QUALCOMM INC/DE
Form 10-Q
January 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 27, 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 January 25, 2016, was as follows:

Class	Number of Shares
Common Stock, $0.0001 per share par value	1,494,887,355

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
QUALCOMM Incorporated
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)
(Unaudited)

	December 27, 2015	September 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$6,913	$7,560
Marketable securities	9,615	9,761
Accounts receivable, net	1,323	1,964
Inventories	1,216	1,492
Deferred tax assets	607	635
Other current assets	664	687
Total current assets	20,338	22,099
Marketable securities	14,063	13,626
Deferred tax assets	1,616	1,453
Property, plant and equipment, net	2,484	2,534
Goodwill	5,669	5,479
Other intangible assets, net	4,068	3,742
Other assets	1,991	1,863
Total assets	$50,229	$50,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$1,359	$1,300
Payroll and other benefits related liabilities	895	861
Unearned revenues	639	583
Short-term debt	1,000	1,000
Other current liabilities	2,610	2,356
Total current liabilities	6,503	6,100
Unearned revenues	2,630	2,496
Long-term debt	9,950	9,969
Other liabilities	913	817
Total liabilities	19,996	19,382
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Qualcomm stockholders' equity:		
Preferred stock, $0.0001 par value; 8 shares authorized; none outstanding	—	—
Common stock and paid-in capital, $0.0001 par value; 6,000 shares authorized; 1,495 and 1,524 shares issued and outstanding, respectively	—	—
Retained earnings	30,172	31,226
Accumulated other comprehensive income	69	195
Total Qualcomm stockholders' equity	30,241	31,421
Noncontrolling interests	(8)	(7)

Total stockholders’ equity	30,233	31,414
Total liabilities and stockholders’ equity	$50,229	$50,796

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 27, 2015	December 28, 2014
Revenues:		
Equipment and services	$4,087	$5,216
Licensing	1,688	1,883
Total revenues	5,775	7,099
Costs and expenses:		
Cost of equipment and services revenues	2,534	3,047
Research and development	1,352	1,352
Selling, general and administrative	578	583
Other (Note 2)	(374)	53
Total costs and expenses	4,090	5,035
Operating income	1,685	2,064
Interest expense	(74)	(1)
Investment income, net (Note 2)	99	235
Income before income taxes	1,710	2,298
Income tax expense	(214)	(327)
Net income	1,496	1,971
Net loss attributable to noncontrolling interests	2	1
Net income attributable to Qualcomm	$1,498	$1,972
Basic earnings per share attributable to Qualcomm	$1.00	$1.19
Diluted earnings per share attributable to Qualcomm	$0.99	$1.17
Shares used in per share calculations:		
Basic	1,502	1,661
Diluted	1,517	1,686
Dividends per share announced	$0.48	$0.42

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	December 27, 2015	December 28, 2014
Net income	$1,496	$1,971
Other comprehensive income (loss), net of income taxes:		
Foreign currency translation losses	(14)	(21)
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	(27)	(9)
Reclassification of other-than-temporary losses on available-for-sale securities included in net income	47	41
Net unrealized losses on other available-for-sale securities	(109)	(104)
Reclassification of net realized gains on available-for-sale securities included in net income	(25)	(111)
Net unrealized gains (losses) on derivative instruments	1	(2)
Total other comprehensive loss	(126)	(206)
Total comprehensive income	1,370	1,765
Comprehensive loss attributable to noncontrolling interests	2	1
Comprehensive income attributable to Qualcomm	$1,372	$1,766

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December 27, 2015	December 28, 2014
Operating Activities:		
Net income	$1,496	$1,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	364	287
Indefinite and long-lived asset impairment charges	2	75
Income tax provision less than income tax payments	(103)	(7)
Realized gain on sale of wireless spectrum	(380)	—
Non-cash portion of share-based compensation expense	247	273
Incremental tax benefits from share-based compensation	(2)	(48)
Net realized gains on marketable securities and other investments	(49)	(166)
Impairment losses on marketable securities and other investments	63	65
Other items, net	(13)	(31)
Changes in assets and liabilities:		
Accounts receivable, net	646	173
Inventories	291	(303)
Other assets	66	(140)
Trade accounts payable	50	268
Payroll, benefits and other liabilities	98	20
Unearned revenues	(37)	(73)
Net cash provided by operating activities	2,739	2,364
Investing Activities:		
Capital expenditures	(128)	(253)
Purchases of available-for-sale securities	(3,737)	(5,966)
Proceeds from sales and maturities of available-for-sale securities	3,113	4,578
Purchases of trading securities	(149)	(302)
Proceeds from sales and maturities of trading securities	121	296
Proceeds from sales of other marketable securities	200	—
Acquisitions and other investments, net of cash acquired	(450)	(111)
Proceeds from sale of wireless spectrum	232	—
Other items, net	82	22
Net cash used by investing activities	(716)	(1,736)
Financing Activities:		
Proceeds from short-term debt	1,089	—
Repayment of short-term debt	(1,090)	—
Proceeds from issuance of common stock	99	116
Repurchases and retirements of common stock	(2,050)	(1,664)
Dividends paid	(717)	(697)
Incremental tax benefits from share-based compensation	2	48
Other items, net	2	(6)
Net cash used by financing activities	(2,665)	(2,203)
Effect of exchange rate changes on cash and cash equivalents	(5)	(7)
Net decrease in cash and cash equivalents	(647)	(1,582)
Cash and cash equivalents at beginning of period	7,560	7,907

Cash and cash equivalents at end of period	$6,913	$6,325

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 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 periods ended December 27, 2015 and December 28, 2014 included 13 weeks.

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

Earnings Per Common Share. Basic earnings per common share are computed by dividing net income attributable to Qualcomm by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed by dividing net income attributable to Qualcomm by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans and shares subject to written put options and/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 months ended December 27, 2015 and December 28, 2014 were 14,430,000 and 25,003,000, 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 1,172,000 and 1,470,000 during the three months ended December 27, 2015 and December 28, 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	
	December 27, 2015	December 28, 2014
Cost of equipment and services revenues	$10	$12
Research and development	165	174
Selling, general and administrative	72	87
Share-based compensation expense before income taxes	247	273
Related income tax benefit	(60)	(44)
	$187	$229

The Company recorded $31 million in share-based compensation expense during each of the three months ended December 27, 2015 and December 28, 2014 related to share-based awards granted during those periods. At

December 27, 2015, total unrecognized compensation expense related to non-vested restricted stock units granted prior to that date was $1.6 billion, which is expected to be recognized over a weighted-average period of 2.2 years. During the three months ended December 27, 2015 and December 28, 2014, net share-based awards granted, after forfeitures and cancellations, represented 0.7% and 0.4%, respectively, of outstanding shares as of the beginning of each fiscal period, and total share-based awards granted represented 0.9% and 0.4%, respectively, of outstanding shares as of the end of each fiscal period.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 new standard will be effective for the Company starting in the first quarter of fiscal 2019. The FASB will permit entities to adopt one year earlier if they choose (i.e., the original effective date). 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 does not intend to adopt the standard 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 November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The new accounting guidance is effective for annual reporting periods beginning after December 15, 2016 and interim periods therein. Early adoption is permitted as of the beginning of interim or annual reporting periods. The Company plans to adopt the standard prospectively in the second quarter of fiscal 2016.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities,” 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 will be recognized separately in other comprehensive income. Additionally, the ASU changes the disclosure requirements for financial instruments. The new standard 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.

Note 2. Composition of Certain Financial Statement Items

Accounts Receivable (in millions)

	December 27, 2015	September 27, 2015
Trade, net of allowances for doubtful accounts of $1 and $6, respectively	$1,302	$1,941
Long-term contracts	13	11
Other	8	12
	$1,323	$1,964

The decrease in accounts receivable was primarily due to the timing of integrated circuit shipments and the collection of payments from certain of the Company’s licensees.

Inventories (in millions)

	December 27, 2015	September 27, 2015
Raw materials	$1	$1
Work-in-process	458	550
Finished goods	757	941
	$1,216	$1,492

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Other Current Liabilities (in millions)

	December 27, 2015	September 27, 2015
Customer incentives and other customer-related liabilities	$2,188	$1,894
Other	422	462
	$2,610	$2,356

Other Income, Costs and Expenses. In October 2015, the Company sold its wireless spectrum in the United Kingdom 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. The Company recognized a gain on the sale of $380 million in the first quarter of fiscal 2016 in other income. Other income also included $54 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 (Note 9).

Other expenses in the three months ended December 28, 2014 were attributable to a $69 million goodwill impairment charge related to the Company's business that provides push-to-talk enablement services, which was partially offset by a $16 million gain on the sale of certain property, plant and equipment.

Investment Income, Net (in millions)

	Three Months Ended	
	December 27, 2015	December 28, 2014
Interest and dividend income	$136	$134
Net realized gains on marketable securities	43	156
Net realized gains on other investments	6	10
Impairment losses on marketable securities	(49)	(62)
Impairment losses on other investments	(14)	(3)
Net (losses) gains on derivative instruments	(3)	4
Equity in net losses of investees	(20)	(4)
	$99	$235

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 16% in fiscal 2016, compared to 14% in fiscal 2015. 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 United States federal research and development tax credit generated through December 31, 2014, the date on which the credit previously expired. Further, the China National Development and Reform Commission (NDRC) imposed a fine of $975 million on the Company in the second quarter of fiscal 2015, which was not deductible for tax purposes and was substantially attributable to a foreign jurisdiction. The effective tax rate of 13% for the first quarter of fiscal 2016 was less than the estimated annual effective tax rate of 17% primarily as a result of the retroactive reinstatement of the United States federal research and development tax credit.

