireless devices providing voice and data communications, as well as multimedia applications and global positioning functions. In addition, our Snapdragon processors provide advanced application and graphics processing capabilities. QCT's system software enables the other device components to interface with the integrated circuit products and is the foundation software enabling manufacturers to develop devices utilizing the functionality within the integrated circuits. QCT revenues comprised 73% and 68% of total consolidated revenues in the third quarter of fiscal 2014 and 2013, respectively, and 70% and 67% of total consolidated revenues for the first nine months of fiscal 2014 and 2013, respectively.

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

QTL (Qualcomm Technology Licensing) grants licenses or otherwise provides rights to use portions of our intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing CDMA2000, WCDMA, CDMA TDD (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards and their derivatives. QTL licensing revenues are comprised of license fees as well as royalties based on sales by licensees of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments. Royalties are generally based upon a percentage of the wholesale (i.e., licensee's) selling price of complete licensed products, net of certain permissible deductions (e.g., certain shipping costs, packing costs, VAT, etc.). QTL recognizes royalty revenues based on royalties reported by licensees during the quarter and when other revenue recognition criteria are met. Licensees, however, do not report and pay royalties owed for sales in any given quarter until after the conclusion of that quarter. QTL revenues comprised 26% and 30% of total consolidated revenues in the third quarter of fiscal 2014 and 2013, respectively, and 29% and 31% of total consolidated revenues for the first nine months of fiscal 2014 and 2013, respectively. The vast majority of such revenues were generated

through our licensees' sales of CDMA2000- and WCDMA-based products, including multimode products that also implement OFDMA, such as feature phones and smartphones.

QSI (Qualcomm Strategic Initiatives) makes strategic investments that we believe may open new or expand opportunities for our technologies, support the design and introduction of new products and services for voice and data

communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum. As part of our strategic investment activities, we intend to pursue various exit strategies from each of our QSI investments at some point in the future.

During the first quarter of fiscal 2014, we reassessed our management reporting as a result of the sale of the North and Latin America operations of our Omnitrac division, among other reasons. The Omnitrac division was previously aggregated with three other divisions into the Qualcomm Wireless & Internet (QWI) reportable segment. Starting in fiscal 2014, the QWI segment was eliminated, and the former QWI divisions are included in nonreportable segments. Nonreportable segments include our QIS (Qualcomm Internet Services), QGOV (Qualcomm Government Technologies) and QMT (Qualcomm MEMS Technologies) divisions and other display, wireless technology and service initiatives. Nonreportable segments develop and offer products and services that include, but are not limited to: software products and content enablement services to wireless operators; development, other services and related products to U.S. government agencies and their contractors; low power consumption, high optical performance flat display modules; products designed for implementation of small cells; medical device connectivity and related data management; augmented reality; and device-to-device communication.

During the first quarter of fiscal 2014, as a result of discussions with potential buyers and consideration of alternative uses for the separate asset groups that comprise one of the QMT division's manufacturing facilities in Taiwan, we decreased our estimates of expected cash flows from those assets and recorded an impairment charge of \$444 million in other expenses. We concluded that a triggering event had not occurred in the first quarter of fiscal 2014 that would have required impairment testing for the remaining QMT assets, including goodwill, as QMT's licensing business plan did not utilize this manufacturing facility. During the third quarter of fiscal 2014, we updated QMT's licensing business plan and related internal forecasts to reflect a decrease in expected cash flows. The updated business plan reflects an acceleration of our plans to transition from QMT's current generation technology to the licensing of QMT's next generation IMOD display technology and to focus on wearable devices. QMT will continue to make and sell current generation products for a period of time in support of certain existing customer requirements. As a result, we tested the QMT division's long-lived assets and goodwill and recorded total impairment charges of \$164 million in other expenses in the third quarter of fiscal 2014.

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

Discontinued Operations. On November 25, 2013, we completed our sale of the North and Latin America operations of our Omnitrac division to a U.S.-based private equity firm for cash consideration of \$788 million (net of cash sold). As a result, we recorded a gain in discontinued operations of \$665 million (\$430 million net of income tax expense) during the nine months ended June 29, 2014. The revenues and operating results of the North and Latin America operations of our Omnitrac division, which comprised substantially all of our Omnitrac division, were not presented as discontinued operations in any fiscal period because they were immaterial.

#### Looking Forward

The deployment of 3G networks has enabled increased voice capacity and higher data rates than prior generation networks, thereby supporting more minutes of use and a wide range of mobile broadband data applications for handsets, 3G connected computing devices and other consumer electronics. According to the Global mobile Suppliers Association (GSA), as of July 2014, to complement their existing 3G networks, 300 wireless operators have deployed and more than 200 additional wireless operators are planning to deploy OFDMA-based technology, often called 4G, in new wireless spectrum to gain additional capacity for data services. As a result, we expect continued growth in the coming years in consumer demand for 3G, 3G/4G multimode and 4G products and services around the world.

As we look forward to the next several months, the following items are likely to have an impact on our business: The worldwide transition from 2G to 3G and 3G/4G networks is expected to continue, including the further expansion of 3G and 3G/4G in emerging regions, such as China. We expect that the growth of low-tier smartphone products will contribute to such expansion.

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

China continues to present significant opportunities for us, particularly with the rollout of 4G LTE. We expect the launch of 4G services in China will encourage competition and growth, bring the benefits of 4G LTE to consumers, encourage consumers to replace 2G (GSM) devices and enable new opportunities (e.g., machine-to-machine) for the industry.

