

QUALCOMM INC/DE
Form 10-Q
July 20, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 26, 2016

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

For the transition period from _____ to _____
Commission File Number 0-19528
QUALCOMM Incorporated
(Exact name of registrant as specified in its charter)
Delaware 95-3685934
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

5775 Morehouse Dr., San Diego, California 92121-1714
(Address of Principal Executive Offices) (Zip Code)
(858) 587-1121
(Registrant's telephone number, including area code)

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

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

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on July 18, 2016, was as follows:

| Class | Number of Shares |
|--|------------------|
| Common Stock, \$0.0001 per share par value | 1,473,648,385 |

QUALCOMM INCORPORATED
 Form 10-Q
 For the Quarter Ended June 26, 2016

| | Page |
|--|---------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Condensed Consolidated Financial Statements (Unaudited)</u> | |
| <u>Condensed Consolidated Balance Sheets</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Operations</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income</u> | <u>6</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>7</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>8</u> |
| <u>Item 2.</u> | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>26</u> |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>48</u> |
| <u>Item 4.</u> | |
| <u>Controls and Procedures</u> | <u>48</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Legal Proceedings</u> | <u>48</u> |
| <u>Item 1A.</u> | |
| <u>Risk Factors</u> | <u>48</u> |
| <u>Item 2.</u> | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>49</u> |
| <u>Item 3.</u> | |
| <u>Defaults Upon Senior Securities</u> | <u>49</u> |
| <u>Item 4.</u> | |
| <u>Mine Safety Disclosures</u> | <u>49</u> |
| <u>Item 5.</u> | |
| <u>Other Information</u> | <u>49</u> |
| <u>Item 6.</u> | |
| <u>Exhibits</u> | <u>50</u> |
| <u>SIGNATURES</u> | <u>51</u> |

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUALCOMM

Incorporated

CONDENSED

CONSOLIDATED

BALANCE

SHEETS

(In millions, except
per share data)

(Unaudited)

| | June 26, 2016 | September 27, 2015 |
|--|------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$5,885 | \$ 7,560 |
| Marketable securities | 11,225 | 9,761 |
| Accounts receivable, net | 1,939 | 1,964 |
| Inventories | 1,338 | 1,492 |
| Deferred tax assets | — | 635 |
| Other current assets | 592 | 687 |
| Total current assets | 20,979 | 22,099 |
| Marketable securities | 13,922 | 13,626 |
| Deferred tax assets | 2,075 | 1,453 |
| Property, plant and equipment, net | 2,341 | 2,534 |
| Goodwill | 5,657 | 5,479 |
| Other intangible assets, net | 3,669 | 3,742 |
| Other assets | 2,143 | 1,863 |
| Total assets | \$50,786 | \$ 50,796 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$1,572 | \$ 1,300 |
| Payroll and other benefits related liabilities | 874 | 861 |
| Unearned revenues | 535 | 583 |
| Short-term debt | 1,749 | 1,000 |
| Other current liabilities | 2,113 | 2,356 |
| Total current liabilities | 6,843 | 6,100 |
| Unearned revenues | 2,426 | 2,496 |
| Long-term debt | 10,024 | 9,969 |
| Other liabilities | 855 | 817 |
| Total liabilities | 20,148 | 19,382 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Qualcomm stockholders' equity: | | |
| Preferred stock, \$0.0001 par value; 8 shares authorized; none outstanding | — | — |
| | 169 | — |

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Common stock and paid-in capital, \$0.0001 par value; 6,000 shares authorized; 1,473 and 1,524 shares issued and outstanding, respectively

| | | | |
|--|----------|-----------|---|
| Retained earnings | 30,134 | 31,226 | |
| Accumulated other comprehensive income | 344 | 195 | |
| Total Qualcomm stockholders' equity | 30,647 | 31,421 | |
| Noncontrolling interests | (9 |) (7 |) |
| Total stockholders' equity | 30,638 | 31,414 | |
| Total liabilities and stockholders' equity | \$50,786 | \$ 50,796 | |

See

Accompanying

Notes to

Condensed

Consolidated

Financial

Statements.