Unrecognized tax benefits were $113 million and $40 million at December 27, 2015 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.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4. Stockholders' Equity

Changes in stockholders' equity for the three months ended December 27, 2015 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)	1,498	(2)	1,496
Other comprehensive loss	(126)	—	(126)
Common stock issued under employee benefit plans and related tax benefits	70	—	70
Share-based compensation	260	—	260
Tax withholdings related to vesting of share-based payments	(102)	—	(102)
Dividends	(730)	—	(730)
Stock repurchases	(2,050)	—	(2,050)
Issuance of subsidiary shares to noncontrolling interest	—	1	1
Balance at December 27, 2015	$30,241	$(8)	$30,233

Accumulated Other Comprehensive Income. Other comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, other than net income and including foreign currency translation adjustments and unrealized gains and losses on marketable securities and derivative instruments. Changes in the components of accumulated other comprehensive income, net of income taxes, in Qualcomm stockholders' equity during the three months ended December 27, 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	Net Unrealized Gain (Loss) on Derivative Instruments	Total Accumulated Other Comprehensive Income
Balance at September 27, 2015	$(160)	$ 4	$ 297	$54	$195
Other comprehensive income (loss) before reclassifications	(14)	(11)	(109)	1	(133)
Reclassifications from accumulated other comprehensive income (loss)	1	(3)	9	—	7
Other comprehensive income (loss)	(13)	(14)	(100)	1	(126)
Balance at December 27, 2015	$(173)	$ (10)	$ 197	$55	$69

Reclassifications from accumulated other comprehensive income related to available-for-sale securities of $6 million and $71 million for the three months ended December 27, 2015 and December 28, 2014, respectively, were recorded in investment income, net (Note 2).

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. During the three months ended December 27, 2015 and December 28, 2014, the Company repurchased and retired 36,606,000 and 22,940,000 shares of common stock, respectively, for $2.05 billion and $1.66 billion, respectively, before commissions. At December 27, 2015, $4.9 billion remained authorized for repurchase under the Company's stock repurchase program.

Dividends. Cash dividends announced in the three months ended December 27, 2015 and December 28, 2014 were $0.48 and $0.42 per share, respectively. During the three months ended December 27, 2015 and December 28, 2014, dividends charged to retained earnings were $730 million and $710 million, respectively. On January 12, 2016, the Company

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

announced a cash dividend of $0.48 per share on the Company's common stock, payable on March 23, 2016 to stockholders of record as of the close of business on March 2, 2016.

Note 5. 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 December 27, 2015 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 December 27, 2015 and September 27, 2015, the Company had $1.0 billion of outstanding commercial paper recorded as short-term debt with weighted-average interest rates of 0.25% and 0.19%, respectively, which included fees paid to the commercial paper dealers, and weighted-average remaining days to maturity of 30 days and 38 days, respectively. The carrying value of the outstanding commercial paper approximated its estimated fair value at December 27, 2015 and September 27, 2015.

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

	December 27, 2015		September 27, 2015	
	Amount	Effective Rate	Amount	Effective Rate
Floating-rate notes due May 18, 2018	$250	0.70%	$250	0.66%
Floating-rate notes due May 20, 2020	250	0.98%	250	0.94%
Fixed-rate 1.40% notes due May 18, 2018	1,250	0.71%	1,250	0.43%
Fixed-rate 2.25% notes due May 20, 2020	1,750	1.71%	1,750	1.62%
Fixed-rate 3.00% notes due May 20, 2022	2,000	2.14%	2,000	2.08%
Fixed-rate 3.45% notes due May 20, 2025	2,000	3.46%	2,000	3.46%
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	(62)		(63)	
Hedge accounting fair value adjustments	12		32	
Total long-term debt	$9,950		$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 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 December 27, 2015 and September 27, 2015, the aggregate fair value of the notes, based on Level 2 inputs, was approximately $9.6 billion.

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.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 $128 million during the three months ended December 27, 2015. No commercial paper or long-term debt was outstanding in the three months ended December 28, 2014.

Note 6. 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 $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. 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 ParkerVision's motions for injunctive relief and ongoing royalties 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 heard the appeal on May 8, 2015 and issued a decision on July 31, 2015. The decision affirmed the District Court's finding of non-infringement and granted in part the Company's cross-appeal, holding 10 of the 11 asserted claims invalid. A subsequent Petition for Rehearing by ParkerVision was denied on October 2, 2015. On December 16, 2015, ParkerVision was granted an extension of the deadline to file a petition requesting that the United States Supreme Court hear ParkerVision's appeal of the Federal Circuit decision. The petition is now due on January 29, 2016.

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 alleged that the Company infringes 11 additional patents and seeks damages and injunctive and other relief. On September 25, 2015, ParkerVision filed a motion with the court to sever some claims against the Company and all other defendants into a separate lawsuit. In addition, on December 3, 2015, ParkerVision dismissed six patents from the lawsuit and granted the Company and all other defendants a covenant not to assert those patents against any existing products. The close of discovery is scheduled for April 2016, and the trial is scheduled for November 2016. A claim construction ruling and a ruling on ParkerVision's severance motion are still pending.

On December 14, 2015, ParkerVision filed a third complaint against the Company in the United States District Court for the Middle District of Florida alleging patent infringement. Apple Inc., Samsung Electronics Co., LTD., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, Samsung Semiconductor, Inc., LG Electronics, Inc., LG Electronics U.S.A., Inc. and LG Electronics MobileComm U.S.A., Inc. are also named defendants. The complaint asserts four additional patents and seeks damages and other relief. On December 15, 2015, ParkerVision filed a complaint with the United States International Trade Commission (ITC) pursuant to Section 337 of the Tariff Act of 1930 against the same parties asserting the same four patents. The complaint seeks an exclusion order barring the importation of products that use either of two Company transceivers or one Samsung transceiver and a cease and desist order preventing the Company and the other defendants from carrying out commercial activities within the United States related to such products. On January 13, 2016, the Company served its answer to the District

Court complaint. On January 15, 2016, the ITC instituted an investigation. The ITC has not yet determined a target date for concluding its investigation.

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 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 chipset 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

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related to such products. In the District Court 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. Nvidia later narrowed the case to three asserted patents. On October 9, 2015, the Administrative Law Judge issued an Initial Determination finding no violation of Section 337 because none of the three patents were both valid and infringed. On October 22, 2015, the Administrative Law Judge issued a recommendation that, if the ITC were to find any violation of Section 337 in the investigation, the ITC should issue a limited exclusion order directed at Samsung's accused products and a cease and desist order against Samsung but not the Company. On October 26, 2015, Nvidia filed a petition requesting the ITC to review the Initial Determination as to two of the asserted patents, but is no longer pursuing infringement allegations with respect to the third patent. On December 14, 2015, the ITC issued its decision not to review the Initial Determination of the Administrative Law Judge. This made final the determination that the Company did not violate Section 337. Therefore, neither an exclusion order nor a cease and desist order were issued. Nvidia has until February 12, 2016 to file a notice of appeal of the ITC's determination. The District Court case was stayed on October 23, 2014 pending completion of the ITC investigation, including appeals.

LG Electronics, Inc. (LGE) Arbitration: In December 2015, LGE filed an arbitration demand with the International Chamber of Commerce alleging that it overpaid royalties on certain CDMA (including WCDMA) subscriber units based on the alleged effect of specific provisions in its license agreement, and that the Company breached its license agreement with LGE, as well as certain implied covenants. The arbitration demand seeks determination and return of the overpayment and determination of the ongoing royalties owed by LGE. The Company intends to respond to the arbitration demand, denying the allegations and requesting judgment in its favor on all claims. Although the Company believes LGE's claims are without merit, it has deferred the recognition of revenue related to CDMA subscriber unit royalties reported and paid by LGE in the first quarter of fiscal 2016 because, among other reasons, the matter has been submitted to arbitration for resolution.

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 31 different dates, with the next hearing scheduled for February 25, 2016.

Korea Fair Trade Commission (KFTC) Complaint: On January 4, 2010, the KFTC issued a written decision finding that the Company had violated Korean law by offering certain discounts and rebates for purchases of its CDMA chipsets 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 2016 with respect to this matter.

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). On November 13, 2015, the Company received a case Examiner's Report (ER) prepared by the KFTC's investigative staff. The ER alleges, among other things, that the Company is in violation of Korean competition law by licensing its patents exhaustively only to device manufacturers and requiring that its chipset customers be licensed to the Company's intellectual property. The ER also alleges that the Company obtains certain terms, including royalty terms, that are unfair or unreasonable in its license agreements through negotiations that do not conform to Korean competition law. The ER proposes remedies including modifications to certain business practices and monetary penalties. It remains difficult to predict the outcome of this matter. The Company believes that its business practices do not violate the MRFTA. The Company continues to cooperate with the KFTC as it conducts its investigation.

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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. On July 16, 2015, the Commission announced that it had initiated formal proceedings in this matter. On December 8, 2015, the Commission announced that it had issued a Statement of Objections expressing its preliminary view that between 2009 and 2011, the Company engaged in predatory pricing by selling certain baseband chipsets to two customers at prices below cost, with the intention of hindering competition. A Statement of Objections informs the subject of the investigation of the allegations against it and provides an opportunity to respond to such allegations. It is not a determination of the final outcome of the investigation. 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. It is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the Commission. The Company believes that its business practices do not violate the EU competition rules.

European Commission (Commission) Investigation: On October 15, 2014, the Commission notified the Company that it is conducting an investigation of the Company relating to Articles 101 and/or 102 of the Treaty on the Functioning of the European Union (TFEU). On July 16, 2015, the Commission announced that it had initiated formal proceedings in this matter. On December 8, 2015, the Commission announced that it had issued a Statement of Objections expressing its preliminary view that since 2011 the Company has paid significant amounts to a customer on condition that it exclusively use the Company's baseband chipsets in its smartphones and tablets. This conduct has allegedly reduced the customer's incentives to source chipsets from the Company's competitors and harmed competition and innovation for certain baseband chipsets. A Statement of Objections informs the subject of the investigation of the allegations against it and provides an opportunity to respond to such allegations. It is not a determination of the final outcome of the investigation. 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. It is difficult to predict the outcome of this matter or what remedies, if any, may be imposed by the Commission. The Company believes that its business practices do not violate the EU competition rules.

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

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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.

On November 19, 2015, the DOJ notified the Company that it was terminating its investigation and would not pursue charges in this matter. The DOJ's decision is independent of the SEC's investigation, with which we continue to cooperate.