China also presents significant challenges, as our business practices continue to be the subject of an investigation by the China National Development and Reform Commission (NDRC). We also believe that certain licensees in China currently are not fully complying with their contractual obligations to report their sales of licensed products to us (which includes certain licensees underreporting a portion of their 3G/4G device sales and a dispute with a licensee) and that unlicensed companies may seek to delay execution of new licenses while the NDRC investigation is ongoing. Litigation and/or other actions may be necessary to compel these licensees to report such sales and pay the required royalties for such sales and unlicensed companies to execute new licenses. Further, our success in China is in part dependent upon the rate of commercialization of 4G LTE products in China.

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

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

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

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

#### Results of Operations

##### Revenues (in millions)

|                        | Three Months Ended |               |        | Nine Months Ended |               |         |
|------------------------|--------------------|---------------|--------|-------------------|---------------|---------|
|                        | June 29, 2014      | June 30, 2013 | Change | June 29, 2014     | June 30, 2013 | Change  |
| Equipment and services | \$4,922            | \$4,286       | \$636  | \$13,803          | \$12,474      | \$1,329 |
| Licensing              | 1,884              | 1,957         | (73)   | 5,992             | 5,911         | 81      |
|                        | \$6,806            | \$6,243       | \$563  | \$19,795          | \$18,385      | \$1,410 |

The increases in equipment and services revenues in the third quarter and the first nine months of fiscal 2014 were primarily due to increases in QCT revenues of \$732 million and \$1.55 billion, respectively, partially offset by decreases of \$89 million and \$218 million as a result of the sale of our Omnitrac division during fiscal 2014. The decrease in licensing revenues in the third quarter of fiscal 2014 was primarily due to a decrease in QTL revenues of \$64 million. The increase in licensing revenues in the first nine months of fiscal 2014 was primarily due to an increase in QTL revenues of \$94 million.

## Costs and Expenses (in millions)

|                                               | Three Months Ended |               |        | Nine Months Ended |               |        |
|-----------------------------------------------|--------------------|---------------|--------|-------------------|---------------|--------|
|                                               | June 29, 2014      | June 30, 2013 | Change | June 29, 2014     | June 30, 2013 | Change |
| Cost of equipment and services (E&S) revenues | \$2,740            | \$2,497       | \$243  | \$7,929           | \$7,106       | \$823  |
| Cost as % of E&S revenues                     | 56                 | % 58          | %      | 57                | % 57          | %      |

The increase in margin percentage in the third quarter of fiscal 2014 was primarily attributable to an increase in QCT margin percentage. Margin percentage remained flat in the first nine months of fiscal 2014. Our margin percentage may fluctuate in future periods depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

|                                      | Three Months Ended |               |         | Nine Months Ended |               |         |
|--------------------------------------|--------------------|---------------|---------|-------------------|---------------|---------|
|                                      | June 29, 2014      | June 30, 2013 | Change  | June 29, 2014     | June 30, 2013 | Change  |
| Research and development             | \$1,429            | \$1,298       | \$131   | \$4,113           | \$3,618       | \$495   |
| % of revenues                        | 21                 | % 21          | %       | 21                | % 20          | %       |
| Selling, general, and administrative | \$582              | \$613         | \$(31)  | \$1,745           | \$1,861       | \$(116) |
| % of revenues                        | 9                  | % 10          | %       | 9                 | % 10          | %       |
| Other                                | \$(20)             | \$158         | \$(178) | \$450             | \$158         | \$292   |

The dollar increases in research and development expenses in the third quarter and the first nine months of fiscal 2014 were primarily attributable to increases of \$106 million and \$389 million, respectively, in costs related to the development of CDMA-based 3G, OFDMA-based 4G LTE and other technologies for integrated circuit and related software products and to expand our intellectual property portfolio and increases of \$8 million and \$31 million, respectively, in share-based compensation.

The dollar decrease in selling, general and administrative expenses in the third quarter of fiscal 2014 was primarily attributable to a decrease of \$25 million in selling and marketing expenses. The dollar decrease in selling, general and administrative expenses in the first nine months of fiscal 2014 was primarily attributable to decreases of \$47 million in costs related to litigation and other legal matters, \$38 million in share-based compensation expenses and \$22 million in selling and marketing expenses.

Other income in the third quarter of fiscal 2014 was comprised of \$184 million resulting from the reversal of accruals due to the district court ruling that overturned the ParkerVision verdict during the third quarter of fiscal 2014, partially offset by goodwill and long-lived asset impairment charges of \$164 million related to our QMT division. Other expenses in the first nine months of fiscal 2014 were comprised of \$607 million in long-lived asset and goodwill impairment charges related to our QMT division and a \$16 million goodwill impairment charge related to our former QRS (Qualcomm Retail Solutions) division, partially offset by the reversal of the \$173 million accrual recorded in fiscal 2013 related to the ParkerVision verdict.

Other expenses for the third quarter and the first nine months of fiscal 2013 included a \$158 million impairment charge related to one of our QMT division's manufacturing facilities in Taiwan.