4

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

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|------------------|----------------------|------------------|
| | June 26, 2016 | June 28, 2015 | June 26, 2016 | June 28, 2015 |
| Revenues: | | | | |
| Equipment and services | \$3,875 | \$3,840 | \$11,311 | \$13,459 |
| Licensing | 2,169 | 1,992 | 6,059 | 6,366 |
| Total revenues | 6,044 | 5,832 | 17,370 | 19,825 |
| Costs and expenses: | | | | |
| Cost of equipment and services revenues | 2,534 | 2,451 | 7,210 | 8,126 |
| Research and development | 1,268 | 1,407 | 3,922 | 4,133 |
| Selling, general and administrative | 620 | 621 | 1,817 | 1,749 |
| Other (Note 2) | 30 | 118 | (270) | 1,181 |
| Total costs and expenses | 4,452 | 4,597 | 12,679 | 15,189 |
| Operating income | 1,592 | 1,235 | 4,691 | 4,636 |
| Interest expense | (75) | (32) | (221) | (34) |
| Investment income, net (Note 2) | 176 | 195 | 403 | 634 |
| Income before income taxes | 1,693 | 1,398 | 4,873 | 5,236 |
| Income tax expense | (250) | (215) | (770) | (1,029) |
| Net income | 1,443 | 1,183 | 4,103 | 4,207 |
| Net loss attributable to noncontrolling interests | 1 | 1 | 3 | 2 |
| Net income attributable to Qualcomm | \$1,444 | \$1,184 | \$4,106 | \$4,209 |
| Basic earnings per share attributable to Qualcomm | \$0.98 | \$0.74 | \$2.76 | \$2.57 |
| Diluted earnings per share attributable to Qualcomm | \$0.97 | \$0.73 | \$2.74 | \$2.53 |
| Shares used in per share calculations: | | | | |
| Basic | 1,471 | 1,608 | 1,487 | 1,638 |
| Diluted | 1,486 | 1,629 | 1,500 | 1,661 |
| Dividends per share announced | \$0.53 | \$0.48 | \$1.49 | \$1.32 |

See
 Accompanying
 Notes to
 Condensed
 Consolidated
 Financial
 Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|------------------|----------------------|------------------|
| | June 26, 2016 | June 28, 2015 | June 26, 2016 | June 28, 2015 |
| Net income | \$1,443 | \$1,183 | \$4,103 | \$4,207 |
| Other comprehensive income (loss), net of income taxes: | | | | |
| Foreign currency translation gains (losses) | 5 | 7 | (6) | (25) |
| Reclassification of foreign currency translation losses included in net income | 15 | — | 21 | — |
| Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain available-for-sale debt securities | 1 | (9) | (49) | (19) |
| Reclassification of other-than-temporary losses on available-for-sale securities included in net income | 27 | 31 | 128 | 92 |
| Net unrealized gains on other available-for-sale securities | 176 | 20 | 135 | 14 |
| Reclassification of net realized gains on available-for-sale securities included in net income | (35) | (76) | (76) | (251) |
| Net unrealized (losses) gains on derivative instruments | (4) | 58 | (4) | 58 |
| Reclassification of net realized gains on derivative instruments included in net income | (1) | — | — | — |
| Total other comprehensive income (loss) | 184 | 31 | 149 | (131) |
| Total comprehensive income | 1,627 | 1,214 | 4,252 | 4,076 |
| Comprehensive loss attributable to noncontrolling interests | 1 | 1 | 3 | 2 |
| Comprehensive income attributable to Qualcomm | \$1,628 | \$1,215 | \$4,255 | \$4,078 |

See
 Accompanying
 Notes to
 Condensed
 Consolidated
 Financial
 Statements.