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 (FTCA). 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 believes that its business practices do not violate the FTCA. The Company continues to cooperate with the FTC as it conducts its investigation.

Taiwan Fair Trade Commission (TFTC) Investigation: On December 4, 2015, the TFTC notified the Company that it is conducting an investigation into whether the Company's patent licensing arrangements violate the Taiwan Fair Trade Act (TFTA). If a violation is found, a broad range of remedies is potentially available to the TFTC, 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 TFTC. The Company believes that its business practices do not violate the TFTA. The Company continues to cooperate with the TFTC as it conducts its investigation.

The Company will continue to vigorously defend itself in the foregoing matters. However, litigation and investigations are inherently uncertain. Accordingly, the Company cannot predict the outcome of these matters. Other than a nominal amount, the Company has not recorded any accrual at December 27, 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 December 27, 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.

Reimbursements under indemnification arrangements have not been material to the Company's consolidated financial statements. The Company has not recorded any accrual for contingent liabilities at December 27, 2015 associated with these indemnification arrangements, other than nominal 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 December 27, 2015 for the remainder of fiscal 2016 and for each of the subsequent four years from fiscal 2017 through 2020 were $3.2 billion, $891 million, $739 million, $718 million and $196 million, respectively, and $14 million thereafter. Of these amounts, for the remainder of fiscal 2016 and for each of the subsequent four years from fiscal 2017 through 2020, commitments to purchase integrated circuit product

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inventories comprised $2.6 billion, $742 million, $698 million, $699 million and $177 million, respectively, and there were no purchase commitments thereafter. Integrated circuit product inventory obligations represent purchase commitments for semiconductor 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, cancellation of outstanding purchase commitments is generally allowed but requires payment of costs incurred through the date of cancellation, and in some cases, incremental fees related to capacity underutilization.

Operating Leases. The Company leases certain of its land, facilities and equipment under noncancellable operating leases, with terms ranging from less than one year to 21 years and with provisions in certain leases for cost-of-living increases. Future minimum lease payments at December 27, 2015 for the remainder of fiscal 2016 and for each of the subsequent four years from fiscal 2017 through 2020 were $75 million, $78 million, $45 million, $30 million and $20 million, respectively, and $27 million thereafter.

Other Commitments. At December 27, 2015, the Company was committed to fund certain strategic investments up to $431 million. Of this amount, $197 million is expected to be funded in the remainder of fiscal 2016. The remaining commitments represent the maximum amounts that do not have fixed funding dates and/or are subject to certain conditions. Actual funding may be in lesser amounts or not at all.

Note 7. 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 and includes revenues and related costs associated with development contracts with an equity method investee. The Company also has nonreportable segments, including its small cells, data center 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 interest expense; 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 amortization and impairment of certain intangible assets, recognition of the step-up of inventories to fair value and certain other acquisition-related charges, 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.

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, other investments and all assets of consolidated subsidiaries included in QSI. The increase in QSI assets was primarily a result of a receivable that was recorded in connection with the sale of wireless spectrum during the first quarter of fiscal 2016 (Note 2). 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, intangible assets and assets of nonreportable segments.

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The table below presents revenues, EBT and total assets for reportable segments (in millions):

	QCT	QTL	QSI	Reconciling Items	Total
For the three months ended					
December 27, 2015					
Revenues	$4,096	$1,607	$9	$63	$5,775
EBT	590	1,339	359	(578)	1,710
December 28, 2014					
Revenues	$5,242	$1,816	$—	$41	$7,099
EBT	1,146	1,579	(1)	(426)	2,298
Total assets					
December 27, 2015	2,132	346	924	46,827	50,229
September 27, 2015	2,923	438	812	46,623	50,796

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

	Three Months Ended	
	December 27, 2015	December 28, 2014
Revenues		
Nonreportable segments	$64	$43
Intersegment eliminations	(1)	(2)
	$63	$41
EBT		
Unallocated cost of equipment and services revenues	$(150)	$(79)
Unallocated research and development expenses	(216)	(210)
Unallocated selling, general and administrative expenses	(127)	(150)
Unallocated other expense, net	(6)	(69)
Unallocated interest expense	(70)	—
Unallocated investment income, net	114	231
Nonreportable segments	(124)	(148)
Intersegment eliminations	1	(1)
	$(578)	$(426)

Unallocated other expense for the three months ended December 27, 2015 was comprised of net restructuring and restructuring-related charges related to the Company's Strategic Realignment Plan (Note 9). Unallocated other expense for the three months ended December 28, 2014 was comprised of a goodwill impairment charge related to the Company's business that provides push-to-talk enablement services to wireless operators (Note 2).

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

	Three Months Ended	
	December 27, 2015	December 28, 2014
Cost of equipment and services revenues	$140	$67
Research and development expenses	3	4
Selling, general and administrative expenses	29	12

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Note 8. Acquisitions

During the three months ended December 27, 2015, the Company acquired three businesses for total cash consideration of $407 million, net of cash acquired. Technology-based intangible assets recognized in the amount of $248 million are being amortized on a straight-line basis over a weighted-average useful life of five years. The Company recognized $172 million in goodwill related to these transactions, all of which was assigned to the Company’s QCT segment and of which $23 million is expected to be deductible for tax purposes.

Note 9. Strategic Realignment Plan

On July 22, 2015, the Company announced a Strategic Realignment Plan designed to improve execution, enhance financial performance and drive profitable growth as the Company works to create sustainable long-term value for stockholders. As part of this, among other actions, the Company is implementing a cost reduction plan, which includes a series of targeted reductions across the Company’s businesses, particularly in QCT, and a reduction to its annual share-based compensation grants. The Company expects these cost reduction initiatives to be substantially implemented by the end of fiscal 2016. During the three months ended December 27, 2015, the Company recorded restructuring charges of $51 million, including consulting costs of $25 million and severance costs of $23 million, restructuring-related charges of $3 million and a $48 million gain on the sale of the Company’s business that provided augmented reality applications, since such sale was executed in connection with the Strategic Realignment Plan, and all of which were included in other income (Note 2) in reconciling items (Note 7). Restructuring activities were initiated in the fourth quarter of fiscal 2015, and a total of $196 million in net restructuring and restructuring-related charges were incurred through the first quarter of fiscal 2016. In connection with this plan, the Company expects to incur additional restructuring and restructuring-related charges of approximately $100 million to $200 million, which primarily consist of severance and consulting costs. The remaining costs are expected to be incurred in fiscal 2016 and fiscal 2017, and the majority are expected to be settled in cash.

The restructuring accrual, a portion of which is included in payroll and other benefits related liabilities with the remainder included in other current liabilities, is expected to be substantially paid within the next 12 months. Changes in the restructuring accrual during the three months ended December 27, 2015 were as follows (in millions):

	Severance Costs	Other Costs	Total
Beginning balance of restructuring accrual	$122	$31	$153
Additional costs	27	28	55
Cash payments	(15)	(44)	(59)
Adjustments	(4)	—	(4)
Ending balance of restructuring accrual	$130	$15	$145

Note 10. 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 December 27, 2015 (in millions):

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	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$2,364	$3,847	$—	$6,211
Marketable securities				
U.S. Treasury securities and government-related securities	89	914	—	1,003
Corporate bonds and notes	—	15,810	—	15,810
Mortgage- and asset-backed and auction rate securities	—	1,743	174	1,917
Equity and preferred securities and equity funds	1,119	376	—	1,495
Debt funds	—	3,453	—	3,453
Total marketable securities	1,208	22,296	174	23,678
Derivative instruments	—	18	—	18
Other investments	306	—	—	306
Total assets measured at fair value	$3,878	$26,161	$174	$30,213
Liabilities				
Derivative instruments	$—	$6	$—	$6
Other liabilities	306	—	—	306
Total liabilities measured at fair value	$306	$6	$—	$312

Activity between Levels of the Fair Value Hierarchy. There were no significant transfers between Level 1 and Level 2 during the three months ended December 27, 2015 and December 28, 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 mortgage- and asset-backed and auction rate securities classified within Level 3 of the valuation hierarchy (in millions):

	Three Months Ended	
	December 27, 2015	December 28, 2014
Beginning balance of Level 3	$224	$269
Total realized and unrealized gains or losses:		
Included in other comprehensive income (loss)	(1)	—
Purchases	—	29
Sales	(1)	(24)
Settlements	(36)	(44)
Transfers out of Level 3	(12)	—
Ending balance of Level 3	$174	$230

The Company recognizes transfers into and out of levels within the fair value hierarchy at the end of the fiscal month in which the actual event or change in circumstances that caused the transfer occurs. Transfers out of Level 3 during the three months ended December 27, 2015 primarily consisted of debt securities with significant upgrades in credit ratings or for which there were observable inputs. There were no transfers into or out of Level 3 during the three months ended December 28, 2014.

Nonrecurring Fair Value Measurements. The Company measures certain assets at fair value on a nonrecurring basis. These assets include cost and equity method investments when they are deemed to be other-than-temporarily impaired, assets acquired and liabilities assumed in an acquisition or in a nonmonetary exchange, and property, plant and equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the three months ended December 28, 2014, the Company updated the business plans and related internal forecasts related to one of the Company’s businesses, resulting in an impairment charge to write down goodwill (Note 2). The Company determined the fair value using an income approach. The estimation of fair value and cash flows used in the fair value measurement required the use of significant unobservable inputs, and as a result, the fair value measurement was classified as Level 3. During the

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three months ended December 27, 2015 and December 28, 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 11. Marketable Securities

Marketable securities were comprised as follows (in millions):

	Current		Noncurrent	
	December 27, 2015	September 27, 2015	December 27, 2015	September 27, 2015
Trading:				
U.S. Treasury securities and government-related securities	$—	$—	$61	$12
Corporate bonds and notes	—	—	300	364
Mortgage- and asset-backed and auction rate securities	—	—	279	242
Total trading	—	—	640	618
Available-for-sale:				
U.S. Treasury securities and government-related securities	160	156	782	691
Corporate bonds and notes	7,942	7,926	7,568	7,112
Mortgage- and asset-backed and auction rate securities	1,339	1,302	299	263
Equity and preferred securities and equity funds	174	377	1,321	1,253
Debt funds	—	—	2,870	2,909
Total available-for-sale	9,615	9,761	12,840	12,228
Fair value option:				
Debt fund	—	—	583	780
Total marketable securities	$9,615	$9,761	$14,063	$13,626

The Company holds an investment in a debt fund for which the Company elected the fair value option because the Company is able to redeem its shares at net asset value, which is determined daily. The investment would have otherwise been recorded using the equity method. The debt fund has no single maturity date. At December 27, 2015, the Company had an effective ownership interest in the debt fund of 22%. Changes in fair value associated with this investment are recognized in net investment income. During the three months ended December 27, 2015 and December 28, 2014, the changes in fair value associated with this investment were negligible.

