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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 29, 2013
OR

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

For the transition period from to .
Commission File Number 0-19528
QUALCOMM Incorporated
(Exact name of registrant as specified in its charter)

Delaware	95-3685934
(State or Other Jurisdiction of Incorporation or Organization)	(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 x No o

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 x No o

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on January 27, 2014, was as follows:

Class	Number of Shares

Common Stock, $0.0001 per share par value	1,691,079,925

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

Total stockholders’ equity	37,027	36,087
Total liabilities and stockholders’ equity	$46,282	$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	
	December 29, 2013	December 30, 2012
Revenues:		
Equipment and services	$4,653	$4,199
Licensing	1,969	1,819
Total revenues	6,622	6,018
Costs and expenses:		
Cost of equipment and services revenues	2,706	2,237
Research and development	1,328	1,106
Selling, general and administrative	623	587
Other (Note 2)	472	—
Total costs and expenses	5,129	3,930
Operating income	1,493	2,088
Investment income, net (Note 3)	264	239
Income from continuing operations before income taxes	1,757	2,327
Income tax expense	(313)	(424)
Income from continuing operations	1,444	1,903
Discontinued operations, net of income taxes (Note 8)	430	—
Net income	1,874	1,903
Net loss attributable to noncontrolling interests	1	3
Net income attributable to Qualcomm	$1,875	$1,906
Basic earnings per share attributable to Qualcomm:		
Continuing operations	$0.86	$1.12
Discontinued operations	0.25	—
Net income	$1.11	$1.12
Diluted earnings per share attributable to Qualcomm:		
Continuing operations	$0.84	$1.09
Discontinued operations	0.25	—
Net income	$1.09	$1.09
Shares used in per share calculations:		
Basic	1,688	1,709
Diluted	1,722	1,751
Dividends per share announced	$0.35	$0.25

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Basis of Presentation

Financial Statement Preparation. These condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (collectively with its subsidiaries, the Company or Qualcomm) in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim data includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2013. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month periods ended December 29, 2013 and December 30, 2012 both included 13 weeks.

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

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

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

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

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

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

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

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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During the three months ended December 29, 2013 and December 30, 2012, net share-based awards granted, after forfeitures and cancelations, each represented 0.4% of outstanding shares as of the beginning of each fiscal period, and total share-based awards granted represented 0.5% and 0.4%, respectively, of outstanding shares as of the end of each fiscal period.

Note 2 — Composition of Certain Financial Statement Items
Accounts Receivable (in millions)

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

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

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

Property, Plant and Equipment (in millions)

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

During the third quarter of fiscal 2012, the Company's QMT division updated its business plan to focus on licensing its next generation interferometric modulator (IMOD) display technology while directly commercializing only certain IMOD products. In the course of pursuing its licensing model, the Company considered various alternatives for one of its manufacturing facilities in Taiwan. During the first quarter of fiscal 2014, as a result of further discussions with potential buyers and consideration of alternative uses for the separate asset groups that comprise the manufacturing facility, the Company decreased its estimates of expected cash flows from those assets and recorded an impairment charge of $444 million in other operating expenses. The Company also considered whether a triggering event had occurred in the first quarter of fiscal 2014 that would require impairment testing for its remaining QMT assets, including goodwill, and concluded that no such event had occurred as QMT's licensing business plan does not utilize this manufacturing facility. At December 29, 2013, the carrying values of the QMT division's goodwill and property, plant and equipment were $133 million and $255 million, respectively.

QUALCOMM Incorporated
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(Unaudited)

Other Current Liabilities (in millions)

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

Note 3 — Investment Income, Net (in millions)

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

Note 4 — Income Taxes

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

Note 5 — Stockholders' Equity

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

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

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

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

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

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

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

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

Dividends. Cash dividends announced in the three months ended December 29, 2013 and December 30, 2012 were $0.35 and $0.25 per share, respectively. During the three months ended December 29, 2013 and December 30, 2012, dividends charged to retained earnings were $599 million and $435 million, respectively. On January 22, 2014, the Company announced a cash dividend of $0.35 per share on the Company's common stock, payable on March 26, 2014 to stockholders of record as of the close of business on March 5, 2014.

Note 6 — Commitments and Contingencies

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

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(Unaudited)

States International Trade Commission (ITC) pursuant to Section 337 of the Tariff Act of 1930 against the Company and other companies, alleging infringement of two patents. The district court action was stayed pending resolution of the ITC proceeding, including all appeals. On May 20, 2009, the ITC issued a limited exclusion order and a cease and desist order, both of which were terminated when the patents expired on September 24, 2010. During the period of the exclusion order, the Company shifted supply of accused chips for customers who manufacture products that may be imported to the United States to a licensed supplier of Tessera, and the Company continued to supply those customers without interruption. The ITC's orders were affirmed on appeal, and on November 28, 2011, the United States Supreme Court denied the Company's petition for review. On January 18, 2012, pursuant to the parties' stipulation, the District Court in the Eastern District of Texas lifted the stay and ordered that the case be moved to the United States District Court for the Northern District of California. On March 1, 2012, that court consolidated the case with an earlier-filed lawsuit filed by Tessera against multiple parties, including some of the Company's semiconductor chip package suppliers. The court has set May 29, 2014 as the hearing date for claims construction and any summary judgment motions that may be filed. Trial is scheduled for August 25, 2014. Tessera may continue to seek alleged past damages in the district court, but it cannot obtain injunctive relief due to the expiration of the patents.