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

| | Nine Months Ended | |
|---|----------------------|------------------|
| | June 26, 2016 | June 28, 2015 |
| Operating Activities: | | |
| Net income | \$4,103 | \$4,207 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 1,092 | 888 |
| Indefinite and long-lived asset impairment charges | 94 | 304 |
| Income tax provision (less than) in excess of income tax payments | (236) | 159 |
| Gain on sale of wireless spectrum | (380) | — |
| Non-cash portion of share-based compensation expense | 730 | 793 |
| Incremental tax benefits from share-based compensation | (3) | (98) |
| Net realized gains on marketable securities and other investments | (142) | (399) |
| Impairment losses on marketable securities and other investments | 138 | 161 |
| Other items, net | — | (29) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 39 | 438 |
| Inventories | 169 | (122) |
| Other assets | 153 | (897) |
| Trade accounts payable | 263 | (769) |
| Payroll, benefits and other liabilities | (434) | (406) |
| Unearned revenues | (270) | (408) |
| Net cash provided by operating activities | 5,316 | 3,822 |
| Investing Activities: | | |
| Capital expenditures | (389) | (815) |
| Purchases of available-for-sale securities | (12,960) | (13,118) |
| Proceeds from sales and maturities of available-for-sale securities | 10,303 | 11,897 |
| Purchases of trading securities | (177) | (1,034) |
| Proceeds from sales and maturities of trading securities | 779 | 1,008 |
| Proceeds from sales of other marketable securities | 450 | — |
| Proceeds from sales of property, plant and equipment | 15 | 161 |
| Acquisitions and other investments, net of cash acquired | (663) | (325) |
| Proceeds from sale of wireless spectrum | 232 | — |
| Other items, net | 181 | 6 |
| Net cash used by investing activities | (2,229) | (2,220) |
| Financing Activities: | | |
| Proceeds from short-term debt | 6,633 | 2,813 |
| Proceeds from long-term debt | — | 9,937 |
| Repayment of short-term debt | (5,885) | (1,814) |
| Proceeds from issuance of common stock | 422 | 571 |
| Repurchases and retirements of common stock | (3,698) | (9,016) |

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| | | |
|--|----------|----------|
| Dividends paid | (2,208) | (2,142) |
| Incremental tax benefits from share-based compensation | 3 | 98 |
| Other items, net | (32) | 41 |
| Net cash (used) provided by financing activities | (4,765) | 488 |
| Effect of exchange rate changes on cash and cash equivalents | 3 | (10) |
| Net (decrease) increase in cash and cash equivalents | (1,675) | 2,080 |
| Cash and cash equivalents at beginning of period | 7,560 | 7,907 |
| Cash and cash equivalents at end of period | \$5,885 | \$9,987 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

7

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 27, 2015. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. Each of the three-month and nine-month periods ended June 26, 2016 and June 28, 2015 included 13 weeks and 39 weeks, respectively.

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

Earnings Per Common Share. Basic earnings per common share are computed by dividing net income attributable to Qualcomm by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed by dividing net income attributable to Qualcomm by the sum of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options and/or accelerated share repurchase agreements, if any, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an award, if any, the amount of compensation cost for future service that the Company has not yet recognized, if any, and the estimated tax benefits that would be recorded in paid-in capital when an award is settled, if any, are assumed to be used to repurchase shares in the current period. The dilutive common share equivalents, calculated using the treasury stock method, for the three and nine months ended June 26, 2016 were 14,812,000 and 13,325,000, respectively, and 20,749,000 and 22,447,000 for the three and nine months ended June 28, 2015, 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 1,378,000 and 3,150,000 during the three and nine months ended June 26, 2016, respectively, and 16,711,000 and 6,067,000 during the three and nine months ended June 28, 2015, respectively.

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

| | Three Months Ended June 26, 2016 | | Nine Months Ended June 26, 2015 | |
|---|---|-------|--|-------|
| Cost of equipment and services revenues | \$ 10 | \$ 10 | \$ 31 | \$ 33 |

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| | | | | |
|--|--------|--------|--------|--------|
| Research and development | 152 | 176 | 478 | 508 |
| Selling, general and administrative | 73 | 85 | 221 | 252 |
| Share-based compensation expense before income taxes | 235 | 271 | 730 | 793 |
| Related income tax benefit | (38) | (58) | (126) | (145) |
| | \$ 197 | \$ 213 | \$ 604 | \$ 648 |

The Company recorded \$170 million and \$173 million in share-based compensation expense during the nine months ended June 26, 2016 and June 28, 2015, respectively, related to share-based awards granted during those periods. At June 26, 2016, total unrecognized compensation expense related to non-vested restricted stock units granted prior to that date was \$1.2 billion, which is expected to be recognized over a weighted-average period of 2.0 years. During the nine months ended June 26, 2016 and June 28, 2015, net share-based awards granted, after forfeitures and cancellations, represented 0.7% and

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

0.8%, respectively, of outstanding shares as of the beginning of each fiscal period, and total share-based awards granted represented 1.0% and 0.9%, respectively, of outstanding shares as of the end of each fiscal period.

