QUALCOMM INC/DE
Form 10-Q
April 22, 2015

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 March 29, 2015

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 April 20, 2015, was as follows:

Class	Number of Shares
Common Stock, $0.0001 per share par value	1,629,569,117

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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)

	March 29, 2015	September 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$5,492	$7,907
Marketable securities	10,063	9,658
Accounts receivable, net	2,058	2,412
Inventories	1,861	1,458
Deferred tax assets	533	577
Other current assets	733	401
Total current assets	20,740	22,413
Marketable securities	14,055	14,457
Deferred tax assets	1,049	1,174
Property, plant and equipment, net	2,523	2,487
Goodwill	4,388	4,488
Other intangible assets, net	2,482	2,580
Other assets	1,936	975
Total assets	$47,173	$48,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$1,683	$2,183
Payroll and other benefits related liabilities	744	802
Unearned revenues	778	785
Short-term debt	1,096	—
Other current liabilities	1,868	2,243
Total current liabilities	6,169	6,013
Unearned revenues	2,667	2,967
Other liabilities	503	428
Total liabilities	9,339	9,408
Commitments and contingencies (Note 7)		
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; 1,633 and 1,669 shares issued and outstanding, respectively	4,956	7,736
Retained earnings	32,411	30,799
Accumulated other comprehensive income	472	634
Total Qualcomm stockholders' equity	37,839	39,169
Noncontrolling interests	(5)	(3)

Total stockholders’ equity	37,834	39,166
Total liabilities and stockholders’ equity	$47,173	$48,574

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		Six Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Revenues:				
Equipment and services	$4,403	$4,229	$9,619	$8,881
Licensing	2,491	2,138	4,374	4,108
Total revenues	6,894	6,367	13,993	12,989
Costs and expenses:				
Cost of equipment and services revenues	2,628	2,482	5,676	5,189
Research and development	1,375	1,356	2,726	2,683
Selling, general and administrative	545	539	1,112	1,162
Other	1,010	—	1,079	472
Total costs and expenses	5,558	4,377	10,593	9,506
Operating income	1,336	1,990	3,400	3,483
Investment income, net (Note 3)	203	282	437	546
Income from continuing operations before income taxes	1,539	2,272	3,837	4,029
Income tax expense	(487)	(314)	(814)	(626)
Income from continuing operations	1,052	1,958	3,023	3,403
Discontinued operations, net of income taxes (Note 10)	—	—	—	430
Net income	1,052	1,958	3,023	3,833
Net loss attributable to noncontrolling interests	1	1	2	2
Net income attributable to Qualcomm	$1,053	$1,959	$3,025	$3,835
Basic earnings per share attributable to Qualcomm:				
Continuing operations	$0.64	$1.16	$1.83	$2.02
Discontinued operations	—	—	—	0.25
Net income	$0.64	$1.16	$1.83	$2.27
Diluted earnings per share attributable to Qualcomm:				
Continuing operations	$0.63	$1.14	$1.80	$1.98
Discontinued operations	—	—	—	0.25
Net income	$0.63	$1.14	$1.80	$2.23
Shares used in per share calculations:				
Basic	1,645	1,688	1,653	1,688
Diluted	1,667	1,719	1,677	1,721
Dividends per share announced	$0.42	$0.35	$0.84	$0.70

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Net income	$1,052	$1,958	$3,023	$3,833
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation (losses) gains	(10)	—	(31)	6
Reclassification of foreign currency translation losses included in net income	—	—	—	1
Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain available-for-sale debt securities	(1)	1	(10)	1
Reclassification of other-than-temporary losses on available-for-sale securities included in net income	19	72	60	92
Net unrealized gains (losses) on other available-for-sale marketable securities	98	102	(6)	179
Reclassification of net realized gains on available-for-sale securities included in net income	(64)	(144)	(175)	(217)
Net unrealized gains on derivative instruments	2	1	—	8
Reclassification of net realized gains on derivative instruments included in net income	—	(7)	—	(13)
Total other comprehensive income (loss)	44	25	(162)	57
Total comprehensive income	1,096	1,983	2,861	3,890
Comprehensive loss attributable to noncontrolling interests	1	1	2	2
Comprehensive income attributable to Qualcomm	$1,097	$1,984	$2,863	$3,892

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended March 29, 2015	Six Months Ended March 30, 2014
Operating Activities:		
Net income	$3,023	$3,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	591	561
Gain on sale of discontinued operations	—	(665)
Long-lived asset and goodwill impairment charges	138	479
Income tax provision in excess of income tax payments	73	268
Non-cash portion of share-based compensation expense	522	532
Incremental tax benefits from share-based compensation	(78)	(169)
Net realized gains on marketable securities and other investments	(277)	(388)
Impairment losses on marketable securities and other investments	106	159
Other items, net	(30)	(20)
Changes in assets and liabilities:		
Accounts receivable, net	338	(96)
Inventories	(403)	153
Other assets	(1,138)	127
Trade accounts payable	(508)	35
Payroll, benefits and other liabilities	(405)	(102)
Unearned revenues	(246)	(112)
Net cash provided by operating activities	1,706	4,595
Investing Activities:		
Capital expenditures	(449)	(797)
Purchases of available-for-sale securities	(8,758)	(7,827)
Proceeds from sales and maturities of available-for-sale securities	8,631	5,684
Purchases of trading securities	(695)	(1,814)
Proceeds from sales and maturities of trading securities	710	1,793
Proceeds from sale of discontinued operations, net of cash sold	—	788
Acquisitions and other investments, net of cash acquired	(178)	(347)
Other items, net	49	62
Net cash used by investing activities	(690)	(2,458)
Financing Activities:		
Proceeds from issuance of common stock	417	953
Repurchases and retirements of common stock	(3,611)	(2,004)
Dividends paid	(1,385)	(1,179)
Proceeds from short-term debt	1,095	—
Incremental tax benefits from share-based compensation	78	169
Change in obligations under securities lending	(2)	123
Other items, net	(8)	(3)
Net cash used by financing activities	(3,416)	(1,941)
Effect of exchange rate changes on cash and cash equivalents	(15)	(1)
Net (decrease) increase in cash and cash equivalents	(2,415)	195
Cash and cash equivalents at beginning of period	7,907	6,142
Cash and cash equivalents at end of period	$5,492	$6,337

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 financial information includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2014. 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 six-month periods ended March 29, 2015 and March 30, 2014 included 13 weeks and 26 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 six months ended March 29, 2015 were 21,588,000 and 23,295,000, respectively. The dilutive common share equivalents, calculated using the treasury stock method, for the three and six months ended March 30, 2014 were 30,989,000 and 32,656,000, 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 18,000 and 744,000 during the three and six months ended March 29, 2015, respectively, and 12,000 and 413,000 during the three and six months ended March 30, 2014, respectively.