## Net Investment Income (in millions)

|                                                                      | Three Months Ended |               |        | Nine Months Ended |               |        |   |
|----------------------------------------------------------------------|--------------------|---------------|--------|-------------------|---------------|--------|---|
|                                                                      | June 29, 2014      | June 30, 2013 | Change | June 29, 2014     | June 30, 2013 | Change |   |
| Interest and dividend income                                         | \$139              | \$182         | \$(43) | ) \$460           | \$529         | \$(69) | ) |
| Interest expense                                                     | —                  | (7            | ) 7    | (4                | ) (22         | ) 18   | ) |
| Net realized gains on marketable securities                          | 290                | 21            | 269    | 660               | 189           | 471    | ) |
| Net realized gains on other investments                              | 8                  | 39            | (31    | ) 25              | 50            | (25    | ) |
| Net impairment losses on marketable securities and other investments | (11                | ) (27         | ) 16   | (170              | ) (49         | ) (121 | ) |
| Net (losses) gains on derivative instruments                         | (6                 | ) 5           | (11    | ) (1              | ) 17          | (18    | ) |
| Equity in net losses of investees                                    | (2                 | ) (1          | ) (1   | ) (7              | ) (5          | ) (2   | ) |
| Net gains on deconsolidation of subsidiaries                         | 4                  | 21            | (17    | ) 5               | 21            | (16    | ) |
|                                                                      | \$422              | \$233         | \$189  | \$968             | \$730         | \$238  | ) |

The decreases in interest and dividend income in the third quarter and the first nine months of fiscal 2014 were primarily due to lower interest rates earned on cash and marketable securities, compared to the same periods in fiscal 2013. The increases in net realized gains on marketable securities in the third quarter and the first nine months of fiscal 2014 were primarily due to the increased impact of portfolio rebalancing in the third quarter of fiscal 2014, compared to the third quarter of fiscal 2013. The increases in net impairment losses on marketable securities and other investments in the first nine months of fiscal 2014 were primarily due to an increase in our recognition of unrealized losses on marketable debt securities that we intended to sell or that we more likely than not would sell before recovery.

## Income Tax Expense (in millions)

|                    | Three Months Ended |               |        | Nine Months Ended |               |         |
|--------------------|--------------------|---------------|--------|-------------------|---------------|---------|
|                    | June 29, 2014      | June 30, 2013 | Change | June 29, 2014     | June 30, 2013 | Change  |
| Income tax expense | \$260              | \$332         | \$(72) | \$886             | \$1,028       | \$(142) |
| Effective tax rate | 10                 | % 17          | % (7   | %) 14             | % 16          | % (2    |

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

|                                                             | Three Months Ended |               | Nine Months Ended |               |
|-------------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                             | June 29, 2014      | June 30, 2013 | June 29, 2014     | June 30, 2013 |
| Expected income tax provision at federal statutory tax rate | 35                 | % 35          | % 35              | % 35          |
| Benefits from foreign income taxed at other than U.S. rates | (23                | %) (17        | %) (21            | %) (17        |
| Benefits related to the research and development tax credit | (1                 | %) (2         | %) (1             | %) (3         |
| Other                                                       | (1                 | %) 1          | % 1               | % 1           |
| Effective tax rate                                          | 10                 | % 17          | % 14              | % 16          |

The effective tax rate of 10% for the third quarter of fiscal 2014 was lower than the estimated annual effective tax rate of 14% primarily as a result of an agreement reached with the Internal Revenue Service on components of our fiscal 2013 tax return, which resulted in the recognition of a tax benefit of \$66 million during the third quarter of fiscal 2014, and changes in estimates related to foreign income taxed at rates lower than rates in the United States. The

effective tax rates for the third quarter and the first nine months of fiscal 2014 were lower than the effective tax rates for the same periods in fiscal 2013 primarily as a result of increases in foreign income taxed at rates lower than rates in the United States, partially offset by decreases in the United States federal research and development tax credit. The estimated

annual effective tax rate for fiscal 2014 reflects the United States federal research and development tax credit generated through December 31, 2013, the date on which the credit expired.

#### Segment Results

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

| (in millions)                    | QCT      | QTL     | QSI   |
|----------------------------------|----------|---------|-------|
| Three Months Ended June 29, 2014 |          |         |       |
| Revenues                         | \$4,957  | \$1,803 | \$—   |
| EBT <sup>(1)</sup>               | 1,116    | 1,550   | (1 )  |
| EBT as a % of revenues           | 23       | % 86    | %     |
| Three Months Ended June 30, 2013 |          |         |       |
| Revenues                         | \$4,222  | \$1,867 | \$—   |
| EBT                              | 738      | 1,633   | 51    |
| EBT as a % of revenues           | 17       | % 87    | %     |
| Nine Months Ended June 29, 2014  |          |         |       |
| Revenues                         | \$13,816 | \$5,774 | \$—   |
| EBT                              | 2,762    | 5,054   | (36 ) |
| EBT as a % of revenues           | 20       | % 88    | %     |
| Nine Months Ended June 30, 2013  |          |         |       |
| Revenues                         | \$12,258 | \$5,680 | \$—   |
| EBT                              | 2,487    | 4,968   | 66    |
| EBT as a % of revenues           | 20       | % 87    | %     |

(1) Earnings (loss) before taxes.

QCT Segment. The increases in QCT revenues in the third quarter and the first nine months of fiscal 2014 of \$735 million and \$1.56 billion, respectively, were primarily due to increases in equipment and services revenues.

Equipment and services revenues, mostly related to sales of MSM and accompanying RF and PM integrated circuits, were \$4.89 billion and \$4.16 billion in the third quarter of fiscal 2014 and 2013, respectively, and \$13.65 billion and \$12.09 billion in the first nine months of fiscal 2014 and 2013, respectively. The increases in equipment and services revenues in the third quarter and the first nine months of fiscal 2014 resulted primarily from increases of \$935 million and \$1.80 billion, respectively, related to higher MSM and accompanying RF and PM unit shipments and \$32 million and \$179 million, respectively, related to sales of connectivity products, partially offset by net decreases of \$287 million and \$521 million, respectively, resulting from lower average selling prices and favorable product mix.

Approximately 225 million and 172 million MSM integrated circuits were sold during the third quarter of fiscal 2014 and 2013, respectively, and approximately 625 million and 526 million MSM integrated circuits were sold during the first nine months of fiscal 2014 and 2013, respectively.