Recent Accounting Pronouncements. In November 2015, the Financial Accounting Standards Board (FASB) issued new guidance related to accounting for income taxes, which requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The Company early adopted the new guidance prospectively in the second quarter of fiscal 2016. Prior period amounts have not been adjusted.

In May 2014, the FASB issued new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new guidance requires a company to recognize revenue upon transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019. Adoption one year early is permitted. Two methods of adoption are permitted: (a) full retrospective adoption, meaning the standard is applied to all periods presented or (b) modified retrospective adoption, meaning the cumulative effect of applying the new guidance is recognized as an adjustment to the opening retained earnings balance. The Company does not intend to adopt the new guidance early and is in the process of determining the adoption method as well as the effects the adoption will have on its consolidated financial statements.

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

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

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

In March 2016, the FASB issued new guidance that changes the accounting for share-based payments. Under the new guidance, excess tax benefits associated with share-based payment awards will be recognized in the income statement when the awards vest or settle, rather than in stockholders' equity. In addition, it will increase the number of shares an employer can withhold to cover income taxes on share-based payment awards and still qualify for the exemption to liability classification. The new guidance will be effective for the Company starting in the first quarter of fiscal 2018. Early adoption is permitted in any annual or interim period. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

In June 2016, the FASB issued new guidance that changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on

expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

QUALCOMM
 Incorporated
 NOTES TO
 CONDENSED
 CONSOLIDATED
 FINANCIAL
 STATEMENTS
 (Unaudited)

Note 2. Composition of Certain Financial Statement Items

Inventories (in millions)

| | June 26, September 27, | |
|-----------------|------------------------|----------|
| | 2016 | 2015 |
| Raw materials | \$ 3 | \$ 1 |
| Work-in-process | 694 | 550 |
| Finished goods | 641 | 941 |
| | \$ 1,338 | \$ 1,492 |

Other Current Liabilities (in millions)

| | June 26, September 27, | |
|--|------------------------|----------|
| | 2016 | 2015 |
| Customer incentives and other customer-related liabilities | \$ 1,685 | \$ 1,894 |
| Other | 428 | 462 |
| | \$ 2,113 | \$ 2,356 |

Other Income, Costs and Expenses. Other expenses in the three months ended June 26, 2016 consisted of restructuring and restructuring-related charges related to the Company's Strategic Realignment Plan (Note 10). Other income in the nine months ended June 26, 2016 included a gain of \$380 million on the sale of wireless spectrum in the United Kingdom that was held by the QSI (Qualcomm Strategic Initiatives) segment in the first quarter of fiscal 2016 for \$232 million in cash and \$275 million in deferred payments due in 2020 to 2023, which were recorded at their present values in other assets. Other income in the nine months ended June 26, 2016 also included \$158 million in restructuring and restructuring-related charges, which were partially offset by a \$48 million gain on the sale of the Company's business that provided augmented reality applications, both of which related to the Company's Strategic Realignment Plan.

Other expenses in the three months ended June 28, 2015 consisted of \$151 million and \$11 million in impairment charges on goodwill and intangible assets, respectively, related to the Company's content services business and one of our display businesses, partially offset by a \$44 million gain on the sale of certain property, plant and equipment. Other expenses in the nine months ended June 28, 2015 included a \$975 million charge resulting from the resolution reached with the China National Development and Reform Commission (NDRC) in the second quarter of fiscal 2015 regarding the NDRC's investigation of the Company relating to China's Anti-Monopoly Law. Other expenses in the nine months ended June 28, 2015 also included \$255 million and \$11 million in impairment charges on goodwill and intangible assets, respectively, related to the Company's content and push-to-talk services and display businesses, partially offset by \$60 million in gains on sales of certain property, plant and equipment.