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

	Three Months Ended		Six Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Cost of equipment and services revenues	$11	$13	$23	$25
Research and development	158	163	333	336
Selling, general and administrative	80	75	166	171

Share-based compensation expense before income taxes	249	251	522	532
Related income tax benefit	(43)	(53)	(86)	(109)
	$206	$198	$436	$423

The Company recorded $81 million and $82 million in share-based compensation expense during the six months ended March 29, 2015 and March 30, 2014, respectively, related to share-based awards granted during those periods. At March 29, 2015, total unrecognized compensation expense related to non-vested restricted stock units granted prior to that date was $1.3 billion, which is expected to be recognized over a weighted-average period of 1.8 years. During the six months ended March 29, 2015 and March 30, 2014, net share-based awards granted, after forfeitures and

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(Unaudited)

cancelations, represented 0.4% of outstanding shares as of the beginning of each fiscal period, and total share-based awards granted represented 0.5% of outstanding shares as of the end of each fiscal period.
Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers,” which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new standard requires a company to recognize revenue upon transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. ASU 2014-09 defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. The ASU as currently issued will be effective for the Company starting in the first quarter of fiscal 2018. On April 1, 2015, the FASB voted to propose a one-year deferral to the effective date, but to permit entities to adopt one year earlier if they choose (i.e., the original effective date). The proposal will be subject to the FASB’s due process requirement, which includes a period for public comments. The new standard 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 the new standard is recognized as an adjustment to the opening retained earnings balance. The Company is in the process of determining the adoption method as well as the effects the adoption will have on its consolidated financial statements.

Note 2 — Composition of Certain Financial Statement Items

Accounts Receivable (in millions)

	March 29, 2015	September 28, 2014
Trade, net of allowances for doubtful accounts of $5 and $5, respectively	$2,040	$2,362
Long-term contracts	11	17
Other	7	33
	$2,058	$2,412

Inventories (in millions)

	March 29, 2015	September 28, 2014
Raw materials	$1	$1
Work-in-process	903	656
Finished goods	957	801
	$1,861	$1,458

Other Current Liabilities (in millions)

	March 29, 2015	September 28, 2014
Customer incentives and other customer-related liabilities	$1,452	$1,777
Other	416	466
	$1,868	$2,243

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 — Investment Income, Net (in millions)

	Three Months Ended		Six Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Interest and dividend income	$138	$167	$272	$322
Interest expense	(1)	(3)	(2)	(5)
Net realized gains on marketable securities	108	243	264	371
Net realized gains on other investments	3	—	13	17
Impairment losses on marketable securities	(27)	(112)	(89)	(141)
Impairment losses on other investments	(14)	(11)	(17)	(18)
Net gains on derivative instruments	2	—	6	4
Equity in net losses of investees	(9)	(4)	(13)	(5)
Net gains on deconsolidation of subsidiaries	3	2	3	1
	$203	$282	$437	$546

Note 4 — Income Taxes

The Company estimates its annual effective income tax rate for continuing operations to be approximately 21% for fiscal 2015, which is greater than its 14% effective income tax rate for fiscal 2014. Tax benefits from foreign income taxed at rates lower than rates in the United States are expected to be approximately 17% in fiscal 2015, compared to 20% in fiscal 2014.

During the second quarter of fiscal 2015, the China National Development and Reform Commission (NDRC) imposed a $975 million fine on the Company (Note 7). The fine is not deductible for tax purposes. Given the significant unusual nature of the fine, it was accounted for discretely in the second quarter of fiscal 2015. Also, during the second quarter of fiscal 2015, the Company recorded a $61 million tax benefit as a result of a favorable tax audit settlement with the Internal Revenue Service related to Qualcomm Atheros, Inc.'s pre-acquisition 2010 and 2011 tax returns.

During the first quarter of fiscal 2015, the United States government reinstated the federal research and development tax credit retroactively to January 1, 2014 through December 31, 2014. As a result of the reinstatement, the Company recorded a tax benefit of $101 million related to fiscal 2014 in the first quarter of fiscal 2015. Additionally, the estimated annual effective tax rate for fiscal 2015 reflects the United States federal research and development tax credit generated through December 31, 2014, the date on which the credit expired. The annual effective tax rate for fiscal 2014 reflected the tax benefit from the credit generated through December 31, 2013, the date on which the credit previously expired.

The effective tax rate of 32% for the second quarter of fiscal 2015 was greater than the estimated annual effective tax rate of 21% primarily as a result of the NDRC fine, partially offset by the favorable tax audit settlement.

Note 5 — Stockholders' Equity

Changes in stockholders' equity for the six months ended March 29, 2015 were as follows (in millions):

QUALCOMM Incorporated
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(Unaudited)

	Qualcomm Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance at September 28, 2014	$39,169	$(3)	$39,166
Net income (loss)	3,025	(2)	3,023
Other comprehensive loss	(162)	—	(162)
Common stock issued under employee benefit plans and related tax benefits	476	—	476
Share-based compensation	548	—	548
Tax withholding related to vesting of restricted stock units	(193)	—	(193)
Dividends	(1,412)	—	(1,412)
Stock repurchases	(3,611)	—	(3,611)
Other	(1)	—	(1)
Balance at March 29, 2015	$37,839	$(5)	$37,834

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in Qualcomm stockholders' equity during the six months ended March 29, 2015 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	Total Accumulated Other Comprehensive Income
Balance at September 28, 2014	$(113)	$ 24	$ 723	$634
Other comprehensive loss before reclassifications	(31)	(7)	(6)	(44)
Reclassifications from accumulated other comprehensive income	—	4	(122)	(118)
Other comprehensive loss	(31)	(3)	(128)	(162)
Balance at March 29, 2015	$(144)	$ 21	$ 595	$472

Reclassifications from accumulated other comprehensive income related to available-for-sale securities and foreign currency translation adjustment of $47 million and $118 million for the three and six months ended March 29, 2015, respectively, and $71 million and $124 million for the three and six months ended March 30, 2014, respectively, were recorded in investment income, net (Note 3). Reclassifications from accumulated other comprehensive income related to derivative instruments of $7 million and $13 million for the three and six months ended March 30, 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. On March 9, 2015, the Company announced a stock repurchase program authorizing it to repurchase up to $15 billion of the Company's common stock. The stock repurchase program has no expiration date. The $15 billion stock repurchase program replaced a $7.8 billion stock repurchase program announced on March 4, 2014, of which $2.1 billion remained authorized for repurchase. During the six months ended March 29, 2015 and

March 30, 2014, the Company repurchased and retired 50,699,000 and 27,586,000 shares of common stock, respectively, for $3.6 billion and $2.0 billion, respectively, before commissions. At March 29, 2015, approximately $14.5 billion remained authorized for repurchase under the Company’s stock repurchase program. Since March 29, 2015, the Company repurchased and retired 5,061,000 shares of common stock for $345 million.