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 losses recognized on debt securities classified as trading held at December 27, 2015 and December 28, 2014 were negligible and $12 million during the three months ended December 27, 2015 and December 28, 2014, respectively.

At December 27, 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
$3,142	$10,947	$1,721	$643	$4,507	$20,960

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

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(Unaudited)

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			
December 27, 2015	$50	$(12)	$38
December 28, 2014	180	(8)	172

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

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 27, 2015				
Equity securities	$1,266	$251	$(22)	$1,495
Debt securities (including debt funds)	21,234	132	(406)	20,960
	$22,500	$383	$(428)	$22,455
September 27, 2015				
Equity securities	$1,394	$264	$(28)	$1,630
Debt securities (including debt funds)	20,459	185	(285)	20,359
	$21,853	$449	$(313)	$21,989

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):

	December 27, 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	$808	$(12)	$20	$(2)
Corporate bonds and notes	10,466	(132)	956	(108)
Mortgage- and asset-backed and auction rate securities	1,220	(7)	164	(1)
Equity and preferred securities and equity funds	360	(22)	2	—
Debt funds	1,923	(138)	79	(6)
	$14,777	$(311)	$1,221	$(117)

	September 27, 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	$304	$(4)	$—	$—
Corporate bonds and notes	7,656	(93)	368	(62)
Mortgage- and asset-backed and auction rate securities	862	(3)	108	(1)
Equity and preferred securities and equity funds	392	(28)	17	—
Debt funds	1,792	(117)	124	(5)
	$11,006	$(245)	$617	$(68)

At December 27, 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.

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The ending balance of the credit loss portion of other-than-temporary impairments on debt securities held by the Company was $22 million and negligible at December 27, 2015 and December 28, 2014, respectively.

Note 12. Subsequent Event

In January 2016, the Company announced that it had reached agreement with TDK Corporation to form a joint venture, under the name RF360 Holdings Singapore Pte. Ltd., to enable delivery of radio frequency front-end (RFFE) modules and RF filters into fully integrated products for mobile devices and Internet of Things (IoT) applications, among others. The joint venture will initially be owned 51% by the Company and 49% by TDK. Certain intellectual property, patents and filter and module design and manufacturing assets will be carved out of existing TDK businesses and be acquired by the joint venture, with certain assets acquired by the Company. The purchase price of the Company’s interest in the joint venture and the assets to be transferred to the Company is $1.2 billion, to be adjusted for working capital, outstanding indebtedness and certain capital expenditures, among other things. Additionally, the Company has the option to acquire (and TDK has an option to sell) TDK’s interest in the joint venture for $1.15 billion 30 months after the closing date. TDK will be entitled to up to a total of $200 million in payments based on sales of RF filter functions over the three-year period after the closing date, which is a substitute for and in lieu of any right of TDK to receive any profit sharing, distributions, dividends or other payments of any kind or nature. The transaction is subject to receipt of regulatory approvals and other closing conditions and is expected to close by early 2017.

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 27, 2015 contained in our 2015 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 first quarter of fiscal 2016 were $5.8 billion, a decrease of 19% compared to the year ago quarter, with net income attributable to Qualcomm of $1.5 billion, a decrease of 24% compared to the year ago quarter.

- We shipped approximately 242 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, a decrease of 10%, compared to approximately 270 million MSM integrated circuits in the year ago quarter. The decline in MSM shipments contributed in part to a 22% decrease in QCT's revenues as compared to the year ago quarter as QCT continued to be negatively impacted by the effects of a shift in share among our customers within the premium tier, a decline in share at a large customer and the competitive environment in China.
- Total reported device sales were approximately $60.6 billion, an increase of approximately 7%, compared to approximately $56.4 billion in the year ago quarter.(1) However, despite the increase in total reported device sales, QTL's revenues decreased by 12% compared to the year ago quarter primarily attributable to the deferral of revenue due to an arbitration with LG Electronics, Inc., the effect of underreported royalties by licensees and a decrease in revenues per reported unit.
- We recorded a gain of $380 million in other income upon the completion of the sale of our wireless spectrum in the United Kingdom.

Against this backdrop, the following recent developments occurred during the first quarter of fiscal 2016 with respect to key elements of our industry:

- Worldwide cellular connections grew sequentially by approximately 1% to reach approximately 7.3 billion.(2)
- Worldwide 3G/4G connections (CDMA-based, OFDMA-based and CDMA/OFDMA multimode) grew sequentially by approximately 4% to approximately 3.5 billion, which was approximately 48% 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 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 January 25, 2016 for the quarter ended December 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 are sold and its system software is 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, infrastructure equipment, headsets, sound systems and automobiles 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 71% and 74% of total consolidated revenues in the first quarter of fiscal 2016 and 2015, respectively.

QCT utilizes a fabless production 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 in singular or wafer form 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 and/or LTE standards and their derivatives. QTL licensing revenues include license fees and royalties based on sales by licensees of products incorporating or using our intellectual property. License fees are fixed amounts paid in one or more installments. Royalties are generally based upon a percentage of the wholesale (i.e., licensee's) selling price of complete licensed products, net of certain permissible deductions (including transportation, insurance, packing costs and other items). QTL recognizes royalty revenues based on royalties reported by licensees 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 28% and 26% of total consolidated revenues in the first quarter of fiscal 2016 and 2015, 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, 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 held wireless spectrum, which was sold in October 2015 for a gain of approximately $380 million. In addition, QSI segment results include revenues and related costs associated with development contracts with one of our equity method investees. 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 small cells, data center 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. These trends may or may not continue in the future.

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:

- 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 beyond mobile applications (e.g., machine-to-machine).
- We expect that the increased availability of low-tier 3G/4G smartphone products will help enable further expansion of 3G and 3G/4G multimode in emerging regions, particularly in China.
- In February 2015, we reached a resolution with the China National Development and Reform Commission (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 starting 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 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), and certain companies, including unlicensed companies, are delaying execution of new license agreements. While we have reached agreements with many licensees, negotiations with certain other licensees and unlicensed companies are ongoing. We believe that the conclusion of new agreements with these licensees will result in improved reporting by these licensees, including with respect to sales of three-mode devices (i.e., devices that implement GSM, TD-SCDMA and LTE-TDD) sold in China. However, litigation and/or other actions may be necessary to compel licensees to report and pay the required royalties for sales they have not previously reported and to compel unlicensed companies to execute new licenses.
- Regulatory authorities in other countries continue to investigate our business practices as well, particularly with respect to our licensing business. In addition, LG Electronics, Inc. has commenced an arbitration over certain terms of its license agreement.
- Our business, particularly our semiconductor business, QCT, continues to be impacted by current industry dynamics, including: concentration of device share among companies within the premium tier, which will continue to negatively

impact sales of our integrated Snapdragon processors and skew our product mix towards lower-margin modem chipsets in this tier; and intense competition, particularly in China.

We continue to invest significant resources toward advancements in 3G, 3G/4G multimode and 4G LTE technologies, OFDM-based WLAN 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 in targeted opportunities that utilize our existing technical and business expertise to deploy new business models and enter into new industry segments, such as products for the connected home and the Internet of Things; automotive; networking; mobile computing; small cells and addressing the challenge of meeting the increased demand for data; very high speed connectivity; data centers; mobile health; wireless charging; and machine learning, including robotics.
- 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.
- In the fourth quarter of fiscal 2015, we announced a Strategic Realignment Plan designed to improve execution, enhance financial performance and drive profitable growth as we work to create sustainable long-term value for stockholders. As part of this Strategic Realignment Plan, among other actions, we are implementing a cost reduction plan and plan to reduce our annual costs from fiscal 2015 levels (adjusted for variable compensation) of $7.3 billion (as announced on July 22, 2015) by approximately $1.1 billion through a series of targeted reductions across Qualcomm’s businesses, particularly in QCT. We are also planning to reduce annual share-based compensation grants by approximately $300 million. We expect these cost reduction initiatives to be substantially implemented by the end of fiscal 2016. Restructuring activities were initiated in the fourth quarter of fiscal 2015, and a total of $196 million in net restructuring and restructuring-related charges were incurred through the first quarter of fiscal 2016. We expect to incur additional restructuring and restructuring-related charges of approximately $100 million to $200 million.
- In January 2016, we announced that we had reached an agreement with TDK Corporation to form a joint venture, under the name RF360 Holdings Singapore Pte. Ltd., to enable delivery of radio frequency front-end (RFFE) modules and RF filters into fully integrated products for mobile devices and Internet of Things (IoT) applications, among others. The joint venture will initially be owned 51% by us and 49% by TDK. Certain intellectual property, patents and filter and module design and manufacturing assets will be carved out of existing TDK businesses and be acquired by the joint venture, with certain assets acquired by us. The purchase price of our interest in the joint venture and the assets to be transferred to us is $1.2 billion, to be adjusted for working capital, outstanding indebtedness and certain capital expenditures, among other things. Additionally, we have the option to acquire (and TDK has an option to sell) TDK’s interest in the joint venture for $1.15 billion 30 months after the closing date. TDK will be entitled to up to a total of $200 million in payments based on sales of RF filter functions over the three-year period after the closing date, which is a substitute for and in lieu of any right of TDK to receive any profit sharing, distributions, dividends or other payments of any kind or nature. The transaction is subject to receipt of regulatory approvals and other closing conditions and is expected to close by early 2017.