QCT EBT as a percentage of revenues in the third quarter of fiscal 2014 increased due to an increase of 17% in QCT revenues relative to a combined increase of 5% in research and development expenses and selling, general and administrative expenses, as well as an increase in gross margin percentage. The increase in QCT gross margin percentage in the third quarter of fiscal 2014 resulted from lower average unit costs, partially offset by lower average selling prices and unfavorable product mix. QCT EBT as a percentage of revenues in the first nine months of fiscal 2014 remained flat as compared to the same period in fiscal 2013. During the first nine months of fiscal 2014, QCT revenues increased 13% relative to a combined increase of 8% in research and development expenses and selling, general and administrative expenses, whereas gross margin percentage decreased as a result of lower average selling prices and unfavorable product mix, partially offset by lower average unit costs.

QCT inventories increased by 4% in the third quarter of fiscal 2014 from \$1.14 billion to \$1.18 billion.

QTL Segment. The decrease in QTL revenues in the third quarter of fiscal 2014 of \$64 million was primarily due to a decrease in revenues per unit, partially offset by an increase in sales of CDMA-based products, including multimode products that also implement OFDMA, by licensees. The decrease in QTL EBT as a percentage of revenues in the third



quarter of fiscal 2014 was attributable to a decrease of 3% in revenues relative to an increase of 8% in costs and expenses. The increase in QTL revenues in the first nine months of fiscal 2014 of \$94 million was primarily due to an increase in sales of CDMA-based products, including multimode products that also implement OFDMA, by licensees, partially offset by a decrease in revenues per unit. The increase in QTL EBT as a percentage of revenues in the first nine months of fiscal 2014 was attributable to an increase of 2% in revenues relative to an increase of 1% in costs and expenses. QTL revenues and EBT for the third quarter and the first nine months of fiscal 2014 were impacted by units that we believe are being underreported by certain licensees, a dispute with a licensee and sales of certain unlicensed products in China.

QSI Segment. The decrease in QSI EBT in the third quarter of fiscal 2014 of \$52 million was primarily due to a decrease of \$34 million in net realized gains on investments and the effect of the \$22 million gain on the deconsolidation of the BWA subsidiaries in India that was recorded in the third quarter of fiscal 2013. The decrease in QSI EBT in the first nine months of fiscal 2014 of \$102 million was primarily due to a decrease of \$57 million in net realized gains on investments, an increase of \$34 million in impairment losses on investments and the effect of the \$22 million gain on deconsolidation.

#### 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 \$32.7 billion at June 29, 2014, an increase of \$3.3 billion from September 29, 2013. This increase included \$1.1 billion in proceeds from the issuance of common stock under our equity compensation plans and \$788 million in net proceeds from the sale of the North and Latin America operations of our Omnitrac division. Our cash, cash equivalents and marketable securities at June 29, 2014 consisted of \$6.9 billion held by United States-based entities and \$25.8 billion held by foreign entities. Of our cash, cash equivalents and marketable securities at June 29, 2014, \$25.5 billion is indefinitely reinvested offshore and would be subject to material tax effects if repatriated. Due to tax considerations, we derive liquidity for operations primarily from domestic cash flow and investments held domestically. Total cash provided by operating activities increased to \$7.3 billion during the first nine months of fiscal 2014, compared to \$6.3 billion during the first nine months of fiscal 2013.

Accounts receivable decreased 6% during the third quarter of fiscal 2014. Days sales outstanding, on a consolidated basis, were 27 days at June 29, 2014, compared to 31 days at March 30, 2014. The decreases in accounts receivable and the related days sales outstanding were primarily due to the timing of integrated circuit shipments.

During the first nine months of fiscal 2014, we repurchased and retired 44,609,000 shares of our common stock for \$3.4 billion, before commissions. On March 4, 2014, the Company announced that it had been authorized to repurchase up to \$7.8 billion of the Company's common stock. At June 29, 2014, approximately \$6.5 billion remained available for repurchase under our stock repurchase program, and we currently expect to complete a minimum of \$1 billion of stock repurchases during the fourth quarter of fiscal 2014. We continue to evaluate repurchases as a means of returning capital to stockholders, subject to our periodic determinations that repurchases are in the best interests of our stockholders.

We paid cash dividends totaling \$706 million, or \$0.42 per share, on June 25, 2014. On July 18, 2014, we announced a cash dividend of \$0.42 per share on our common stock, payable on September 24, 2014 to stockholders of record as of the close of business on September 3, 2014. We intend to continue to use cash dividends as a means of returning capital to stockholders, subject to capital availability and our view that cash dividends are in the best interests of our stockholders.

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

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

Our research and development expenditures were \$4.1 billion during the first nine months of fiscal 2014 and \$5.0 billion in fiscal 2013, and we expect to continue to invest heavily in research and development for new technologies, applications and services for voice and data communications, primarily in the wireless industry.

Cash outflows for capital expenditures were \$955 million during the first nine months of fiscal 2014 and \$1.0 billion in fiscal 2013. We expect to continue to incur capital expenditures in the future to support our business, including research and development activities. Future capital expenditures may be impacted by transactions that are currently not forecasted.

Our purchase obligations for the remainder of fiscal 2014 and for fiscal 2015, some of which relate to research and development activities and capital expenditures, totaled \$3.0 billion and \$387 million, respectively, at June 29, 2014. We expect to continue making strategic investments and acquisitions, the amounts of which could vary significantly, to open new opportunities for our technologies, obtain development resources, grow our patent portfolio or pursue new businesses.

