

QUALCOMM INC/DE
Form 10-Q
April 20, 2011

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 March 27, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 0-19528

QUALCOMM Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-3685934

(I.R.S. Employer
Identification No.)

5775 Morehouse Dr., San Diego, California

(Address of principal executive offices)

(858) 587-1121

(Registrant's telephone number, including area code)

92121-1714

(Zip 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 twelve 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 ninety 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 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 Accelerated filer Non-accelerated filer Smaller reporting company

(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

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 18, 2011, was as follows:

Class	Number of Shares
Common Stock, \$0.0001 per share par value	1,669,532,005

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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 27, 2011	September 26, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$6,367	\$3,547
Marketable securities	6,658	6,732
Accounts receivable, net	715	730
Inventories	606	528
Deferred tax assets	330	321
Other current assets	174	275
Total current assets	14,850	12,133
Marketable securities	9,081	8,123
Deferred tax assets	1,917	1,922
Assets held for sale	746	—
Property, plant and equipment, net	2,114	2,373
Goodwill	1,417	1,488
Other intangible assets, net	2,174	3,022
Other assets	1,525	1,511
Total assets	\$33,824	\$30,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$666	\$764
Payroll and other benefits related liabilities	558	467
Unearned revenues	518	623
Loans payable	1,100	1,086
Income taxes payable	69	1,443
Other current liabilities	1,474	1,085
Total current liabilities	4,385	5,468
Unearned revenues	3,733	3,485
Other liabilities	705	761
Total liabilities	8,823	9,714
Commitments and contingencies (Note 8)		
Stockholders' equity:		
QUALCOMM Incorporated (QUALCOMM) stockholders' equity:		
Preferred stock, \$0.0001 par value; issuable in series; 8 shares authorized; none outstanding at		
March 27, 2011 and September 26, 2010	—	—
Common stock, \$0.0001 par value; 6,000 shares authorized; 1,666 and 1,612 shares issued and		
outstanding at March 27, 2011 and September 26, 2010, respectively	—	—
Paid-in capital	9,325	6,856

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Retained earnings	14,840	13,305
Accumulated other comprehensive income	802	697
Total QUALCOMM stockholders' equity	24,967	20,858
Noncontrolling interests (Note 7)	34	—
Total stockholders' equity	25,001	20,858
Total liabilities and stockholders' equity	\$33,824	\$30,572

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010
Revenues:				
Equipment and services	\$2,044	\$1,595	\$4,257	\$3,257
Licensing and royalty fees	1,831	1,068	2,965	2,076
Total revenues	3,875	2,663	7,222	5,333
Operating expenses:				
Cost of equipment and services revenues	1,363	809	2,493	1,624
Research and development	740	648	1,411	1,244
Selling, general and administrative	585	430	1,022	810
Goodwill impairment (Note 11)	114	—	114	—
Total operating expenses	2,802	1,887	5,040	3,678
Operating income	1,073	776	2,182	1,655
Investment income, net (Note 5)	185	189	404	361
Income before income taxes	1,258	965	2,586	2,016
Income tax expense	(263	) (191	) (422	) (401
Net income	995	774	2,164	1,615
Net loss attributable to the noncontrolling interests (Note 7)	4	—	4	—
Net income attributable to QUALCOMM	\$999	\$774	\$2,168	\$1,615
Earnings per common share attributable to QUALCOMM:				
Basic earnings per common share	\$0.60	\$0.47	\$1.32	\$0.97
Diluted earnings per common share	\$0.59	\$0.46	\$1.30	\$0.96
Shares used in per share calculations:				
Basic	1,654	1,662	1,639	1,667
Diluted	1,689	1,678	1,669	1,685
Dividends per share announced	\$0.19	\$0.17	\$0.38	\$0.34

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	March 27, 2011	March 28, 2010
Operating Activities:		
Net income	\$2,164	\$1,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	635	329
Goodwill impairment	114	—
Revenues related to non-monetary exchanges	(62	) (68
Income tax provision less than income tax payments	(1,334	) (6
Non-cash portion of share-based compensation expense	375	304
Incremental tax benefit from stock options exercised	(132	) (31
Net realized gains on marketable securities and other investments	(231	) (182
Net impairment losses on marketable securities and other investments	16	73
Other items, net	19	(4
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	23	35
Inventories	(81	) 52
Other assets	(19	) (70
Trade accounts payable	(145	) (81
Payroll, benefits and other liabilities	269	(239
Unearned revenues	205	305
Net cash provided by operating activities	1,816	2,032
Investing Activities:		
Capital expenditures	(181	) (196
Purchases of available-for-sale securities	(5,845	) (4,480
Proceeds from sale of available-for-sale securities	5,467	4,241
Cash received for partial settlement of investment receivables	18	33
Other investments and acquisitions, net of cash acquired	(89	) (28
Other items, net	5	3
Net cash used by investing activities	(625	) (427
Financing Activities:		
Borrowing under loans payable	1,260	—
Repayment of loans payable	(1,260) —
Proceeds from issuance of common stock	2,024	484
Proceeds from issuance of subsidiary shares to noncontrolling interests (Note 7)	62	—
Incremental tax benefit from stock options exercised	132	31
Repurchase and retirement of common stock	—	(1,715
Dividends paid	(625	) (563
Change in obligation under securities lending	30	—
Other items, net	(4	) (1
Net cash provided (used) by financing activities	1,619	(1,764
Effect of exchange rate changes on cash	10	(5
Net increase (decrease) in cash and cash equivalents	2,820	(164
Cash and cash equivalents at beginning of period	3,547	2,717
Cash and cash equivalents at end of period	\$6,367	\$2,553

See Accompanying Notes to Condensed Consolidated Financial Statements.