Investment Income, Net (in millions)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | June 26, 2016 | June 28, 2015 | June 26, 2016 | June 28, 2015 |
| Interest and dividend income | \$ 156 | \$ 128 | \$ 451 | \$ 400 |
| Net realized gains on marketable securities | 56 | 117 | 99 | 381 |
| Net realized gains on other investments | 13 | 5 | 43 | 18 |

| | | | | |
|--|-------|--------|--------|--------|
| Impairment losses on marketable securities | (20) | (42) | (109) | (131) |
| Impairment losses on other investments | (13) | (13) | (29) | (30) |
| Equity in net losses of investees | (18) | (10) | (49) | (23) |
| Other | 2 | 10 | (3) | 19 |
| | \$176 | \$ 195 | \$403 | \$634 |

Net impairment losses on marketable securities related to the noncredit portion of losses on debt securities recognized in other comprehensive income were negligible in the three months ended June 26, 2016 and June 28, 2015 and \$37 million and \$10 million in the nine months ended June 26, 2016 and June 28, 2015, respectively.

QUALCOMM
 Incorporated
 NOTES TO
 CONDENSED
 CONSOLIDATED
 FINANCIAL
 STATEMENTS
 (Unaudited)

Note 3. Income Taxes

The Company estimates its annual effective income tax rate to be approximately 17% for fiscal 2016, which is less than its 19% effective income tax rate for fiscal 2015. Tax benefits from foreign income taxed at rates lower than rates in the United States are expected to be approximately 15% in fiscal 2016, compared to 14% in fiscal 2015. The annual effective tax rate for fiscal 2016 reflects a tax benefit of \$101 million from a worthless stock deduction on a domestic subsidiary of the Company's former QMT division, which was accounted for discretely during the third quarter.

During the first quarter of fiscal 2016, the United States government permanently reinstated the federal research and development tax credit retroactively to January 1, 2015. As a result of the reinstatement, the Company recorded a tax benefit of \$79 million in the first quarter of fiscal 2016 related to fiscal 2015. The annual effective tax rate for fiscal 2015 reflected the fine imposed by the NDRC of \$975 million (Note 2), which was not deductible for tax purposes and was substantially attributable to a foreign jurisdiction, and a \$61 million tax benefit as a result of a favorable tax audit settlement with the Internal Revenue Service, both of which were accounted for discretely in the second quarter of fiscal 2015. 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 annual effective tax rate for fiscal 2015 also reflected a tax benefit of \$101 million recorded in the first quarter of fiscal 2015 related to fiscal 2014.

The effective tax rate of 15% for the third quarter of fiscal 2016 was less than the estimated annual effective tax rate of 17% primarily due to a \$101 million tax benefit recorded discretely in the third quarter resulting from a worthless stock deduction on a domestic subsidiary of the Company's former QMT division, partially offset by changes in the Company's estimates related to foreign earnings taxed at rates that are less than the United States federal tax rate and the benefit of the retroactive reinstatement of the United States federal research and development credit recorded discretely during the first quarter of fiscal 2016 related to fiscal 2015.

Unrecognized tax benefits were \$210 million and \$40 million at June 26, 2016 and September 27, 2015, respectively. Certain of the Company's existing tax positions are expected to continue to generate an increase in unrecognized tax benefits through fiscal 2016. The Company believes that it is reasonably possible that the total amounts of unrecognized tax benefits at June 26, 2016 may increase or decrease in the next 12 months.

Note 4. Stockholders' Equity

Changes in stockholders' equity for the nine months ended June 26, 2016 were as follows (in millions):

| | Qualcomm Stockholders' Equity | Noncontrolling Interests | Total Stockholders' Equity |
|---|-------------------------------------|-----------------------------|----------------------------------|
| Balance at September 27, 2015 | \$ 31,421 | \$ (7) | \$ 31,414 |
| Net income (loss) | 4,106 | (3) | 4,103 |
| Other comprehensive income | 149 | — | 149 |
| Common stock issued under employee benefit plans and related tax benefits | 364 | — | 364 |
| Share-based compensation | 771 | — | 771 |
| Tax withholdings related to vesting of share-based payments | (216) | — | (216) |
| Dividends | (2,250) | — | (2,250) |
| Stock repurchases | (3,699) | — | (3,699) |
| Other | 1 | 1 | 2 |

| | | | |
|--------------------------|-----------|---------|-----------|
| Balance at June 26, 2016 | \$ 30,647 | \$ (9) | \$ 30,638 |
|--------------------------|-----------|---------|-----------|