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

We have no significant contractual obligations not fully recorded on our condensed consolidated balance sheets or fully disclosed in the notes to our condensed consolidated financial statements. We have no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

Additional information regarding our financial commitments at June 29, 2014 is provided in the notes to our condensed consolidated financial statements. See “Notes to Condensed Consolidated Financial Statements, Note 4 — Income Taxes” and “Note 6 — Commitments and Contingencies.”

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. ASU 2014-09 will be effective for us starting in the first quarter of fiscal 2018. ASU 2014-09 allows for two methods of adoption: (a) “full retrospective” adoption, meaning the standard is applied to all periods presented, or (b) “modified retrospective” adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal 2018 opening retained earnings balance. We are in the process of determining the adoption method as well as the effects the adoption of ASU 2014-09 will have on our consolidated financial statements.

#### Risk Factors

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occur, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 29, 2013, including our financial statements and the related notes.

#### Risks Related to Our Businesses

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

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

- wireless operators and other industries deploy alternative technologies;



wireless operators delay 3G and/or 3G/4G multimode network deployments, expansions or upgrades and/or delay moving 2G customers to 3G, 3G/4G multimode or 4G wireless devices;

LTE, an OFDMA-based 4G wireless technology, is not more widely deployed or commercial deployment is delayed;

government regulators delay the reallocation of 2G spectrum to allow wireless operators to upgrade their networks to 3G and/or 3G/4G, thereby restricting the expansion of 3G/4G wireless connectivity;

wireless operators are unable to drive improvements in 3G or 3G/4G multimode network performance and/or capacity;

our customers' and licensees' sales of products and services using these technologies, particularly premium-tier device products, do not grow or do not grow as quickly as anticipated; or

we are unable to drive the adoption of our products and services into networks and devices based on CDMA, OFDMA and other communications technologies.

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

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

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

- develop innovative, differentiated integrated circuit products at competitive cost and price points for emerging and developed geographic regions and across device tiers (e.g., premium- and low-tier smartphones);
- increase and/or accelerate demand for our integrated circuit products and drive their adoption into the most popular device models, particularly premium-tier models, and across a broad spectrum of devices, such as smartphones, tablets, e-readers, gaming devices and other mobile computing and connected devices;
- strengthen our integrated circuit product roadmap for, and develop channel relationships in, emerging geographic regions, such as China and India, and provide turnkey products for low-tier smartphones;
- be a preferred partner (and sustain preferred relationships) providing integrated circuit products that support multiple operating system platforms to the partners that effectively commercialize new devices using these platforms;
- continue to be a leader in 4G technology evolution, including expansion of our OFDMA-based single mode licensing program, and continue to innovate and introduce 4G turnkey, integrated products and services that differentiate us from our competition;
- be a leader serving original equipment manufacturers, high level operating systems (HLOS) providers, operators and other industry participants as competitors, new industry entrants and other factors continue to affect the industry landscape;
- increase and/or accelerate demand for our wired and wireless connectivity products, including networking products for consumers, carriers and enterprise equipment and connected devices;

- become a leading supplier of small cell technology (which allows inexpensive cell sites deployed by users to connect to traditional cellular networks through wired internet connections) to enable significant network capacity expansion to meet anticipated growth in mobile data traffic;

• continue to develop brand recognition to effectively compete against better known companies in mobile computing and other consumer driven segments and to deepen our presence in significant emerging geographic regions; and/or create stand-alone value and/or contribute to the success of our existing businesses through investments in new industry segments and/or disruptive technologies, including new display technologies, wireless charging, mobile health, automotive, the connected home and the Internet of Everything, among others.

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

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

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

Our QCT segment derives a significant portion of revenues from a small number of customers, and we may be unable to further diversify our customer base. In addition, our industry is experiencing and may continue to experience an increasing concentration of device share among a few companies, and this trend may result in an increasing portion of our revenues being derived from a small number of customers. The loss of any one of our significant customers, a reduction in the purchases of our products by such customers or cancelation of significant purchases from any of these customers would reduce our revenues and could harm our ability to achieve or sustain expected operating results, and

a delay of significant purchases, even if only temporary, would reduce our revenues in the period of the delay. Further, concentration of device share among a few companies, and the corresponding purchasing power of these companies, may result in lower prices for our products which, if not accompanied by a sufficient increase in the volume of purchases of

our products, could have an adverse effect on our revenues and margins. In addition, the timing and size of purchases by our significant customers may be impacted by the timing of such customers' new or next generation product introductions, over which we have little or no control, and the timing of such introductions may cause our operating results to fluctuate. Accordingly, if current industry dynamics and concentrations continue, our QCT segment's revenues will continue to depend largely upon, and be impacted by, future purchases and the timing and size of any such future purchases by these significant customers.

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

In addition, there has been and continues to be litigation among certain of our customers and other industry participants, and the potential outcomes of such litigation, including but not limited to injunctions against devices that incorporate our products or rulings on certain patent law or patent licensing issues that create new legal precedent, could impact our business.

Although we have more than 260 CDMA-based licensees, our QTL segment derives a significant portion of licensing revenues from a limited number of licensees. Moreover, the future growth and success of our core licensing business will depend in part on the ability of our licensees to develop, introduce and deliver high-volume products that achieve and sustain customer acceptance. We have little or no control over the product development or sales efforts of our licensees, and our licensees might not be successful. Reductions in the average selling prices of wireless devices sold by our major licensees, without a sufficient increase in the volumes of such devices sold, would generally have an adverse effect on our revenues.