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		
	December 27, 2015	December 28, 2014	Change
Equipment and services	$4,087	$5,216	$(1,129)
Licensing	1,688	1,883	(195)

	$5,775	$7,099	$(1,324)

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The decrease in equipment and services revenues was primarily due to a decrease in QCT revenues of $1.16 billion. The decrease in licensing revenues was primarily due to a decrease in QTL revenues of $209 million.

Costs and Expenses (in millions)

	Three Months Ended		
	December 27, 2015	December 28, 2014	Change
Cost of equipment and services (E&S) revenues	$2,534	$3,047	$(513)
Cost as % of E&S revenues	62 %	58 %	

The decrease in margin percentage was driven primarily by the effect of $74 million in additional charges related to the recognition of the step-up of inventories to fair value and amortization of intangible assets during the first quarter of fiscal 2016, primarily related to the acquisition of CSR plc in the fourth quarter of fiscal 2015, and a decrease 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		
	December 27, 2015	December 28, 2014	Change
Research and development	$1,352	$1,352	$—
% of revenues	23 %	19 %	
Selling, general, and administrative	$578	$583	$(5)
% of revenues	10 %	8 %	
Other	$(374)	$53	$(427)

Research and development expenses remained flat in the first quarter of fiscal 2016. Research and development expenses included an increase of $26 million in costs related to the development of CDMA-based 3G, OFDMA-based 4G LTE and other technologies for integrated circuit and related software products, particularly data center products, and to expand our intellectual property portfolio, which was partially offset by a decrease of $16 million related to the development costs of display technologies.

The dollar decrease in selling, general and administrative expenses was primarily attributable to decreases of $15 million in employee-related expenses and $15 million in share-based compensation expenses, partially offset by an increase of $17 million in selling and marketing expenses.

Other income in the first quarter of fiscal 2016 was primarily attributable to a $380 million gain on the sale of wireless spectrum. Other income in the first quarter of fiscal 2016 also included $54 million in restructuring and restructuring-related charges, partially offset by a $48 million gain on the sale of our business that provided augmented reality applications, both of which related to our Strategic Realignment Plan.

Other expenses in the first quarter of fiscal 2015 were comprised of a $69 million goodwill impairment charge related to our business that provides push-to-talk enablement services, partially offset by a $16 million gain on the sale of certain property, plant and equipment.

Interest Expense and Net Investment Income (in millions)

	Three Months Ended		
	December 27, 2015	December 28, 2014	Change
Interest expense	$74	$1	$73
Investment income, net			
Interest and dividend income	$136	$134	$2
Net realized gains on marketable securities	43	156	(113)
Net realized gains on other investments	6	10	(4)
Impairment losses on marketable securities and other investments	(63)	(65)	2
Equity in net losses of investees	(20)	(4)	(16)
Net (losses) gains on derivative instruments	(3)	4	(7)
	$99	$235	$(136)

The increase in interest expense was primarily due to the issuance of an aggregate principal amount of $10.0 billion in floating- and fixed-rate notes in May 2015. The decrease in net realized gains on marketable securities was primarily due to the decreased impact of portfolio rebalancing in the first quarter of fiscal 2016.

Income Tax Expense (in millions)

	Three Months Ended		
	December 27, 2015	December 28, 2014	Change
Income tax expense	$214	$327	$(113)
Effective tax rate	13 %	14 %	(1 %)

The following table summarizes the primary factors that caused our effective tax rates for the first quarter of fiscal 2016 and 2015 to be less than the United States federal statutory rate:

	Three Months Ended	
	December 27, 2015	December 28, 2014
Expected income tax provision at federal statutory tax rate	35 %	35 %
Benefits from foreign income taxed at other than U.S. rates	(17 %)	(16 %)
Benefits related to the research and development tax credit	(6 %)	(5 %)
Other	1 %	—
Effective tax rate	13 %	14 %

The effective tax rate of 13% for the first quarter of fiscal 2016 was less than the estimated annual effective tax rate of 17% primarily as a result of the retroactive reinstatement of the United States federal research and development tax credit, which was permanently reinstated during the first quarter of fiscal 2016 retroactively to January 1, 2015. As a result of the reinstatement, we recorded a tax benefit of $79 million in the first quarter of fiscal 2016 related to fiscal 2015. The annual effective tax rate of 19% for fiscal 2015 reflected the United States federal research and development tax credit generated through December 31, 2014, the date on which the credit previously expired.

Unrecognized tax benefits were $113 million and $40 million at December 27, 2015 and September 27, 2015, respectively. Certain of our existing tax positions are expected to continue to generate an increase in unrecognized tax benefits through fiscal 2016.

Segment Results

The following should be read in conjunction with the first quarter financial results of fiscal 2016 for each reportable segment included in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 7. Segment Information.”

(in millions)	QCT	QTL	QSI
Three Months Ended December 27, 2015			
Revenues	$4,096	$1,607	$9
EBT (1)	590	1,339	359
EBT as a % of revenues	14 %	83 %	
Three Months Ended December 28, 2014			
Revenues	$5,242	$1,816	$—
EBT (1)	1,146	1,579	(1)
EBT as a % of revenues	22 %	87 %	

(1) Earnings (loss) before taxes.

QCT Segment. QCT results of operations in the first quarter of fiscal 2016 continued to be negatively impacted by the effects of a shift in share among our customers within the premium tier, which reduced our sales of integrated Snapdragon processors and skewed our product mix towards lower-margin modem chipsets in this tier, a decline in share at a large customer and the competitive environment in China. The decrease in QCT revenues of $1.15 billion was primarily due to a decrease in equipment and services revenues. Equipment and services revenues, mostly related to sales of MSM and accompanying Radio Frequency (RF) and Power Management (PM) integrated circuits, were $4.02 billion and $5.19 billion in the first quarter of fiscal 2016 and 2015, respectively. The decrease in equipment and services revenues resulted primarily from decreases of $848 million from lower average selling prices and lower-priced product mix and $453 million related to lower MSM and accompanying RF and PM unit shipments, partially offset by a $152 million net increase in revenues related to other products (primarily resulting from the acquisition of CSR in the fourth quarter of fiscal 2015). Approximately 242 million and 270 million MSM integrated circuits were sold during the first quarter of fiscal 2016 and 2015, respectively.

QCT EBT as a percentage of revenues decreased primarily due to the impact of lower revenues relative to operating expenses and a decrease in gross margin percentage. The decrease in QCT gross margin percentage primarily resulted from lower average selling prices and lower-margin product mix, partially offset by lower average unit costs and lower excess inventory charges.

QTL Segment. The decrease in QTL revenues of $209 million was primarily attributable to the deferral of revenue due to an arbitration with LG Electronics, Inc., the effect of underreported royalties by licensees and a decrease in revenues per reported unit, partially offset by an increase in sales of CDMA-based products, including multimode products that also implement OFDMA, reported by licensees. QTL revenues and EBT for the first quarter of fiscal 2016 were impacted negatively by units that we believe are not being reported by certain licensees and sales of certain unlicensed products. While we have reached agreements with many licensees, negotiations with certain other licensees and unlicensed companies are ongoing, and litigation may become necessary if negotiations fail to resolve the relevant issues.

QSI Segment. The increase in QSI EBT was primarily due to a $380 million gain on the sale of wireless spectrum in the first quarter of fiscal 2016, partially offset by increases of $16 million in equity in losses of investees and $10 million in impairment losses on investments. The sale of the wireless spectrum included $275 million in deferred payments due in 2020 to 2023, which were recorded at their present values in other assets.

Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations, cash provided by our debt programs and proceeds from the issuance of common stock under our stock option and employee stock purchase plans. The following tables present selected financial information related to our liquidity as of December 27, 2015 and September 27, 2015 and for the first quarter of fiscal 2016 and 2015 (in millions):

	December 27, 2015	September 27, 2015	$ Change	% Change
Cash, cash equivalents and marketable securities	$30,591	$30,947	$(356)	(1%)
Accounts receivable, net	1,323	1,964	(641)	(33%)
Inventories	1,216	1,492	(276)	(18%)

Short-term debt	1,000	1,000	—	—	%
Long-term debt	9,950	9,969	(19	) —	%

	Three Months Ended			
	December 27, 2015	December 28, 2014	$ Change	% Change
Net cash provided by operating activities	$2,739	$2,364	$375	16 %
Net cash used by investing activities	(716)	(1,736)	1,020	(59 %)
Net cash used by financing activities	(2,665)	(2,203)	(462)	21 %

The net decrease in cash, cash equivalents and marketable securities was primarily the result of $2.05 billion in payments to repurchase shares of our common stock, partially offset by net cash provided by operating activities. Total cash provided by operating activities increased primarily due to changes in working capital related to accounts receivable and inventories, partially offset by a reduction in net income of $475 million. Our days sales outstanding, on a consolidated basis, decreased to 21 days at December 27, 2015 compared to 33 days at September 27, 2015. The decreases in accounts receivable and the related days sales outstanding were primarily due to the timing of integrated circuit shipments and the collection of payments from certain of our licensees. The decrease in inventories was primarily due to a decrease in QCT work-in-process and finished goods related to lower units on hand to align with near-term demand and recognition of the step-up in the fair value of the acquired inventories from the CSR acquisition.

We classify certain of our marketable securities as short-term based on their nature and our plan to make them available, if needed, for use in our current operations. While we do not anticipate using our non-current marketable securities in operations in the foreseeable future, the securities could be liquidated within a short period of time if required. Our cash, cash equivalents and marketable securities at December 27, 2015 consisted of $2.7 billion held by United States-based entities and $27.9 billion held by foreign entities. Most of our cash, cash equivalents and marketable securities held by foreign entities are indefinitely reinvested and would be subject to material tax effects if repatriated. However, we believe that our United States sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate funds held by foreign entities.

We believe our current cash, cash equivalents and marketable securities, our expected cash flow generated from operations and our expected financing activities will satisfy our working and other capital requirements for at least the next 12 months based on our current business plans. Recent and expected working and other capital requirements also include the items described below.