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QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

Financial Statement Preparation. The accompanying interim condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (collectively with its subsidiaries, the Company or QUALCOMM), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet at September 26, 2010 was derived from the audited financial statements at that date but may not include all disclosures required by accounting principles generally accepted in the United States. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month and six-month periods ended March 27, 2011 and March 28, 2010 included 13 weeks and 26 weeks, respectively.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of results of operations, financial position and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 26, 2010. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's condensed consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Earnings Per Common Share. Basic earnings per common share is computed by dividing net income attributable to QUALCOMM by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income attributable to QUALCOMM by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an award, if any, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the estimated tax benefits that would be recorded in paid-in capital, if any, when an award is settled are assumed to be used to repurchase shares in the current period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and six months ended March 27, 2011 were 34,955,000 and 30,231,000, respectively. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and six months ended March 28, 2010 were 16,227,000 and 17,935,000, respectively.

Employee stock options to purchase approximately 5,881,000 and 33,336,000 shares of common stock during the three months and six months ended March 27, 2011, respectively, and employee stock options to purchase approximately 151,396,000 and 136,623,000 shares of common stock during the three months and six months ended March 28, 2010, were outstanding but not included in the computation of diluted earnings per common share because the effect would be anti-dilutive. In addition, 78,000 and 60,000 shares of other common stock equivalents during the three months and six months ended March 27, 2011, respectively, and 3,900 and 184,000 shares of other common stock equivalents during the three months and six months ended March 28, 2010, respectively, were outstanding but not included in the computation of diluted earnings per common share because the effect would be anti-dilutive. Comprehensive Income. Total comprehensive income consisted of the following (in millions):

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended		Six Months Ended		
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010	
Net income	\$995	\$774	\$2,164	\$1,615	
Other comprehensive income:					
Foreign currency translation	8	(10) 13	(2)
Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain marketable debt securities, net of income taxes	(6	) 12	(10	) 20
Net unrealized gains on other marketable securities and derivative instruments, net of income taxes	90	162	221	331	
Reclassification of net realized gains on marketable securities and derivative instruments included in net income, net of income taxes	(49) (103) (125) (164)
Reclassification of other-than-temporary losses on marketable securities included in net income, net of income taxes	2	15	6	47	
Total other comprehensive income	45	76	105	232	
Total comprehensive income	1,040	850	2,269	1,847	
Comprehensive loss attributable to noncontrolling interests	4	—	4	—	
Comprehensive income attributable to QUALCOMM	\$1,044	\$850	\$2,273	\$1,847	

Components of accumulated other comprehensive income consisted of the following (in millions):

	March 27, 2011	September 26, 2010	
Noncredit other-than-temporary impairment losses and subsequent changes in fair value related to certain marketable debt securities, net of income taxes	\$46	\$62	
Net unrealized gains on marketable securities, net of income taxes	829	723	
Net unrealized losses on derivative instruments, net of income taxes	(6) (8)
Foreign currency translation	(67) (80)
	\$802	\$697	

At March 27, 2011, accumulated other comprehensive income included \$18 million of other-than-temporary losses on marketable debt securities related to factors other than credit, net of income taxes.

Share-Based Payments. Total share-based compensation expense was as follows (in millions):

	Three Months Ended		Six Months Ended		
	March 27, 2011	March 28, 2010	March 27, 2011	March 28, 2010	
Cost of equipment and services revenues	\$17	\$10	\$30	\$21	
Research and development	98	75	184	147	
Selling, general and administrative	87	69	159	137	
Share-based compensation expense before income taxes	202	154	373	305	
Related income tax benefit	(56) (56) (111) (93)
Share-based compensation expense, net of income taxes	\$146	\$98	\$262	\$212	

The Company recorded \$38 million in share-based compensation expense during both of the six months ended March 27, 2011 and March 28, 2010, related to share-based awards granted during those periods. In addition, for the six months ended March 27, 2011 and March 28, 2010, \$132 million and \$31 million, respectively, were reclassified to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities to reflect the incremental tax benefit from stock options exercised in those periods.

At March 27, 2011, total unrecognized compensation costs related to non-vested stock options and restricted stock units granted prior to that date were \$833 million and \$395 million, respectively, which are each expected to be recognized over a weighted-average period of 2.4 years. Net share-based awards, after forfeitures and cancellations, granted during the six months ended March 27, 2011 and March 28, 2010 represented 0.3% and 1.1%, respectively, of outstanding shares as of the

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QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

beginning of each fiscal period. Total share-based awards granted during the six months ended March 27, 2011 and March 28, 2010 represented 0.5% and 1.4%, respectively, of outstanding shares as of the end of each fiscal period.

Note 2 — Fair Value Measurements

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

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

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

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

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

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at March 27, 2011 (in millions):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	\$2,061	\$3,732	\$—	\$5,793
Marketable securities				
U.S. Treasury securities and government-related securities	205	347	—	552
Corporate bonds and notes	—	5,751	—	5,751
Mortgage- and asset-backed securities	—	624	6	630
Auction rate securities	—	—	125	125
Non-investment-grade debt securities	—	3,527	11	3,538
Common and preferred stock	1,189	736	—	1,925
Equity mutual and exchange-traded funds	1,003	—	—	1,003
Debt mutual funds	1,730	485	—	2,215
Total marketable securities	4,127	11,470	142	15,739
Derivative instruments	—	5	—	5
Other investments ⁽¹⁾	163	—	—	163
Total assets measured at fair value	\$6,351	\$15,207	\$142	\$21,700
Liabilities				
Derivative instruments	\$—	\$17	\$—	\$17
Other liabilities ⁽¹⁾	163	—	8	