Dividends. On March 9, 2015, the Company announced a 14% increase in its quarterly cash dividend per share of common stock from $0.42 to $0.48, which is effective for dividends payable after March 25, 2015. On April 8, 2015, the Company announced a cash dividend of $0.48 per share on the Company’s common stock, payable on June 24, 2015 to

QUALCOMM Incorporated
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(Unaudited)

stockholders of record as of the close of business on June 3, 2015. During the six months ended March 29, 2015 and March 30, 2014, dividends charged to retained earnings were as follows (in millions, except per share data):

	2015		2014	
	Per Share	Total	Per Share	Total
First quarter	$0.42	$710	$0.35	$599
Second quarter	0.42	702	0.35	599
	$0.84	$1,412	$0.70	$1,198

Note 6 — Debt

In February 2015, the Company entered into a Revolving Credit Facility that provides for unsecured revolving facility loans, swing line loans and letters of credit in an aggregate amount of up to $4.0 billion, expiring in February 2020. Proceeds from the Revolving Credit Facility will be used for general corporate purposes. Loans under the Revolving Credit Facility bear interest, at the option of the Company, at either LIBOR (determined in accordance with the Revolving Credit Facility) plus a margin of 0.7% per annum or the Base Rate (determined in accordance with the Revolving Credit Facility), plus an initial margin of 0% per annum. The Revolving Credit Facility has a facility fee, which initially accrues at a rate of 0.05% per annum. The Revolving Credit Facility requires that the Company comply with certain covenants, including one financial covenant to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization to consolidated interest expense, as defined in the Revolving Credit Facility, of not less than three to one at the end of each fiscal quarter. At March 29, 2015, the Company was in compliance with the financial covenant, and the Company had not borrowed any funds under the Revolving Credit Facility.

In March 2015, the Company began an unsecured commercial paper program, which provides for the issuance of up to $4.0 billion of commercial paper. Net proceeds from this program are used for general corporate purposes. Maturities of commercial paper can range from 1 day to up to 397 days. At March 29, 2015, the Company had $1.1 billion of outstanding commercial paper recorded as short-term debt with a weighted-average interest rate of 0.14%, which included fees paid to the commercial paper dealers, and weighted-average remaining days to maturity of 58 days. The carrying value of the outstanding commercial paper approximated its estimated fair value at March 29, 2015.

Note 7 — Commitments and Contingencies

Legal Proceedings. 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. 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. As a result of the court's judgment, the Company is not liable for any damages to ParkerVision, and therefore, the Company reversed all recorded amounts related to the damages verdict in fiscal 2014. On June 25, 2014, ParkerVision filed a notice of appeal with the court. The Court of Appeals for the Federal Circuit will hear the appeal on May 8, 2015 and issue a decision sometime thereafter. On May 1, 2014, ParkerVision filed another complaint against the Company in the United States District Court for the Middle District of Florida alleging patent infringement. On August 21, 2014, ParkerVision amended the compliant, now captioned ParkerVision, Inc. v. QUALCOMM Incorporated, Qualcomm Atheros, Inc., HTC Corporation, HTC America, Inc., Samsung Electronics Co., LTD., Samsung Electronics America, Inc. and Samsung Telecommunications America, LLC, broadening the allegations. ParkerVision now alleges that the Company infringes 11 additional patents and seeks damages and injunctive and other relief. The Company was served with the complaint in this

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second action on August 28, 2014 and answered on November 17, 2014. The judge's schedule sets the claim construction hearing for August 12, 2015, the close of discovery for January 2016 and the trial for August 2016.

Nvidia Corporation v. Qualcomm Incorporated: On September 4, 2014, Nvidia filed a complaint in the United States District Court for the District of Delaware and also with the United States International Trade Commission (ITC) pursuant to Section 337 of the Tariff Act of 1930 against the Company, Samsung Electronics Co., Ltd., and other Samsung entities, alleging infringement of seven patents related to graphics processing. In the ITC complaint, Nvidia seeks an exclusion order barring the importation of certain consumer electronics and display device products, including some that incorporate the Company's chip products, that infringe, induce infringement and/or contribute to the infringement of at least one of the seven asserted graphics processing patents as well as a cease and desist order preventing the Company from carrying out commercial activities within the United States related to such products. In the District of Delaware complaint, Nvidia is seeking an award of damages for the infringement of the asserted patents, a finding that such infringement is willful and treble damages for such willful infringement, and an order permanently enjoining the Company from infringing the asserted patents. The ITC instituted an investigation into Nvidia's allegations on October 6, 2014. On April 2, 2015, the Administrative Law Judge in the ITC investigation issued a claim construction order construing seven claim terms from five of the seven asserted patents. The evidentiary hearing for the investigation is set for June 22 to June 26, 2015. The Initial Determination of the Administrative Law Judge is due October 9, 2015, and the target date for completion of the investigation by the ITC is set for February 10, 2016. The district court case was stayed on October 23, 2014 pending completion of the ITC investigation including appeals.

Icera Complaint to the European Commission (Commission): On June 7, 2010, the Commission notified and provided the Company with a redacted copy of a complaint filed with the Commission by Icera, Inc. (subsequently acquired by Nvidia Corporation) alleging that the Company has engaged in anticompetitive activity. The Company was asked by the Commission to submit a preliminary response to the portions of the complaint disclosed to it, and the Company submitted its response in July 2010. Subsequently, the Company has provided and continues to provide additional documents and information as requested by the Commission. The Company continues to cooperate 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 and recorded as an expense in fiscal 2010. The Company appealed to the Seoul High Court, and on June 19, 2013, the Seoul High Court affirmed the KFTC's decision. On July 4, 2013, the Company filed an appeal with the Korea Supreme Court. There have been no material developments during fiscal 2015 with respect to this matter.