- We expect the majority of the charges incurred in connection with our Strategic Realignment Plan will result in cash payment. Our restructuring accrual was $145 million at December 27, 2015, and we expect to incur additional restructuring and restructuring-related charges of approximately $100 million to $200 million.
- Our purchase obligations at December 27, 2015, some of which relate to research and development activities and capital expenditures, totaled $3.2 billion and $891 million for fiscal 2016 and 2017, respectively, and $1.7 billion thereafter.
- Our research and development expenditures were $1.4 billion during the first quarter of fiscal 2016 and $5.5 billion in fiscal 2015, and we expect to continue to invest heavily in research and development for new technologies, applications and services for voice and data communications, primarily in the wireless industry.
- Cash outflows for capital expenditures were $128 million during the first quarter of fiscal 2016 and $994 million during fiscal 2015. We expect to continue to incur capital expenditures in the future to support our business, including research and development activities. Future capital expenditures may be impacted by transactions that are currently not forecasted.
- In January 2016, we announced that we had reached agreement with TDK Corporation to form a joint venture, under the name RF360 Holdings Singapore Pte. Ltd. The joint venture will initially be owned 51% by us and 49% by TDK. The purchase price due upon close of the transaction is $1.2 billion, to be adjusted for working capital, outstanding indebtedness and certain capital expenditures, among other things. Additionally, we have the option to acquire (and TDK has an option to sell) TDK's interest in the joint venture for $1.15 billion 30 months after the closing date. We expect to use existing cash resources to fund the acquisition. TDK will be entitled to up to a total of $200 million in payments based on sales of RF filter functions over the three-year period after the closing date. The transaction is subject to regulatory approvals and other closing conditions and is expected to close by early 2017.
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We expect to continue making strategic investments and acquisitions, the amounts of which could vary significantly, to open new opportunities for our technologies, obtain development resources, grow our patent portfolio or pursue new businesses.

Debt. We have 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. At December 27, 2015, no amounts were outstanding under the Revolving Credit Facility.

We have 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. At December 27, 2015, we had $1.0 billion of commercial paper outstanding with weighted-average net interest rates of 0.25% and weighted-average remaining days to maturity of 30 days.

We have issued unsecured floating- and fixed-rate notes in an aggregate principal amount of $10.0 billion, with maturity dates in 2018 through 2045 and effective interest rates between 0.70% and 4.74%. Interest is payable in arrears quarterly for the floating-rate notes and semi-annually for the fixed-rate notes. We may issue additional debt in the future. The amount and timing of additional borrowings will be subject to a number of factors, including the cash flow generated by United States-based entities, acquisitions and strategic investments, acceptable interest rates and changes in corporate income tax law, among other factors.

Additional information regarding our outstanding debt at December 27, 2015 is provided in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 5. Debt."

Capital Return Program. During the first quarter of fiscal 2016, we repurchased and retired 36,606,000 shares of our common stock for $2.05 billion, before commissions. We intend to return a minimum of 75% of our free cash flow to stockholders through stock repurchases and dividends over the foreseeable future, where free cash flow is defined as net cash provided by operating activities less capital expenditures. On March 9, 2015, we announced that we had been authorized to repurchase up to $15 billion of our common stock. Additionally, we announced our intention to repurchase $10 billion of stock from March 2015 through March 2016, which we completed during the first quarter of fiscal 2016. At December 27, 2015, $4.9 billion remained authorized for repurchase under our stock repurchase program. To meet our goal, we expect to use existing cash and marketable securities held by, and cash flow generated from, United States-based entities and borrowings. We periodically evaluate repurchases as a means of returning capital to stockholders to determine when and if repurchases are in the best interests of our stockholders.

We paid cash dividends totaling $717 million, or $0.48 per share, on December 18, 2015. On January 12, 2016, we announced a cash dividend of $0.48 per share on our common stock, payable on March 23, 2016 to stockholders of record as of the close of business on March 2, 2016. We intend to continue to use cash dividends as a means of returning capital to stockholders, subject to capital availability and our view that cash dividends are in the best interests of our stockholders.

Contractual Obligations/Off-Balance Sheet Arrangements

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

Additional information regarding our financial commitments at December 27, 2015 is provided in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 3. Income Taxes," "Note 5. Debt" and "Note 6. Commitments and Contingencies."

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 new standard will be effective for us starting in the first quarter of fiscal 2019. The FASB will permit entities to adopt one year earlier if they choose. 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. We do not intend to adopt the standard early and are in the process of determining the adoption method as well as the effects the adoption will have on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The new accounting guidance is effective for annual reporting periods beginning after December 15, 2016 and interim periods therein. Early adoption is permitted as of the beginning of interim or annual reporting periods. We plan to adopt the standard prospectively in the second quarter of fiscal 2016.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," 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 will be recognized separately in other comprehensive income. Additionally, the ASU changes the disclosure requirements for financial instruments. The new standard will be effective for us starting in the first quarter of fiscal 2019. Early adoption is permitted for certain provisions. We are in the process of determining the effects the adoption will have on our consolidated financial statements as well as whether to adopt certain provisions early.

Risk Factors

You should consider each of the following factors as well as the other information in this Quarterly Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of these risks occur, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015, including our financial statements and the related notes.

Risks Related to Our Businesses

Our revenues depend on commercial network deployments, expansions and upgrades of CDMA, OFDMA and other communications technologies, our customers' and licensees' sales of products and services based on these technologies and our ability to drive our customers' demand for our products and services.

We develop, patent and commercialize technology and products based on CDMA, OFDMA and other communications technologies, which are primarily wireless. We depend on our customers, our licensees and operators of wireless networks to use these technologies in their adoption of our products and services into their devices and networks and on the timing of their deployments of new products and services. We also depend on our customers and licensees to develop products and services with value-added features to drive consumer demand for new 3G, 3G/4G multimode and 4G devices, as well as the selling prices for such devices. Further, our rate of revenue growth depends on third parties incorporating our technology, products and/or services into new device types used in industries beyond traditional cellular communications, such as automotive, connected home and wearable uses. Our revenues and/or growth in revenues could be negatively impacted, our business may be harmed and our substantial investments in these technologies may not provide us an adequate return, if:

- wireless operators and industries beyond traditional cellular communications deploy alternative technologies;
- wireless operators delay 3G and 3G/4G multimode network deployments, expansions or upgrades and/or delay moving 2G customers to 3G, 3G/4G multimode or 4G wireless devices;
- LTE, an OFDMA-based 4G wireless technology, is not more widely deployed or further commercial deployment is delayed;
- government regulators delay making sufficient spectrum available for 3G and/or 3G/4G networks, thereby restricting the expansion of 3G/4G wireless connectivity to keep pace with consumer demand;
- wireless operators are unable to drive improvements in 3G or 3G/4G multimode network performance and/or capacity;
- our customers' and licensees' revenues and sales of products, particularly premium-tier products, and services using these technologies do not grow or do not grow as quickly as anticipated due to, for example, the maturity of smartphone penetration in developed regions (where premium-tier products are common) or a reduction in the rate of device replacements by consumers; and/or
- we are unable to drive the adoption of our products and services into networks and devices based on CDMA, OFDMA and other communications technologies.

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

Our products, services and technologies face significant competition, and the revenues we generate and/or the timing of such revenues, which depend on deployments and/or actions by others, may not meet expectations. We expect competition to increase as our current competitors expand their product offerings or reduce the prices of their products as part of a strategy to attract new business and/or customers, and as new opportunities develop, any of which would put continued pressure on the pricing of our products and services. Competition in wireless communications is affected by various factors that include, among others: device manufacturer concentrations; growth in emerging geographic regions; government intervention; evolving industry standards and business models; evolving methods of transmission of voice and data communications; increasing data traffic and densification of wireless networks; convergence and aggregation of connectivity technologies (including Wi-Fi and LTE) in both devices and access points; consolidation of wireless technologies and infrastructure at the network edge; networking and connectivity trends (including cloud services); the evolving nature of computing (including demand for always on, always connected capabilities); the speed of technological change (including the transition to smaller geometry process technologies); value-added features that drive selling prices as well as consumer demand for new 3G, 3G/4G multimode and 4G devices; turnkey, integrated products that incorporate hardware, software, user interface, applications and reference designs; rapid growth in mobile data consumption; scalability; and the ability of the system technology to meet customers' immediate and future network requirements. We anticipate that additional competitors will introduce products as a result of growth opportunities in wireless communications, the trend toward global expansion by foreign and domestic competitors, technological and public policy changes and relatively low barriers to entry in certain segments of the industry. Additionally, the semiconductor industry has experienced and may continue to experience consolidation, which could result in significant changes to the competitive landscape.

We expect that our future success will depend on, among other factors, our ability to:

- differentiate our integrated circuit products with innovative technologies across multiple products and features (e.g., modem, radio frequency front end, central, graphics and/or other processors, camera and connectivity) and with smaller geometry process technologies that drive performance;
- develop and offer integrated circuit products at competitive cost and price points to effectively cover both emerging and developed geographic regions and all device tiers;
- continue to drive the adoption of our integrated circuit products into the most popular device models and across a broad spectrum of devices, such as smartphones, tablets, automobiles, wearable and other connected devices and infrastructure products;
- maintain and/or accelerate demand for our integrated circuit products at the premium device tier, while increasing the adoption of our products in mid- and low-tier devices and in the turnkey product channel, in part by strengthening our integrated circuit product roadmap for, and developing channel relationships in, emerging geographic regions, such as China and India, and by providing turnkey products, which incorporate our integrated circuits, for low- and mid-tier smartphones and tablets;
- continue to be a leader in 4G technology evolution, including expansion of our LTE-based single mode licensing program, and continue to innovate and introduce 4G turnkey, integrated products and services that differentiate us from our competition;
- be a leader serving original equipment manufacturers, high level operating systems (HLOS) providers, operators and other industry participants as competitors, new industry entrants and other factors continue to affect the industry landscape;
- be a preferred partner (and sustain preferred relationships) providing integrated circuit products that support multiple operating system and infrastructure platforms to industry participants that effectively commercialize new devices using these platforms;
- increase and/or accelerate demand for our wired and wireless connectivity products, including networking products for consumers, carriers and enterprise equipment and connected devices;
- identify potential acquisition targets that will grow or sustain our business or address strategic needs, reach agreement on terms acceptable to us and effectively integrate these new businesses and/or technologies;
- create stand-alone value and/or contribute to the success of our existing businesses through acquisitions and other transactions (and/or by developing customer, licensee and/or vendor relationships) in new industry segments and/or disruptive technologies, products and/or services (such as products for the connected home and the Internet of Things,

automotive, networking, mobile computing, mobile health, machine learning, including robotics, and wireless charging, among others);

- become a leading supplier of radio frequency front end products, which are designed to address cellular radio frequency band fragmentation while improving radio frequency performance and assist original equipment manufacturers in developing multiband, multimode mobile devices; and/or
- continue to develop brand recognition to effectively compete against better known companies in mobile computing and other consumer driven segments and to deepen our presence in significant emerging geographic regions.