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

Although we own a very strong portfolio of issued and pending patents related to GSM, GPRS, EDGE, OFDM, OFDMA, WLAN, MIMO and other technologies, our patent portfolio licensing program in these areas is less established and might not be as successful in generating licensing revenues as our CDMA licensing program. Many wireless operators are investigating, have selected or have deployed OFDMA-based LTE as their next-generation 4G technology for deployment in existing or future wireless spectrum bands as complementary to their existing CDMA-based networks. While 3G/4G multimode products are generally covered by existing 3G licensing agreements, products that implement 4G and do not implement 3G are generally not covered by existing 3G licensing agreements. Although we believe that our patented technology is essential and useful to implementation of the LTE industry standards and have granted royalty-bearing licenses to more than 110 companies (including LG, Nokia, Samsung, Sony Mobile and ZTE) that have realized that they need a license under our patents to make and sell products implementing 4G standards but not implementing 3G standards, the royalty rates for single mode 4G products are generally lower than our royalty rates for 3G and 3G/4G multimode products, and therefore, we might not achieve the same licensing revenues on such LTE products as on 3G or 3G/4G multimode products. In addition, new connectivity services are emerging that rely on devices that may or may not be used on traditional cellular networks, such as devices used in the connected home or the Internet of Everything. Standards, even de facto standards, that develop as these technologies mature, in particular those that do not include a base level of interoperability, may impact our ability to obtain royalties that are equivalent to those that we receive for 3G products used in cellular communications. Although we believe that our patented technology is essential and useful to the commercialization of such services, the royalties we receive may be lower than those we receive from our current licensing program.

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

The licenses granted to and from us under a number of our license agreements include only patents that are either filed or issued prior to a certain date and, in a small number of agreements, royalties are payable on those patents for a

specified time period. As a result, there are agreements with some licensees where later patents are not licensed by or to us and/or royalties are not owed to us under such license agreements after the specified time period. In order to license or to obtain a license to such later patents, or to receive royalties after the specified time period, we will need to extend or modify such license agreements or enter into new license agreements with such licensees. We might not be able to

modify those license agreements, or enter into new license agreements, in the future without affecting the material terms and conditions of our license agreements with such licensees, and such modifications or new agreements may negatively impact our revenues. If we are unable to reach agreement on such modifications or new agreements, it could result in patent infringement litigation with such companies.

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

From time to time, companies initiate various strategies to attempt to renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property. These strategies have included: (i) litigation, often alleging infringement of patents held by such companies, patent misuse, patent exhaustion, patent invalidity and/or unenforceability of our patents and/or licenses, or some form of unfair competition; (ii) taking positions contrary to our understanding of their contracts with us; (iii) appeals to governmental authorities; (iv) collective action, including working with wireless operators, standards bodies, other like-minded companies and other organizations, on both formal and informal bases, to adopt intellectual property policies and practices that could have the effect of limiting returns on intellectual property innovations; and (v) lobbying governmental regulators and elected officials for the purpose of seeking the imposition of some form of compulsory licensing and/or to weaken a patent holder's ability to enforce its rights or obtain a fair return for such rights.

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

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

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

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

The enforcement and protection of our intellectual property rights may be expensive, could fail to prevent misappropriation or unauthorized use of our proprietary intellectual property rights, could result in the loss of our ability to enforce one or more patents, or could be adversely affected by changes in patent laws, by laws in certain

foreign jurisdictions that may not effectively protect our intellectual property rights or by ineffective enforcement of laws in such jurisdictions.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary information, technologies and processes, including our patent portfolio. Policing unauthorized use of our products, technologies and proprietary information is difficult and time consuming. We cannot be certain that the steps we have taken, or may take in the future, will prevent the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our proprietary intellectual property rights as fully or as readily as United States laws or where the enforcement of such laws may be lacking or ineffective. Some industry participants who have a vested interest in devaluing patents in general, or standard-essential patents in particular, have mounted attacks on certain patent systems, increasing the likelihood of changes to established patent laws. In the United States, there is continued discussion regarding potential patent law changes. We expect that in the next few years the European Union will adopt a unitary patent system that may broadly impact that region's patent regime. We cannot predict with certainty the long-term effects of any potential changes. In addition, we cannot be certain that the laws and policies of any country or the practices of any standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing or the adoption of standards, will not be changed in the future in a way detrimental to our licensing program or to the sale or use of our products or technology. We may have difficulty in certain circumstances in protecting or enforcing our intellectual property rights and/or contracts, including collecting royalties for use of our patent portfolio in particular foreign jurisdictions due to, among others: policies of foreign governments; challenges to our licensing practices under such jurisdictions' competition laws; adoption of mandatory licensing provisions by foreign jurisdictions (either with controlled/regulated royalties or royalty free); failure of foreign courts to recognize and enforce judgments of contract breach and damages issued by courts in the United States; and/or challenges pending before foreign competition agencies to the pricing and integration of additional features and functionality into our chipset products.

We may need to litigate in the United States or elsewhere in the world to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our ability to enforce one or more patents or incur substantial unexpected operating costs. Any action we take to enforce our intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results.

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

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

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

successful in the time frame we anticipate, we may incur significant costs and/or asset impairments, our business may not grow as anticipated, our margins may be negatively impacted and/or our reputation may be harmed. Claims by other companies that we infringe their intellectual property could adversely affect our business.