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 26 different dates, with the next hearing scheduled for May 25, 2015.
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

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begun an investigation regarding the Company’s compliance with the Foreign Corrupt Practices Act (FCPA). As discussed below, FCPA compliance is also the focus of the SEC investigation. 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 actions that the SEC or DOJ 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 China’s Anti-Monopoly Law (AML). The investigation concerned primarily the Company’s licensing business and certain interactions between the Company’s licensing business and its chipset business. On February 9, 2015, the Company announced that it had reached a resolution with the NDRC regarding the investigation. The NDRC issued an Administrative Sanction Decision finding that the Company had violated the AML, and the Company agreed to implement a rectification plan that modifies certain of its business practices in China. The NDRC has reviewed that plan and stated that it satisfies their decision. The Company will not pursue further legal proceedings contesting the NDRC’s findings.

The key terms of the rectification plan provide that the Company will offer licenses for devices under its current 3G and 4G essential Chinese patents separately from licenses to its other patents and will provide patent lists during the negotiation process. If the Company seeks a cross license from a Chinese licensee as part of such offer, it will negotiate with the licensee in good faith and provide fair consideration for such rights. For licenses of the Company’s 3G and 4G essential Chinese patents for branded devices sold for use in China starting on January 1, 2015, the Company will charge running royalties of 5% for 3G CDMA or WCDMA devices (including multimode 3G/4G devices) and 3.5% for 4G devices that do not implement CDMA or WCDMA (including 3-mode LTE-TDD devices), in each case using a royalty base of 65% of the net selling price of the device. Consistent with the plan, the Company has offered its existing licensees the revised terms for sales of devices for use in China. The plan also provides that the Company will not condition the sale of baseband chipsets on the chipset customer signing a license agreement with terms that the NDRC found to be unreasonable or on the chipset customer not challenging unreasonable terms in its license agreement. The rectification plan does not require the Company to sell chipsets to any entity that is not a patent licensee of the Company.

In addition, the NDRC imposed a fine on the Company of 6.088 billion Chinese Yuan Renminbi (approximately $975 million), which the Company has paid. The Company recorded the amount of the fine in the second quarter of fiscal 2015 as a charge in other expenses.

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Federal Trade Commission (FTC) Investigation: On September 17, 2014, the FTC notified the Company that it is conducting an investigation of the Company relating to Section 5 of the Federal Trade Commission Act. The FTC has notified the Company that it is investigating conduct related to standard essential patents and pricing and contracting practices with respect to baseband processors and related products. If a violation of Section 5 is found, a broad range of remedies is potentially available to the FTC, including imposing a fine or requiring modifications to the Company's business practices. At this stage of the investigation, it is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the FTC. The Company continues to cooperate with the FTC as it conducts its investigation.

European Commission (Commission) Investigation: On October 15, 2014, the Commission notified the Company that it is conducting an investigation of the Company relating to Article 101 and/or 102 of the Treaty on the Functioning of the European Union (TFEU) and Article 53 and/or 54 of the Agreement for the European Economic Area (EEA Agreement). The Company understands that the investigation concerns the sale and/or marketing of the Company's baseband chipsets, including alleged conditions relating to the provision by the Company of rebates and/or other financial incentives. If a violation is found, a broad range of remedies is potentially available to the Commission, including imposing a fine and/or injunctive relief prohibiting or restricting certain business practices. Given that this investigation is in its early stages, it is difficult to predict the outcome or what remedies, if any, may be imposed by the Commission. The Company continues to cooperate with the Commission as it conducts its investigation.

Korea Fair Trade Commission (KFTC) Investigation: On March 17, 2015, the KFTC notified the Company that it is conducting an investigation of the Company relating to the Korean Monopoly Regulation and Fair Trade Act (MRFTA). The Company understands that this investigation concerns primarily its licensing business. If a violation of the MRFTA is found, a broad range of remedies is potentially available to the KFTC, including imposing a fine or requiring modifications to the Company's licensing practices. Given that this investigation is in its early stages, it is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the KFTC. The Company continues to cooperate with the KFTC as it conducts its investigation.

With the exception of the NDRC matter, which has been resolved, 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 March 29, 2015 for contingent losses associated with these matters based on its belief that losses, while possible, are not probable. Further, any possible range of loss cannot be reasonably estimated at this time. The unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. The Company is engaged in numerous other legal actions not described above arising in the ordinary course of its business and, while there can be no assurance, believes that the ultimate outcome of these other legal actions will not have a material adverse effect on its business, results of operations, financial condition or cash flows.

Indemnifications. The Company generally does not indemnify its customers and licensees for losses sustained from infringement of third-party intellectual property rights. However, the Company is contingently liable under certain product sales, services, license and other agreements to indemnify certain customers against certain types of liability and/or damages arising from qualifying claims of patent, copyright, trademark or trade secret infringement by products or services sold or provided by the Company. The Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by the Company. Through March 29, 2015, 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 March 29, 2015 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 under these agreements at March 29, 2015 for the remainder of fiscal 2015 and for each of the subsequent four years from fiscal 2016 through 2019 were approximately $3.2 billion,

$1.2 billion, $941 million, $797 million and $733 million, respectively, and $208 million thereafter. Of these amounts, for the remainder of fiscal 2015 and for each of the subsequent four years from fiscal 2016 through 2019, commitments to purchase integrated circuit product inventories comprised $2.5 billion, $994 million, $794 million, $715 million and $665 million, respectively, and $185 million thereafter. Integrated circuit product inventory obligations represent purchase commitments for wafers, die, finished goods and manufacturing services, such as wafer bump, probe, assembly and final test. Under the Company's manufacturing relationships with its foundry suppliers and assembly and test service providers, cancelation of outstanding purchase commitments is generally allowed but requires payment of costs incurred through the date of cancelation, and in some cases, incremental fees related to capacity underutilization.

Operating Leases. The Company leases certain of its land, facilities and equipment under noncancelable operating leases, with terms ranging from less than one year to 20 years and with provisions in certain leases for cost-of-living increases. Future minimum lease payments for the remainder of fiscal 2015 and for each of the subsequent four years from fiscal 2016 through 2019 are $45 million, $80 million, $61 million, $33 million and $21 million, respectively, and $21 million thereafter.