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

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

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

Japan Fair Trade Commission (JFTC) Complaint: The JFTC received unspecified complaints alleging that the Company's business practices are, in some way, a violation of Japanese law. On September 29, 2009, the JFTC issued a cease and desist order concluding that the Company's Japanese licensees were forced to cross-license patents to the Company on a royalty-free basis and were forced to accept a provision under which they agreed not to assert their essential patents against the Company's other licensees who made a similar commitment in their license agreements with the Company. The cease and desist order seeks to require the Company to modify its existing license agreements with Japanese companies to eliminate these provisions while preserving the license of the Company's patents to those companies. The Company disagrees with the conclusions that it forced its Japanese licensees to agree to any provision in the parties' agreements and that those provisions violate the Japanese Antimonopoly Act. The Company has invoked its right under Japanese law to an administrative hearing before the JFTC. In February 2010, the Tokyo High Court granted the Company's motion and issued a stay of the cease and desist order pending the administrative hearing before the JFTC. The JFTC has held hearings on 20 different dates, with additional hearing dates yet to be scheduled.

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

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

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

The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain. Accordingly, the Company cannot predict the outcome of these matters. Other than amounts accrued for the ParkerVision matter, which have not been paid, the Company has not recorded any accrual at December 29, 2013 for contingent losses associated with these matters based on its belief that losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. Nonetheless, the unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. The Company is engaged in numerous other legal actions not described above arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition or cash flows.

Indemnifications. The Company generally does not indemnify its customers and licensees for losses sustained from infringement of third-party intellectual property rights. However, the Company is contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent, copyright, trademark or trade secret infringement by products or services sold or provided by the Company. The Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by the Company. Through December 29, 2013, the Company has received a number of claims from its direct and indirect customers and other third parties for indemnification under such agreements with respect to alleged infringement of third-party intellectual property rights by its products.

These indemnification arrangements are not initially measured and recognized at fair value because they are deemed to be similar to product warranties in that they relate to claims and/or other actions that could impair the ability of the Company's direct or indirect customers to use the Company's products or services. Accordingly, the Company records liabilities resulting from the arrangements when they are probable and can be reasonably estimated. Reimbursements under indemnification arrangements have not been material to the Company’s consolidated financial statements. The Company has not recorded any accrual for contingent liabilities at December 29, 2013 associated with these indemnification arrangements, other than insignificant amounts, based on the Company’s belief that additional liabilities, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time.

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

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

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

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

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

Note 7 — Segment Information

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

- QCT (Qualcomm CDMA Technologies) segment — develops and supplies integrated circuits and system software based on CDMA, OFDMA and other technologies for use in voice and data communications, networking, application processing, multimedia and global positioning system products.
- QTL (Qualcomm Technology Licensing) segment — grants licenses or otherwise provides rights to use portions of the Company’s intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing CDMA2000, WCDMA, CDMA TDD (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA (including LTE) standards and their derivatives, and QTL collects fixed license fees and/or royalties based on sales by licensees of products incorporating or using the Company’s intellectual property.
- QSI (Qualcomm Strategic Initiatives) segment — comprised of the Company’s Qualcomm Ventures and Structured Finance & Strategic Investments divisions. QSI makes strategic investments that the Company believes may open new or expand opportunities for its technologies, support the design and introduction of new products or services for voice and data communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum.

During the first quarter of fiscal 2014, the Company reassessed its management reporting as a result of the sale of the North and Latin America operations of the Omnitracs division (Note 8), which was substantially all of the Omnitracs division, among other reasons. The Omnitracs 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

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

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

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

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

*As adjusted

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

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

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

*As adjusted

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

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

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

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

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

Note 8 — Discontinued Operations

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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), which is subject to a working capital adjustment pursuant to the terms and conditions of the definitive agreement. As a result, the Company recorded a gain in discontinued operations of $665 million ($430 million net of income tax expense) during the three months ended December 29, 2013. Total assets and total liabilities were reduced by $150 million and $45 million, respectively. The revenues and operating results of the North and Latin America operations of the 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 December 29, 2013 (in millions):

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	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$4,502	$3,174	$—	$7,676
Marketable securities				
U.S. Treasury securities and government-related securities	790	561	—	1,351
Corporate bonds and notes	—	12,227	—	12,227
Mortgage- and asset-backed securities	—	921	246	1,167
Auction rate securities	—	—	83	83
Common and preferred stock	1,672			