From time to time, companies have asserted, and may again assert, patent, copyright and other intellectual property rights against our products or products using our technologies or other technologies used in our industry. These claims have resulted and may again result in our involvement in litigation. We may not prevail in such litigation given, among other factors, the complex technical issues and inherent uncertainties in intellectual property litigation. If any of our products were found to infringe on another company's intellectual property rights, we could be subject to an injunction or required to redesign our products, which could be costly, or to license such rights and/or pay damages or other compensation to such other company. If we are unable to redesign our products, license such intellectual property rights used in our products or otherwise distribute our products through a licensed supplier, we could be prohibited from making and selling such products. In any potential dispute involving other companies' patents or other intellectual property, our chipset foundries, semiconductor assembly and test providers and customers could also become the targets of litigation. We are contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent infringement by products or services sold or provided by us. Reimbursements under indemnification arrangements could have an adverse effect on our results of operations. Furthermore, any such litigation could severely disrupt the supply of our products and the businesses of our chipset customers and their customers, which in turn could hurt our relationships with them and could result in a decline in our chipset sales and/or reductions in our licensees' sales, causing a corresponding decline in our chipset and/or licensing revenues. Any claims, regardless of their merit, could be time consuming to address, result in costly litigation, divert the efforts of our technical and management personnel or cause product release or shipment delays, any of which could have an adverse effect upon our operating results.

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

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

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

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

change a supplier, qualifying a new supplier and commencing volume production or testing could cause us to incur additional expense and production delays, resulting in possible decrease in margins or loss of customers.

While we have established alternate suppliers for certain technologies that we consider critical, we rely on sole- or limited-source suppliers for some products, subjecting us to significant risks, including: possible shortages of raw materials or manufacturing capacity; poor product performance; and reduced control over delivery schedules,

manufacturing capability and yields, quality assurance, quantity and costs. To the extent we have established alternate suppliers, these suppliers may require significant levels of support to bring complex technologies to production. As a result, we may invest a significant amount of effort and resources and incur higher costs to support and maintain such alternate suppliers. Further, any future consolidation of foundry suppliers could increase our vulnerability to sole- or limited-source arrangements. Our arrangements with our suppliers may oblige us to incur costs to manufacture and test our products that do not decrease at the same rate as decreases in pricing to our customers. Our ability, and that of our suppliers, to develop or maintain leading process technologies, including transitions to smaller geometry process technologies, and to effectively compete with the manufacturing processes and performance of our competitors, could impact our ability to introduce new products and meet customer demand, and could increase our costs (resulting in a possible decrease in margins), as well as subject us to the risk of excess inventories. Our inability to meet customer demand due to sole- or limited-sourcing and/or the additional costs that we incur because of these or other supply constraints or because of the need to support alternate suppliers could negatively impact our business, our revenues and our results of operations.

Although we have long-term contracts with our suppliers, many of these contracts do not provide for long-term capacity commitments. To the extent that we do not have firm commitments from our suppliers over a specific time period, or for any specific quantity, our suppliers may allocate, and in the past have allocated, capacity to the production and testing of products for their other customers while reducing or limiting capacity to manufacture or test our products. Accordingly, capacity for our products may not be available when we need it or at reasonable prices. To the extent we do obtain long-term capacity commitments, we may incur additional costs related to those commitments.

One or more of our suppliers or potential alternate suppliers may manufacture CDMA- or OFDMA-based integrated circuits that compete with our products. In this event, the supplier could elect to allocate raw materials and manufacturing capacity to their own products and reduce or limit deliveries to us to our detriment. In addition, we may not receive reasonable pricing, manufacturing or delivery terms. We cannot guarantee that the actions of our suppliers will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers or increase our cost of sales.

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

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

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



declines in the value or performance of our significant marketable securities portfolio, which is subject to financial market volatility and liquidity, interest rate, credit and other risks; or

inquiries, rumors or allegations regarding our financial disclosures, practices or compliance programs.

In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. Due to changes in our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial uninsured costs and divert management's attention and resources.

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

Our business, products and services, and those of our customers and licensees, are subject to various laws and regulations globally, as well as government policies and the specifications of international, national and regional communications standards bodies. The adoption of new laws, regulations or policies, changes in the interpretation of existing laws, regulations or policies, changes in the regulation of our activities by a government or standards body and/or adverse rulings in court, regulatory, administrative or other proceedings relating to such laws, regulations or policies, including, among others, those affecting the use of our technology or products, competitive business practices, licensing practices, protection of intellectual property, trade, foreign investments or loans, spectrum availability and license issuance, adoption of standards, the provision of device subsidies by wireless operators to their customers, taxation, environmental protection or employment, could have an adverse effect on our business. We are currently subject to various governmental investigations and/or proceedings, which are described more fully in the notes to our condensed consolidated financial statements. See "Notes to Condensed Consolidated Financial Statements, Note 6 - Commitments and Contingencies."

Delays in government approvals or other governmental activities that could result from, among others, a decrease in or a lack of funding for certain agencies or branches of the government and/or political changes, could result in our incurring higher costs, could negatively impact our ability to timely consummate strategic transactions and/or could have other negative impacts on our business and the businesses of our customers and licensees.

National, state and local environmental laws and regulations affect our operations around the world. These laws may make it more expensive to manufacture, have manufactured and sell products, and our costs could increase if our vendors (e.g., third-party manufacturers or utility companies) pass on their costs to us.

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

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

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

We engage in acquisitions and strategic transactions and make strategic investments with the goal of maximizing stockholder value. We acquire businesses and other assets, including wireless spectrum, patents and other intangible assets, enter into joint ventures or other strategic transactions and purchase minority equity interests in or make loans to companies that may be private and early-stage. Our strategic activities are generally focused on opening new or expanding opportunities for our technologies and supporting the design and introduction of new products and services

for voice and data communications. Many of our acquisitions or strategic investments entail a high degree of risk, and investments may not become liquid for several years after the date of the investment, if at all. Our acquisitions or strategic investments may not generate financial returns or result in increased adoption or continued use of our