Competition in any or all product tiers, customer concentration and/or growth in sales of mid- and low-tier products, particularly relative to premium-tier products, may reduce average selling prices for our chipset products and/or the products of our customers and licensees. Certain of these dynamics are particularly pronounced in emerging geographic regions (e.g., China). Reductions in the average selling prices of our chipset products, without a corresponding increase in volumes, would negatively impact our revenues, and without corresponding decreases in average unit costs, would negatively impact our margins. In addition, reductions in the average selling prices of our licensees' products, unless offset by an increase in volumes, would generally decrease total royalties payable to us, negatively impacting our licensing revenues.

Companies that promote standards that are neither CDMA- nor OFDMA-based (e.g., GSM) as well as companies that design integrated circuits based on CDMA, OFDMA, Wi-Fi or their derivatives are generally competitors or potential competitors. Examples (some of which are strategic partners of ours in other areas) include Airoha Technology Corp., Avago Technologies Ltd., Broadcom, Ericsson, HiSilicon Technologies, Intel, Leadcore Technology Co., Ltd., Marvell Technology, Maxim Integrated Products, MediaTek, Microchip Technology Inc., Nvidia, Qorvo Inc., Realtek Semiconductor, Samsung Electronics, Skyworks Solutions Inc. and Spreadtrum Communications (which is controlled by Tsinghua Unigroup). Some of these current and potential competitors may have advantages over us that include, among others: lower cost structures; motivation by our customers in certain circumstances to utilize their own internally-developed integrated circuit products or to find alternate suppliers or choose alternative technologies; foreign government support of other technologies or competitors; better known brand names; ownership and control of manufacturing facilities and greater expertise in manufacturing processes; more extensive relationships with local distribution companies and original equipment manufacturers in emerging geographic regions (such as China); and/or a more established presence in certain regions.

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

We derive a significant portion of our consolidated revenues from a small number of customers and licensees. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuates, our operating results could be negatively affected.

Our QCT segment derives a significant portion of revenues from a small number of customers, and we expect this trend to continue in the foreseeable future. Our industry is experiencing and may continue to experience an increasing concentration of device share among a few companies, particularly at the premium tier, contributing to this trend. In addition, certain of our largest integrated circuit customers develop their own integrated circuit products, which they have in the past chosen, and may in the future choose, to utilize in their devices rather than our integrated circuit products (and/or sell their integrated circuit products to third parties in competition with us). The loss of any one of our significant customers, a reduction in the purchases of our products by such customers (due to the use of their own integrated circuit products or otherwise) or cancellation of significant purchases from any of these customers would reduce our revenues and could harm our ability to achieve or sustain expected operating results, and a delay of significant purchases, even if only temporary, would reduce our revenues in the period of the delay. Further, concentration of device share among a few companies, and the corresponding purchasing power of these companies, may result in lower prices for our products which, if not accompanied by a sufficient increase in the volume of purchases of our products, could have an adverse effect on our revenues and margins. In addition, the timing and size of purchases by our significant customers may be impacted by the timing of such customers' new or next generation product introductions, over which we have little or no control, and the timing of such introductions may cause our operating results to fluctuate. Accordingly, if current industry dynamics and concentrations continue, our QCT segment's revenues will continue to depend largely upon, and be impacted by, future purchases and the timing and size of any such future purchases by these significant customers.

In addition, one of our largest customers purchases our Mobile Data Modem (MDM) products, which do not include our integrated application processor technology. To the extent such customer takes device share from our other customers who purchase our integrated modem and application processor products, which have higher revenue and margin contribution than our MDM products, our revenues and margins may be negatively impacted.

Further, companies that develop HLOS for devices, including leading technology companies, now sell their own devices. If we fail to effectively partner or continue partnering with these companies, or with their partners or customers, they may decide not to purchase (either directly or through their contract manufacturers), or to reduce or discontinue their purchases of, our integrated circuit products.

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

Although we have more than 295 CDMA-based licensees, our QTL segment derives a significant portion of licensing revenues from a limited number of licensees. In the event that one or more of our significant licensees fail to meet their reporting and/or payment requirements or we are unable to renew or modify one or more of such license agreements, our revenues, operating results and cash flows would be adversely impacted. Moreover, the future growth and success of our core licensing business will depend in part on the ability of our licensees to develop, introduce and deliver high-volume products that achieve and sustain customer acceptance. We have little or no control over the product development, sales efforts or pricing of products by our licensees, and our licensees might not be successful. Reductions in the average selling prices of wireless devices sold by our major licensees, without a sufficient increase in the volumes of such devices sold, would generally have an adverse effect on our licensing revenues.

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

From time to time, companies initiate various strategies to attempt to renegotiate, mitigate and/or eliminate their need to pay royalties to us for the use of our intellectual property. These strategies have included: (i) litigation, often alleging infringement of patents held by such companies, patent misuse, patent exhaustion, patent invalidity and/or unenforceability of our patents and/or licenses, or some form of unfair competition; (ii) taking positions contrary to our understanding of their contracts with us; (iii) appeals to governmental authorities; (iv) collective action, including working with wireless operators, standards bodies, other like-minded companies and other organizations, on both formal and informal bases, to adopt intellectual property policies and practices that could have the effect of limiting returns on intellectual property innovations; (v) lobbying governmental regulators and elected officials for the purpose of seeking the imposition of some form of compulsory licensing and/or to weaken a patent holder's ability to enforce its rights or obtain a fair return for such rights; and (vi) licensees using various strategies to attempt to shift their royalty obligation to their suppliers that results in lowering the wholesale (i.e., licensee's) selling price on which the royalty is calculated. In addition, certain licensees have disputed or underreported royalties owed to us under their license agreements with us or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or delayed entering into license agreements with us for their use of our intellectual property, and such licensees and/or companies may continue to do so in the future. Further, to the extent such licensees and/or companies increase their device share, the negative impact of their underreporting and/or non-reporting on our business and operating results will be exacerbated.

We are currently subject to various litigation and governmental investigations and/or proceedings, some of which may arise out of the strategies described above. Certain legal matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. Depending on the type of matter, various remedies that could result from an unfavorable resolution include, among others, injunctions, monetary damages or fines or other orders to pay money and the issuance of orders to cease certain conduct and/or modify our business practices.

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

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

Some SDOs, courts and governmental agencies have adopted and may in the future adopt some or all of these interpretations or proposals in a manner adverse to our interests, including in litigation to which we may not be a party.

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

The enforcement and protection of our intellectual property rights may be expensive, could fail to prevent misappropriation or unauthorized use of our proprietary intellectual property rights, could result in the loss of our ability to enforce one or more patents, or could be adversely affected by changes in patent laws, by laws in certain foreign jurisdictions that may not effectively protect our intellectual property rights or by ineffective enforcement of laws in such jurisdictions.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements, international treaties and other methods, to protect our proprietary information, technologies and processes, including our patent portfolio. Policing unauthorized use of our products, technologies and proprietary information is difficult and time consuming. We cannot be certain that the steps we have taken, or may take in the future, have prevented or will prevent the misappropriation or unauthorized use of our proprietary information and technologies, particularly in foreign countries where the laws may not protect our proprietary intellectual property rights as fully or as readily as United States laws or where the enforcement of such laws may be lacking or ineffective.

Some industry participants who have a vested interest in devaluing patents in general, or standard-essential patents in particular, have mounted attacks on certain patent systems, increasing the likelihood of changes to established patent laws. In the United States, there is continued discussion regarding potential patent law changes. The laws in certain foreign countries in which our products are or may be manufactured or sold, including certain countries in Asia, may not protect our intellectual property rights to the same extent as the laws in the United States. We expect that the European Union will adopt a unitary patent system in the next few years that may broadly impact that region's patent regime. We cannot predict with certainty the long-term effects of any potential changes. In addition, we cannot be certain that the laws and policies of any country or the practices of any standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing or the adoption of standards, will not be changed in the future in a way detrimental to our licensing program or to the sale or use of our products or technology.