Note 8 — Segment Information

The Company is organized on the basis of products and services. The Company conducts business primarily through two reportable segments: QCT (Qualcomm CDMA Technologies) and QTL (Qualcomm Technology Licensing), and its QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments. The Company also has nonreportable segments, including its QMT (Qualcomm MEMS Technologies), Pixtronix and Small Cells divisions and other wireless technology and service initiatives.

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, and beginning in the first quarter of fiscal 2015, third-party acquisition and integration services costs and certain other items, which may include major restructuring and restructuring-related costs, goodwill and long-lived asset impairment charges and litigation settlements and/or damages. The table below presents revenues and EBT for reportable segments (in millions):

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	QCT	QTL	QSI	Reconciling Items	Total
For the three months ended					
March 29, 2015					
Revenues	$4,434	$2,414	$—	$46	$6,894
EBT	750	2,162	(32)	(1,341)	1,539
March 30, 2014					
Revenues	$4,243	$2,071	$—	$53	$6,367
EBT	740	1,834	(39)	(263)	2,272
For the six months ended					
March 29, 2015					
Revenues	$9,676	$4,230	$—	$87	$13,993
EBT	1,896	3,741	(33)	(1,767)	3,837
March 30, 2014					
Revenues	$8,859	$3,971	$—	$159	$12,989
EBT	1,646	3,504	(35)	(1,086)	4,029

Intersegment revenues included in QCT revenues were negligible in all periods presented. All other revenues for reportable segments were from external customers for all periods presented.

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

	Three Months Ended		Six Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Revenues				
Nonreportable segments	$47	$53	$90	$162
Intersegment eliminations	(1)	—	(3)	(3)
	$46	$53	$87	$159
EBT				
Unallocated cost of equipment and services revenues	$(74)	$(75)	$(152)	$(148)
Unallocated research and development expenses	(226)	(217)	(437)	(434)
Unallocated selling, general and administrative expenses	(100)	(85)	(249)	(210)
Unallocated other expense	(1,010)	—	(1,079)	(12)
Unallocated investment income, net	232	314	462	571
Nonreportable segments	(163)	(200)	(311)	(853)
Intersegment eliminations	—	—	(1)	—
	$(1,341)	$(263)	$(1,767)	$(1,086)

Unallocated other expense for the six months ended March 29, 2015 included a $975 million charge related to the resolution reached with the NDRC (Note 7) and $104 million in goodwill impairment charges related to two of the Company’s nonreportable segments (Note 11). Nonreportable segments EBT for the six months ended March 30, 2014 included $444 million in impairment charges related to property, plant and equipment (Note 11).

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

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	Three Months Ended		Six Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Cost of equipment and services revenues	$63	$62	$129	$123
Research and development expenses	3	22	8	23
Selling, general and administrative expenses	13	6	25	13

Segment assets are comprised of accounts receivable and inventories for all reportable segments other than QSI. QSI segment assets include certain marketable securities, notes receivable, wireless spectrum, other investments and all assets of consolidated subsidiaries included in QSI. Total segment assets differ from total assets on a consolidated basis as a result of unallocated corporate assets primarily comprised of certain cash, cash equivalents, marketable securities, property, plant and equipment, deferred tax assets, goodwill, other intangible assets and assets of nonreportable segments. Segment assets and reconciling items were as follows (in millions):

	March 29, 2015	September 28, 2014
QCT	$3,412	$3,639
QTL	475	161
QSI	614	484
Reconciling items	42,672	44,290
Total consolidated assets	$47,173	$48,574

Note 9 — Acquisitions

In October 2014, the Company announced that it had reached agreement with CSR plc on the terms of a recommended cash offer to acquire the entire issued and to be issued ordinary share capital of CSR for £9.00 per ordinary share, which values the entire issued and to be issued share capital of CSR at approximately £1.6 billion (approximately $2.3 billion based upon an exchange rate of USD: GBP 1.4929). CSR is an innovator in the development of multifunction semiconductor platforms and technologies for the automotive, consumer and voice and music market categories. The acquisition complements the Company’s current offerings by adding products, channels and customers in the growth categories of the Internet of Everything and automotive infotainment, accelerating the Company’s presence and path to leadership. The acquisition has received approval of CSR’s shareholders, and every required regulatory agency has either provided approval or declined to exercise jurisdiction, except for the Ministry of Commerce in China. The completion of the acquisition remains subject to satisfaction of additional conditions. Subject to the satisfaction of these conditions, the acquisition is expected to close by the end of the summer of 2015. In connection with the pending acquisition, the Company agreed to set aside certain cash, cash equivalents and marketable securities (Note 12).

Note 10 — 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 fiscal 2014. 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.

Note 11 — Fair Value Measurements

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at March 29, 2015 (in millions):

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	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$2,453	$2,751	$—	$5,204
Marketable securities (a)				
U.S. Treasury securities and government-related securities	252	1,209	—	1,461
Corporate bonds and notes	—	15,440	—	15,440
Mortgage- and asset-backed securities	—	1,355	181	1,536
Auction rate securities	—	—	47	47
Common and preferred stock	676	715	—	1,391
Equity funds	646	—	—	646
Debt funds	—	3,597	—	3,597
Total marketable securities	1,574	22,316	228	24,118
Derivative instruments	1	6	—	7
Other investments (a)	318	—	—	318
Total assets measured at fair value	$4,346	$25,073	$228	$29,647
Liabilities				
Derivative instruments	$2	$4	$—	$6
Other liabilities	294	—	—	294
Total liabilities measured at fair value	$296	$4	$—	$300

(a) Included amounts that are restricted (Note 12).

Activity between Levels of the Fair Value Hierarchy. There were no significant transfers between Level 1 and Level 2 during the six months ended March 29, 2015 or March 30, 2014. 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 classified within Level 3 of the valuation hierarchy (in millions):

	Six Months Ended March 29, 2015		Six Months Ended March 30, 2014	
	Auction Rate Securities	Mortgage- and Asset-Backed Securities	Auction Rate Securities	Mortgage- and Asset-Backed Securities
Beginning balance of Level 3	$83	$186	$83	$239
Total realized and unrealized gains or losses:				
Included in investment income, net	—	3	—	3
Included in other comprehensive income	—	(4)	—	1
Purchases	—	50	—	49
Sales	—	(41)	—	(18)
Settlements	(36)	(13)	—	(22)
Transfers out of Level 3	—	—	—	(2)
Ending balance of Level 3	$47	$181	$83	$250

The Company recognizes transfers into and out of levels within the fair value hierarchy at the end of the fiscal month in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers in or out of Level 3 during the six months ended March 29, 2015. Transfers out of Level 3 during the six months ended March 30, 2014 primarily consisted of debt securities with significant upgrades 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

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equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the six months ended March 29, 2015, the Company updated the business plans and related internal forecasts related to the Company’s push-to-talk services business and its display businesses, resulting in impairment charges of $104 million related to goodwill and $27 million related to in-process research and development (IPR&D). During the six months ended March 30, 2014, the Company recorded impairment charges of $444 million to write down certain property, plant and equipment related to one of the Company’s display businesses and $16 million related to goodwill in its former QRS division. The IPR&D impairment charge was recorded in research and development expenses, and the other impairment charges were recorded in other operating expenses. The Company determined the fair values using cost, income and market approaches. The estimation of fair value and cash flows used in the 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 six months ended March 29, 2015 and March 30, 2014, 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.