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in Qualcomm stockholders' equity during the nine months ended June 26, 2016 were as follows (in millions):

QUALCOMM
 Incorporated
 NOTES TO
 CONDENSED
 CONSOLIDATED
 FINANCIAL
 STATEMENTS
 (Unaudited)

| | 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 27, 2015 | \$ (160) | \$ 4 | \$ 297 | \$ 54 | \$ 195 |
| Other comprehensive (loss) income before reclassifications | (6) | 8 | 135 | (4) | 133 |
| Reclassifications from accumulated other comprehensive income (loss) | 21 | (11) | 6 | — | 16 |
| Other comprehensive income (loss) | 15 | (3) | 141 | (4) | 149 |
| Balance at June 26, 2016 | \$ (145) | \$ 1 | \$ 438 | \$ 50 | \$ 344 |

Reclassifications from accumulated other comprehensive income related to net gains on available-for-sale securities of \$22 million and \$5 million for the three and nine months ended June 26, 2016, respectively, and \$48 million and \$166 million for the three and nine months ended June 28, 2015, respectively, were recorded in investment income, net (Note 2). Reclassifications from accumulated other comprehensive income related to foreign currency translation losses of \$15 million and \$21 million for the three and nine months ended June 26, 2016, respectively, were recorded in selling, general and administrative expenses and other operating expenses. Reclassifications from accumulated other comprehensive income related to foreign currency translation adjustments during the three and nine months ended June 28, 2015 were negligible.

Stock Repurchase Program. On March 9, 2015, the Company announced a stock repurchase program authorizing it to repurchase up to \$15 billion of the Company's common stock. The stock repurchase program has no expiration date. In May 2015, the Company entered into two accelerated share repurchase agreements (ASR Agreements) with two financial institutions under which the Company paid an aggregate of \$5.0 billion upfront to the financial institutions and received from them an initial delivery of 57,737,000 shares of the Company's common stock, which were retired. The ASR Agreements were settled in the fourth quarter of fiscal 2015. During the nine months ended June 28, 2015, the Company repurchased and retired an additional 56,652,000 shares of common stock for \$4.0 billion, before commissions. During the nine months ended June 26, 2016, the Company repurchased and retired 70,168,000 shares of common stock for \$3.7 billion, before commissions. At June 26, 2016, \$3.2 billion remained authorized for repurchase under the Company's stock repurchase program.

Dividends. On July 12, 2016, the Company announced a cash dividend of \$0.53 per share on the Company's common stock, payable on September 21, 2016 to stockholders of record as of the close of business on August 31, 2016.

During the nine months ended June 26, 2016 and June 28, 2015, dividends charged to retained earnings were as follows (in millions, except per share data):

| 2016 | 2015 |
|-------|-------|
| Total | Total |
| | |

| | Per Share | | Per Share | |
|----------------|--------------|---------|--------------|---------|
| First quarter | \$0.48 | \$730 | \$0.42 | \$710 |
| Second quarter | 0.48 | 726 | 0.42 | 702 |
| Third quarter | 0.53 | 794 | 0.48 | 771 |
| | \$1.49 | \$2,250 | \$1.32 | \$2,183 |

Note 5. Employee Benefit Plans

Equity Compensation Plans. On March 8, 2016, the Company's stockholders approved the Qualcomm Incorporated 2016 Long-Term Incentive Plan (the 2016 Plan), which replaced the Qualcomm Incorporated 2006 Long-Term Incentive Plan (the Prior Plan). Effective on and after that date, no new awards will be granted under the Prior Plan, although all outstanding awards under the Prior Plan will remain outstanding according to their terms and the terms of the Prior Plan. The 2016 Plan provides for the grant of incentive and nonstatutory stock options, stock appreciation rights, restricted stock, unrestricted