technologies. In some cases, we may be required to consolidate or record our share of the earnings or losses of companies in which we have acquired ownership interests. In addition, we may record impairment charges related to our acquisitions or strategic investments. Any losses or impairment charges that we incur related to strategic investments or other transactions will have a negative impact on our financial results, and we may continue to incur new or additional losses related to strategic assets or investments that we have not fully impaired or exited. Achieving the anticipated benefits of business acquisitions depends in part upon our ability to integrate the acquired businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, including, among others: retaining key employees; successfully integrating new employees, business systems and technology; retaining customers and suppliers of the acquired business; minimizing the diversion of management's attention from ongoing business matters; coordinating geographically separate organizations; consolidating research and development operations; and consolidating corporate and administrative infrastructures. We may not derive any commercial value from acquired technology, products or intellectual property or from future technologies or products based on the acquired technology and/or intellectual property, and we may be subject to liabilities that are not covered by indemnification protection we may obtain or we may become subject to litigation. Additionally, we may not be successful in expanding into geographic regions and/or categories of products served by or adjacent to an acquired business or in addressing potential new opportunities that may arise out of the combination. In part due to our inexperience with products of and/or geographic regions served by acquired businesses, we may underestimate the costs and/or overestimate the benefits, including product and other synergies and growth opportunities that we expect to realize, and we may not achieve them. If we do not achieve the anticipated benefits of business acquisitions, our results of operations may be adversely affected, and we may not enhance stockholder value by engaging in these transactions.

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

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

Currency fluctuations could negatively affect future product sales or royalty revenues, harm our ability to collect receivables or increase the U.S. dollar cost of our products or the activities of our foreign subsidiaries and strategic investments.

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

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

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

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

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

counterparty risk if the counterparty fails to perform; and

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

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

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

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

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

Potential tax liabilities could adversely affect our results of operations.

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

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

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

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

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

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

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

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

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2013 Annual Report on Form 10-K. At June 29, 2014, there have been no material changes to the financial market risks described at September 29, 2013. Additionally, we do not currently anticipate any other near-term changes in the nature of our financial market risk exposures or in management's objectives and strategies with respect to managing such exposures.

### ITEM 4. CONTROLS AND PROCEDURES

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

**Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over financial reporting during the third quarter of fiscal 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

We have provided updated Risk Factors in the section labeled "Risk Factors" in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. The "Risk Factors" section provides updated information in certain areas, but we do not believe those updates have materially changed the type or magnitude of the risks we face in comparison to the disclosure provided in our most recent Annual Report on Form 10-K.



## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

|                                  | Total Number of<br>Shares Purchased | Average<br>Price Paid<br>Per Share (1) | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs<br>(In thousands) | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased Under the<br>Plans or Programs (2)<br>(In millions) |
|----------------------------------|-------------------------------------|----------------------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                  | (In thousands)                      |                                        |                                                                                                                |                                                                                                                           |
| March 31, 2014 to April 27, 2014 | 1,274                               | \$80.09                                | 1,274                                                                                                          | \$7,698                                                                                                                   |
| April 28, 2014 to May 25, 2014   | 10,632                              | 78.98                                  | 10,632                                                                                                         | 6,858                                                                                                                     |
| May 26, 2014 to June 29, 2014    | 5,117                               | 79.73                                  | 5,117                                                                                                          | 6,450                                                                                                                     |
| Total                            | 17,023                              | \$79.29                                | 17,023                                                                                                         | \$6,450                                                                                                                   |

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

On March 4, 2014, the Company announced that it had been authorized to repurchase up to \$7.8 billion of the (2) Company's common stock. At June 29, 2014, approximately \$6.5 billion remained available for repurchase. The stock repurchase program has no expiration date.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

| Exhibit Number | Description                                                                                                                                                                                                                                         |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Restated Certificate of Incorporation, as amended. (1)                                                                                                                                                                                              |
| 3.4            | Amended and Restated Bylaws. (2)                                                                                                                                                                                                                    |
| 4.1            | Amended and Restated Rights Agreement dated as of September 26, 2005 between the Company and Computershare Trust Company, N.A., as successor Rights Agent to Computershare Investor Services LLC. (3)                                               |
| 4.2            | Amendment dated as of December 7, 2006 to the Amended and Restated Rights Agreement dated as of September 26, 2005 between the Company and Computershare Trust Company, N.A., as successor Rights Agent to Computershare Investor Services LLC. (4) |
| 10.121         | Non-Qualified Deferred Compensation Plan amended and restated effective September 29, 2014. (5)                                                                                                                                                     |
| 10.122         | Form of Non-Employee Director Deferred Stock Unit Grant Notices and Deferred Stock Unit Agreement under the 2006 Long-Term Incentive Plan for non-employee directors residing in Singapore. (5)                                                     |
| 10.123         | Form of Executive Restricted Stock Unit Grant Notice and Executive Restricted Stock Unit Agreements under the 2006 Long-Term Incentive Plan, which includes a September 29, 2014 to March 29, 2015 performance period. (5)                          |
| 31.1           | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Steven M. Mollenkopf.                                                                                                                                                   |
| 31.2           | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for George S. Davis.                                                                                                                                                        |
| 32.1           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Steven M. Mollenkopf.                                                                                                   |
| 32.2           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for George S. Davis.                                                                                                        |
| 101.INS        | XBRL Instance Document.                                                                                                                                                                                                                             |
| 101.SCH        | XBRL Taxonomy Extension Schema.                                                                                                                                                                                                                     |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase.                                                                                                                                                                                                       |
| 101.LAB        | XBRL Taxonomy Extension Labels Linkbase.                                                                                                                                                                                                            |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase.                                                                                                                                                                                                      |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase.                                                                                                                                                                                                        |

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

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

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUALCOMM Incorporated

/s/ George S. Davis

George S. Davis

Executive Vice President and Chief Financial Officer

Dated: July 23, 2014