Note 12 — Marketable Securities

Marketable securities were comprised as follows (in millions):

	Current		Noncurrent	
	March 29, 2015	September 28, 2014	March 29, 2015	September 28, 2014
Trading:				
U.S. Treasury securities and government-related securities	$338	$320	$23	$38
Corporate bonds and notes	177	191	345	367
Mortgage- and asset-backed securities	—	—	240	237
Total trading	515	511	608	642
Available-for-sale:				
U.S. Treasury securities and government-related securities	385	805	715	392
Corporate bonds and notes	7,250	6,274	7,668	7,649
Mortgage- and asset-backed securities	1,091	1,063	205	195
Auction rate securities	—	—	47	83
Common and preferred stock	572	192	819	1,605
Equity funds	—	—	646	541
Debt funds	250	813	2,559	2,560
Total available-for-sale	9,548	9,147	12,659	13,025
Fair value option:				
Debt fund	—	—	788	790
Total marketable securities	$10,063	$9,658	$14,055	$14,457

In connection with the pending acquisition of CSR (Note 9), the Company agreed to set aside certain cash, cash equivalents and marketable securities to be held for purposes of satisfying payment of the consideration to effect the acquisition, which is expected to close by the end of the summer of 2015. At March 29, 2015, the fair values of the marketable securities that were set aside were $2.9 billion of corporate bonds and notes, $717 million of mortgage- and asset-backed securities and $140 million in U.S. Treasury securities and government-related securities.

Additionally, $24 million in cash equivalents, which were recorded as other current assets, were set aside. If the combined fair values fall below approximately £1.9 billion (approximately $2.8 billion using an exchange rate of 1.4929), the Company may be required to set aside additional amounts. Additionally, if certain conditions are met, such as a reduction in the liquidity of any of the securities that are set aside, the Company may be required to liquidate the securities and transfer the cash to a third party until the acquisition closes.

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

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been recorded using the equity method. The debt fund has no single maturity date. At March 29, 2015, 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 six months ended March 29, 2015, the changes in fair value associated with this investment were negligible. During the three and six months ended March 30, 2014, net increases in fair value associated with this investment were $12 million and $18 million, respectively.

The Company classifies certain portfolios of debt securities that utilize derivative instruments to acquire or reduce foreign exchange, interest rate and/or equity, prepayment and credit risks as trading. Net gains recognized on debt securities classified as trading held at March 29, 2015 were $14 million and negligible for the three and six months ended March 29, 2015, respectively. Net gains recognized on debt securities classified as trading held at March 30, 2014 were negligible for both the three and six months ended March 30, 2014.

At March 29, 2015, the contractual maturities of available-for-sale debt securities were as follows (in millions):

Years to Maturity

Less Than One Year	One to Five Years	Five to Ten Years	Greater Than Ten Years	No Single Maturity Date	Total
$2,818	$11,245	$1,363	$592	$4,152	$20,170

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

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

	Gross Realized Gains	Gross Realized Losses	Net Realized Gains
For the three months ended			
March 29, 2015	$128	$(30)	$98
March 30, 2014	227	(5)	222
For the six months ended			
March 29, 2015	$308	$(37)	$271
March 30, 2014	343	(8)	335

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

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 29, 2015				
Equity securities	$1,654	$383	$—	$2,037
Debt securities (including debt funds)	19,940	311	(81)	20,170
	$21,594	$694	$(81)	$22,207
September 28, 2014				
Equity securities	$1,769	$575	$(6)	$2,338
Debt securities (including debt funds)	19,582	312	(60)	19,834
	$21,351	$887	$(66)	$22,172

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):

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	March 29, 2015			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and government-related securities	$395	$(3)	$—	$—
Corporate bonds and notes	4,211	(58)	201	(10)
Mortgage- and asset-backed securities	535	(1)	26	—
Auction rate securities	—	—	47	(1)
Common and preferred stock	13	—	12	—
Debt funds	784	(7)	38	(1)
	$5,938	$(69)	$324	$(12)

	September 28, 2014			
	Less than 12 months		More than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and government-related securities	$279	$(2)	$—	$—
Corporate bonds and notes	4,924	(31)	104	(4)
Mortgage- and asset-backed securities	484	(1)	52	(1)
Auction rate securities	—	—	83	(1)
Common and preferred stock	86	(3)	52	(3)
Debt funds	133	(1)	384	(19)
	$5,906	$(38)	$675	$(28)

At March 29, 2015, the Company concluded that the unrealized losses on its available-for-sale securities were temporary. Further, for common 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 and preferred stock 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 ending balance of the credit loss portion of other-than-temporary impairments on debt securities held by the Company was negligible at March 29, 2015 and March 30, 2014.

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 28, 2014 contained in our 2014 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 future business, financial condition, results of operations and prospects. Additionally, statements concerning other future matters, such as the development of new products, enhancements of technologies, industry or regional trends, consumer demand, sales or price levels, challenges to our business and/or business model, capital expenditures, investments in research and development, strategic investments and acquisitions and other statements regarding matters that are not historical, are forward-looking statements. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are inten to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report.

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

Recent Developments

Revenues for the second quarter of fiscal 2015 were $6.9 billion, with net income attributable to Qualcomm of $1.1 billion, which primarily resulted from the following key items:

- We shipped approximately 233 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, an increase of approximately 24%, compared to approximately 188 million MSM integrated circuits in the year ago quarter.
- Total reported device sales were approximately $75.8 billion, an increase of approximately 14%, compared to approximately $66.5 billion in the year ago quarter.(1)
- On February 9, 2015, we announced that we had reached a resolution with the China National Development and Reform Commission (NDRC) regarding its investigation of us relating to China's Anti-Monopoly Law (AML). The NDRC issued an Administrative Sanction Decision finding that we had violated the AML, and we agreed to implement a rectification plan that modifies certain of our business practices in China. In addition, the NDRC imposed a fine on us of 6.088 billion Chinese Yuan Renminbi (approximately $975 million), which was recorded in other expenses and was paid, primarily with cash held by foreign entities, in the second quarter of fiscal 2015.