QUALCOMM
 Incorporated
 NOTES TO
 CONDENSED
 CONSOLIDATED
 FINANCIAL
 STATEMENTS
 (Unaudited)

stock, restricted stock units, performance units, performance shares, deferred compensation awards and other stock-based awards. The share reserve under the 2016 Plan is equal to 90,000,000 shares, plus approximately 20,120,000 shares that were available for future grant under the Prior Plan on March 8, 2016, for a total of approximately 110,120,000 shares available for grant under the 2016 Plan on that date. This share reserve is automatically increased as provided in the 2016 Plan by the number of shares subject to stock options granted under the Prior Plan and outstanding as of March 8, 2016, which after that date expire or for any reason are forfeited, canceled or terminated, and by two times the number of shares subject to any awards other than stock options granted under the Prior Plan and outstanding as of March 8, 2016, which after that date expire, are forfeited, canceled or terminated, fail to vest, are not earned due to any performance goal that is not met, are otherwise reacquired without having become vested, or are paid in cash, exchanged by a participant or withheld by the Company to satisfy any tax withholding or tax payment obligations related to such award. The Board of Directors of the Company may amend or terminate the 2016 Plan at any time. Certain amendments, including an increase in the share reserve, require stockholder approval.

Note 6. Debt

Revolving Credit Facility. The Company has 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. 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 June 26, 2016 and September 27, 2015, the Company was in compliance with the covenants, and the Company had not borrowed any funds under the Revolving Credit Facility.

Commercial Paper Program. The Company has 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 June 26, 2016 and September 27, 2015, the Company had \$1.7 billion and \$1.0 billion, respectively, of outstanding commercial paper recorded as short-term debt with weighted-average interest rates of 0.50% and 0.19%, respectively, which included fees paid to the commercial paper dealers, and weighted-average remaining days to maturity of 37 days and 38 days, respectively. The carrying value of the outstanding commercial paper approximated its estimated fair value at June 26, 2016 and September 27, 2015.

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

| | June 26, 2016 | | September 27, 2015 | |
|---|---------------|----------------|--------------------|----------------|
| | Amount | Effective Rate | Amount | Effective Rate |
| Floating-rate notes due May 18, 2018 | \$250 | 0.97% | \$250 | 0.66% |
| Floating-rate notes due May 20, 2020 | 250 | 1.24% | 250 | 0.94% |
| Fixed-rate 1.40% notes due May 18, 2018 | 1,250 | 0.53% | 1,250 | 0.43% |
| Fixed-rate 2.25% notes due May 20, 2020 | 1,750 | 1.55% | 1,750 | 1.62% |
| Fixed-rate 3.00% notes due May 20, 2022 | 2,000 | 1.91% | 2,000 | 2.08% |
| Fixed-rate 3.45% notes due May 20, 2025 | 2,000 | 3.46% | 2,000 | 3.46% |

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| | | | | |
|---|----------|-------|---------|-------|
| Fixed-rate 4.65% notes due May 20, 2035 | 1,000 | 4.74% | 1,000 | 4.74% |
| Fixed-rate 4.80% notes due May 20, 2045 | 1,500 | 4.71% | 1,500 | 4.71% |
| Total principal | 10,000 | | 10,000 | |
| Unamortized discount, including debt issuance costs | (59) | | (63) | |
| Hedge accounting fair value adjustments | 83 | | 32 | |
| Total long-term debt | \$10,024 | | \$9,969 | |

The interest rate on the floating rate notes due in 2018 and 2020 for a particular interest period will be a per annum rate equal to three-month LIBOR as determined on the interest determination date plus 0.27% and 0.55%, respectively. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes. The Company may redeem the fixed-rate notes at any time in whole, or from time to time in part, at specified make-whole premiums as defined in the

QUALCOMM
Incorporated
NOTES TO
CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS
(Unaudited)

applicable form of note. The Company may not redeem the floating-rate notes prior to maturity. The Company is not subject to any financial covenants under the notes nor any covenants that would prohibit the Company from incurring additional indebtedness ranking equal to the notes, paying dividends, issuing securities or repurchasing securities issued by it or its subsidiaries. At June 26, 2016 and September 27, 2015, the aggregate fair value of the notes, based on Level 2 inputs, was approximately \$10.4 billion and \$9.6 billion, respectively.

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

The effective interest rates for the notes include the interest on the notes, amortization of the discount, which includes debt issuance costs, and if applicable, adjustments related to hedging. Cash interest paid related to the Company's commercial paper program and long-term debt, net of cash received from the related interest rate swaps, was \$270 million during the nine months ended June 26, 2016. Cash interest paid related to the Company's commercial paper progr