Against this backdrop, the following recent developments occurred during the second quarter of fiscal 2015 with respect to key elements of our business or our industry:

- Worldwide cellular connections grew sequentially by approximately 2% to reach approximately 7.2 billion.(2)
- Worldwide 3G/4G connections (CDMA-based, OFDMA-based and CDMA/OFDMA multimode) grew sequentially by approximately 5% to approximately 3.1 billion, which was approximately 43% of total cellular connections.(2)

(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

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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 April 20, 2015 for the quarter ended March 31, 2015.

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 have three reportable segments. We conduct business primarily through two reportable segments: QCT (Qualcomm CDMA Technologies) and QTL (Qualcomm Technology Licensing), and our QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments. Our reportable segments are operated by QUALCOMM Incorporated and its direct and indirect subsidiaries. Substantially all of our products and services businesses, including QCT, and substantially all of our engineering, research and development functions, are operated by Qualcomm Technologies, Inc. (QTI), a wholly-owned subsidiary of QUALCOMM Incorporated, and QTI's subsidiaries. QTL is operated by QUALCOMM Incorporated, which owns the vast majority of our patent portfolio. Neither QTI nor any of its subsidiaries has any right, power or authority to grant any licenses or other rights under or to any patents owned by QUALCOMM Incorporated.

QCT is a leading developer and supplier of integrated circuits and system software based on CDMA, OFDMA and other technologies for use in 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. Our MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Qualcomm Snapdragon processors and LTE modems, perform the core baseband modem functionality in wireless devices providing voice and data communications, as well as multimedia applications and global positioning functions. In addition, our Snapdragon processors provide advanced application and graphics processing capabilities. QCT's system software 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 64% and 67% of total consolidated revenues in the second quarter of fiscal 2015 and 2014, respectively, and 69% and 68% of total consolidated revenues for the first six months of fiscal 2015 and 2014, 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 completed the package assembly and test manufacturing processes. We rely on independent third-party suppliers to perform the manufacturing and assembly, and most of the testing, of our integrated circuits based primarily on our proprietary designs and test programs. Our suppliers are also responsible for the procurement of most of the raw materials used in the production of our integrated circuits. We employ both turnkey and two-stage manufacturing models to purchase our integrated circuits. Turnkey is when our foundry suppliers are responsible for delivering fully assembled and tested integrated circuits. Under the two-stage manufacturing model, we purchase die or wafers from semiconductor manufacturing foundries and contract with separate third-party suppliers for manufacturing services, such as wafer bump, probe, assembly and final test.

QTL grants licenses or otherwise provides rights to use portions of our intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing CDMA2000, WCDMA, CDMA TDD (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 selling price of complete licensed products, net of certain permissible deductions (including transportation, insurance, packing costs and other items). QTL recognizes royalty revenues based on royalties reported by licensees 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 35% and

33% of total consolidated revenues in the second quarter of fiscal 2015 and 2014, respectively, and 30% and 31% of total consolidated revenues for the first six months of fiscal 2015 and 2014, respectively. The vast majority of such revenues were generated through our licensees' sales of CDMA2000- and WCDMA-based products, such as feature phones and smartphones.

QSI makes strategic investments that are focused on opening new or expanding opportunities for our technologies and supporting the design and introduction of new products and services (or enhancing existing products or services) for voice and data communications. Many of these strategic investments are in early-stage companies in a variety of industries, including, but not limited to, digital media, e-commerce, energy, healthcare and wearable devices. Investments primarily include non-marketable equity instruments, which generally are recorded using the cost method or the equity method, and convertible debt instruments, which are recorded at fair value. QSI also holds wireless spectrum, which at March 29, 2015, consisted of L-Band spectrum in the United Kingdom. As part of our strategic investment activities, we intend to pursue various exit strategies for each of our QSI investments in the foreseeable future.

Nonreportable segments include our QMT (Qualcomm MEMS Technologies), Pixtronix and Small Cells divisions and other wireless technology and service initiatives.

Seasonality. Many of our products or intellectual property are incorporated into consumer wireless devices, which are subject to seasonality and other fluctuations in demand. As a result, QCT has tended historically to have stronger sales toward the end of the calendar year as manufacturers prepare for major holiday selling seasons; and because QTL recognizes royalty revenues when royalties are reported by licensees, QTL has tended to record higher royalty revenues in the first calendar quarter when licensees report their sales made during the fourth calendar quarter. We have also experienced fluctuations in revenues due to the timing of conversions and expansions of 3G and 3G/4G networks by wireless operators and the timing of launches of flagship wireless devices that incorporate our products and/or intellectual property.

Looking Forward

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

- Further expansion of 3G and 3G/4G multimode in emerging regions, particularly in China. We expect that the increased availability of low-tier 3G/4G smartphone products will help enable such expansion.
- We expect that 3G/4G device prices will continue to vary broadly due to the increased penetration of smartphones combined with 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.
- China continues to present significant opportunities for us, particularly with the rollout of 3G/4G LTE multimode. We expect the rollout of 4G services in China will encourage competition and growth, bring the benefits of 3G/4G LTE multimode to consumers, encourage consumers to replace 2G (GSM) and 3G devices and enable new opportunities (e.g., machine-to-machine) for the industry. However, our success in China is in part dependent upon the rate of commercialization of products based on 4G LTE (an OFDMA-based standard) in China.
- We reached a resolution with the NDRC regarding its investigation and agreed to implement a rectification plan that modifies certain of our business practices in China. The rectification plan provides, among other things, that for licenses of only our 3G and 4G essential Chinese patents for branded devices sold for use in China starting on January 1, 2015 (and reported to us in the third quarter of fiscal 2015), we will charge running royalties at royalty rates of 5% for 3G CDMA or WCDMA devices (including multimode 3G/4G devices) and 3.5% for 4G devices that do not implement CDMA or WCDMA (including 3-mode LTE-TDD devices), in each case using a royalty base of 65% of the net selling price.
- Despite the resolution of the NDRC investigation, China continues to present significant challenges for us. We continue to believe that certain licensees in China are not fully complying with their contractual obligations to report their sales of licensed products to us (which includes 3G/4G units that we believe are not being reported by certain licensees). Additionally, we expect it will take some time for licensees to decide whether to accept the new China

terms or retain the terms of their existing agreements and for unlicensed companies that had delayed execution of new licenses pending resolution of the investigation to execute new licenses. We believe that the conclusion of the NDRC investigation will accelerate the resolution of these issues. However, litigation and/or other actions may be necessary to compel these licensees to report and pay the required royalties for such sales and unlicensed companies to execute new licenses.

- We anticipate that our results of operations for our semiconductor business, QCT, will be adversely impacted in the second half of fiscal 2015, and continuing into next fiscal year, by the effects of: an increased shift in share among our customers within the premium tier, which will reduce our sales of our integrated Snapdragon processors and skew our product mix towards more modem chipsets in this tier; a decline in share at a large customer; and the continuing competitive environment in China. Based on our current customer engagements and our future product roadmap, we do not believe these factors reflect a long-term change to QCT's competitive positioning.
- In addition to our ongoing expense management initiatives, we have initiated a comprehensive review of our cost structure to identify opportunities to improve operating margins while at the same time extending our technology and product leadership positions.
- We continue to invest significant resources toward advancements in 3G, 3G/4G multimode and 4G LTE 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 products designed for implementation of small cells and addressing the challenge of meeting the increased demand for data; products for the connected home and the Internet of Things; automotive; very high speed connectivity; new display technology; data centers; mobile health; wireless charging; and machine learning, including robotics.
- In October 2014, we announced that we had reached agreement with CSR plc on the terms of a recommended cash offer to acquire the entire issued and to be issued ordinary share capital of CSR for £9.00 per ordinary share, which values the entire issued and to be issued share capital of CSR at approximately £1.6 billion (approximately $2.3 billion based upon an exchange rate of USD: GBP 1.4929). CSR is an innovator in the development of multifunction semiconductor platforms and technologies for the automotive, consumer and voice and music market categories. The acquisition complements our current offerings by adding products, channels and customers in the growth categories of the Internet of Everything and automotive infotainment, accelerating our presence and path to leadership. The acquisition has received approval of CSR's shareholders, and every required regulatory agency has either provided approval or declined to exercise jurisdiction, except for the Ministry of Commerce in China. The completion of the acquisition remains subject to the satisfaction of additional conditions. Subject to the satisfaction of these conditions, the acquisition is expected to close by the end of the summer of 2015.

In addition to the foregoing business and market-based matters, we continue to devote resources to working with and educating participants in the wireless value chain and governments as to the benefits of our business model and our extensive technology investments in promoting a highly competitive and innovative wireless industry. However, we expect that certain companies may continue to be dissatisfied with the need to pay reasonable royalties for the use of our technology and not 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			Six Months Ended		
	March 29, 2015	March 30, 2014	Change	March 29, 2015	March 30, 2014	Change
Equipment and services	$4,403	$4,229	$174	$9,619	$8,881	$738
Licensing	2,491	2,138	353	4,374	4,108	266
	$6,894	$6,367	$527	$13,993	$12,989	$1,004

The increases in equipment and services revenues in the second quarter and the first six months of fiscal 2015 were primarily due to increases in QCT revenues of $175 million and $798 million, respectively. The increase for the first six

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months of fiscal 2015 was partially offset by a decrease of $59 million as a result of the sale of the North and Latin America operations of our Omnitracs division during fiscal 2014. The increases in licensing revenues in the second quarter and the first six months of fiscal 2015 were primarily due to increases in QTL revenues of $343 million and $259 million, respectively.

Costs and Expenses (in millions)

	Three Months Ended			Six Months Ended		
	March 29, 2015	March 30, 2014	Change	March 29, 2015	March 30, 2014	Change
Cost of equipment and services (E&S) revenues	$2,628	$2,482	$146	$5,676	$5,189	$487
Cost as % of E&S revenues	60 %	59 %		59 %	58 %	

The decreases in margin percentage for the second quarter and the first six months of fiscal 2015 were driven primarily by decreases in QCT margin percentage. Our margin percentage may fluctuate in future periods depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

	Three Months Ended			Six Months Ended		
	March 29, 2015	March 30, 2014	Change	March 29, 2015	March 30, 2014	Change
Research and development	$1,375	$1,356	$19	$2,726	$2,683	$43
% of revenues	20 %	21 %		19 %	21 %	
Selling, general, and administrative	$545	$539	$6	$1,112	$1,162	$(50)
% of revenues	8 %	8 %		8 %	9 %	
Other	$1,010	$—	$1,010	$1,079	$472	$607

The dollar increases in research and development expenses in the second quarter and the first six months of fiscal 2015 were primarily attributable to increases of $45 million and $85 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, including small cells and data center products, and to expand our intellectual property portfolio, partially offset by decreases of $20 million and $30 million, respectively, related to the development costs of display technologies.

The dollar decrease in selling, general and administrative expenses in the first six months of fiscal 2015 was primarily attributable to a $16 million gain related to the sale of certain assets of one of our display businesses, the effect of which is a decrease in selling, general and administrative expenses, and a decrease of $16 million in patent-related expenses.

Other expenses in the second quarter of fiscal 2015 were primarily attributable to a $975 million charge resulting from the resolution reached with the NDRC. Other expenses in the first six months of fiscal 2015 also included $104 million in goodwill impairment charges related to our push-to-talk services business and one of our display businesses. Other expenses in the first six months of fiscal 2014 were comprised of a $444 million impairment charge related to one of our display businesses, a $16 million goodwill impairment charge related to our former QRS division and a $12 million charge related to the ParkerVision verdict.

Net Investment Income (in millions)

	Three Months Ended			Six Months Ended		
	March 29, 2015	March 30, 2014	Change	March 29, 2015	March 30, 2014	Change
Interest and dividend income	$138	$167	$(29)	$272	$322	$(50)
Interest expense	(1)	(3)	2	(2)	(5)	3
Net realized gains on marketable securities	108	243	(135)	264	371	(107)
Net realized gains on other investments	3	—	3	13	17	(4)
Impairment losses on marketable securities and other investments	(41)	(123)	82	(106)	(159)	53
Net gains on derivative instruments	2	—	2	6	4	2
Equity in net losses of investees	(9)	(4)	(5)	(13)	(5)	(8)