We have had and may in the future have difficulty in certain circumstances in protecting or enforcing our intellectual property rights and/or contracts, including collecting royalties for use of our patent portfolio in particular foreign jurisdictions due to, among others: policies of foreign governments; challenges to our licensing practices under such jurisdictions' competition laws; adoption of mandatory licensing provisions by foreign jurisdictions (either with controlled/regulated

royalties or royalty free); failure of foreign courts to recognize and enforce judgments of contract breach and damages issued by courts in the United States; and/or challenges pending before foreign competition agencies to the pricing and integration of additional features and functionality into our chipset products. Certain licensees have disputed or underreported royalties owed to us under their license agreements with us or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or delayed entering into license agreements for their use of our intellectual property, and such licensees and/or companies may continue to do so in the future. Additionally, although our license agreements provide us with the right to audit the books and records of licensees, audits can be expensive, time consuming, incomplete and subject to dispute. Further, certain licensees may not comply with the obligation to provide full access to their books and records. To the extent we do not aggressively enforce our rights under our license agreements, licensees may not comply with their existing license agreements, and to the extent we do not aggressively pursue unlicensed companies to enter into license agreements with us for their use of our intellectual property, other unlicensed companies may not enter into license agreements.
We may need to litigate to enforce our contract and/or intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. As a result of any such litigation, we could lose our ability to enforce one or more patents, portions of our license agreements could be determined to be invalid or unenforceable (which may in turn result in other licensees either not complying with their existing license agreements and/or initiating litigation) and/or we could incur substantial unexpected operating costs. Any action we take to enforce our contract or intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our operating results. Further, even a positive resolution to our enforcement efforts may take time to conclude, which may reduce our revenues in the period prior to conclusion.
The continued and future success of our licensing programs can be impacted by the deployment of other technologies in place of technologies based on CDMA, OFDMA and their derivatives; the need to extend certain existing license agreements that are expiring and/or to cover additional later patents; and/or the success of our licensing programs for 4G single mode products and emerging industry segments.
Although we own a very strong portfolio of issued and pending patents related to GSM, GPRS, EDGE, OFDM, OFDMA, WLAN, MIMO and other technologies, our patent portfolio licensing program in these areas is less established and might not be as successful in generating licensing revenues as our CDMA licensing program has been. Many wireless operators are investigating, have selected or have deployed OFDMA-based LTE as their next-generation 4G technology in existing (or future if not yet deployed) wireless spectrum bands as complementary to their existing CDMA-based networks. While 3G/4G multimode products are generally covered by our existing 3G licensing agreements, products that implement 4G but do not also implement 3G are generally not covered by these agreements. Although we believe that our patented technology is essential and useful to implementation of the LTE industry standards and have granted royalty-bearing licenses to more than 170 companies (including Alcatel-Lucent, Huawei, LG, Microsoft, Samsung, Sony Mobile and ZTE) that have realized that they need a license to our patents to make and sell products implementing 4G standards but not implementing 3G standards, it may be difficult to agree on material terms and/or conditions of new license agreements that are acceptable to us with companies that are currently unlicensed, particularly in China. Further, the royalty rates for single mode 4G products are generally lower than our royalty rates for 3G and 3G/4G multimode products have been, and therefore, we might not achieve the same licensing revenues on such LTE products as on 3G and 3G/4G multimode products. In addition, new connectivity and other services are emerging that rely on devices that may or may not be used on traditional cellular networks, such as devices used in the connected home or the Internet of Things. We also seek to diversify and broaden our technology licensing programs to new industry segments in which we can utilize our technology leadership, such as wireless charging and other technologies. Standards, even de facto standards, that develop as these technologies mature, in particular those that do not include a base level of interoperability, may impact our ability to obtain royalties that are equivalent to those that we receive for 3G and 3G/4G multimode products used in cellular communications. Although we believe that our patented technology is essential and useful to the commercialization of such services, the royalties we receive may be lower than those we receive from our current licensing program.
Over the long-term, we need to continue to evolve our patent portfolio. If we do not maintain a strong portfolio that is applicable to current and/or future products and/or services, our future licensing revenues could be negatively impacted.

The licenses granted to and from us under a number of our license agreements include only patents that are either filed or issued prior to a certain date and, in a small number of agreements, royalties are payable on those patents for a specified time period. As a result, there are agreements with some licensees where later patents are not licensed by or to us and/or royalties are not owed to us under such license agreements after the specified time period. Additionally, certain license agreements are effective for a specified term. In order to license or to obtain a license to such later patents or after the expiration of a specified term, or to receive royalties after the specified time period, we will need to extend or modify such license agreements or enter into new license agreements with such licensees. We might not be able to modify those license agreements, or enter into new license agreements, in the future without affecting the material terms and conditions of our license agreements with such licensees, and such modifications or new agreements may negatively impact our revenues. If there is a delay in renewing a license agreement prior to its expiration, there would be a delay in our ability to recognize revenues related to that licensee's product sales. Further, if we are unable to reach agreement on such modifications or new agreements, it could result in patent infringement litigation with such companies.

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

Our business, products and services, and those of our customers and licensees, are subject to various laws and regulations globally, as well as government policies and the specifications of international, national and regional communications standards bodies. The adoption of new laws, regulations or policies, changes in the interpretation of existing laws, regulations or policies, changes in the regulation of our activities by a government or standards body and/or adverse rulings in court, regulatory, administrative or other proceedings relating to such laws, regulations or policies, including, among others, those affecting licensing practices, competitive business practices, the use of our technology or products, protection of intellectual property, trade, foreign investments or loans, spectrum availability and license issuance, adoption of standards, the provision of device subsidies by wireless operators to their customers, taxation, privacy and data protection, environmental protection or employment, could have an adverse effect on our business.

We are currently subject to various governmental investigations and/or proceedings, and certain matters are described more fully in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition and/or cash flows. Depending on the type of matter, various remedies that could result from an unfavorable resolution include, among others, injunctions, monetary damages or fines or other orders to pay money, and the issuance of orders to cease certain conduct and/or modify our business practices.

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

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

Regulations in the United States require that we determine whether certain materials used in our products, referred to as conflict minerals, originated in the Democratic Republic of the Congo (DRC) or an adjoining country, or were from recycled or scrap sources. The verification and reporting requirements, in addition to customer demands for conflict free sourcing, impose additional costs on us and on our suppliers and may limit the sources or increase the prices of materials used in our products. Further, if we are unable to determine that our products are "DRC conflict free," we may face challenges with our customers that place us at a competitive disadvantage, and our reputation may be harmed.

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

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

Our industry is subject to rapid technological change, evolving industry standards and frequent new product introductions, and we must make substantial research, development and other investments, such as acquisitions, in new products, services and technologies to compete successfully. Technological innovations generally require significant research and development efforts before they are commercially viable. Our future growth significantly depends on third parties incorporating our technology, products and/or services into new device types used in industries beyond traditional cellular communications, such as automotive, connected home and wearable uses. Accordingly, we intend to continue to make substantial investments in developing new products, services and technologies that we believe can create stand-alone value and/or contribute to the success of our existing businesses. However, it is possible that these initiatives will not be successful and/or will not result in meaningful revenues or generate operating income that meets expectations. As a result, we may develop products that fail to meet our customers' needs and/or develop products that may become obsolete and be replaced by competitors' products offering more compelling features, technologies or costs.

While we continue to focus our development efforts primarily in support of 3G CDMA- and 4G OFDMA-based technologies, we innovate across a broad spectrum of opportunities to deploy new business models and enter into new industry segments by leveraging our existing technical and business expertise and/or through acquisitions. Our recent investment initiatives relate to, among others, products for the connected home and the Internet of Things; automotive; networking; mobile computing; small cells and addressing the challenge of meeting the increased demand for data; very high speed connectivity; data centers; mobile health; wireless charging; and machine learning, including robotics.

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

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

Our QCT segment utilizes a fabless production model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. 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 in singular or wafer form from semiconductor manufacturing foundries and contract with separate third-party suppliers for manufacturing services such as wafer bump, probe, assembly and final test. The third-party semiconductor manufacturing foundries that supply products to our QCT segment are primarily located in Asia. The following could have an adverse effect on our ability to meet customer demands and/or negatively impact our revenues, business operations, profitability and/or cash flows:

- a reduction, interruption, delay or limitation in our product supply sources;
- a failure by our suppliers to procure raw materials or to provide or allocate adequate manufacturing or test capacity for our products;
- our suppliers' inability to react to shifts in product demand or an increase in raw material or component prices;
- the loss of a supplier or the inability of a supplier to meet performance or quality specifications or delivery schedules; and/or
- additional expense and/or production delays as a result of qualifying a new supplier and commencing volume production or testing in the event of a loss of or a decision to add or change a supplier.

While we have established alternate suppliers for certain technologies, we rely on sole- or limited-source suppliers for certain products, subjecting us to significant risks, including: possible shortages of raw materials or manufacturing capacity; poor product performance; and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs. To the extent we have established alternate suppliers, these suppliers may require significant levels of support to bring complex technologies to production. As a result, we may invest a significant amount of effort and resources and incur higher costs to support and maintain such alternate suppliers. Further, any future consolidation of foundry suppliers could increase our vulnerability to sole- or limited-source arrangements and reduce our suppliers' willingness to negotiate pricing, which could negatively impact our ability to achieve cost reductions and/or increase our manufacturing costs. Our arrangements with our suppliers may obligate us to incur costs to manufacture and test our products that do not decrease at the same rate as decreases in pricing to our customers. Our ability, and that of our suppliers, to develop or maintain leading process technologies, including transitions to smaller geometry process technologies, and to effectively compete with the manufacturing processes and performance of our competitors, could impact our ability to introduce new products and meet customer demand, could increase our costs (possibly decreasing our margins) and could subject us to the risk of excess inventories. Our inability to meet customer demand due to sole- or limited-sourcing and/or the additional costs that we incur because of these or other supply constraints or because of the need to support alternate suppliers could negatively impact our business, our revenues and our results of operations.

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

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

Additionally, we place orders with our suppliers using our forecasts of customer demand, which are based on a number of assumptions and estimates, and are generally only partially covered by commitments from our customers. If we overestimate customer demand, we may experience increased excess and/or obsolete inventory, which would negatively impact our operating results.

Claims by other companies that we infringe their intellectual property could adversely affect our business.

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

We expect that we may continue to be involved in litigation and may have to appear in front of administrative bodies (such as the United States International Trade Commission) to defend against patent assertions against our products by companies, some of whom are attempting to gain competitive advantage or leverage in licensing negotiations. We may not be successful in such proceedings, and if we are not, the range of possible outcomes is very broad and may include, for example, monetary damages, royalty payments and/or an injunction on the sale of certain of our integrated circuit products (and on the sale of our customers' devices using such products). A negative outcome in any such proceeding could severely disrupt the business of our chipset customers and their wireless operator customers, which in turn could harm our relationships with them and could result in a decline in our worldwide chipset sales and/or a reduction in our licensees' sales to wireless operators, causing corresponding declines in our chipset and/or licensing revenues.

A number of other companies have claimed to own patents applicable to products implementing various CDMA-based standards, TDMA-based standards such as GSM and OFDMA-based standards. In addition, existing standards continue to evolve, and new standards, including those applicable to new industry segments, continue to be developed. If future standards diminish, or fail to include, a base level of interoperability, our business may be harmed, and our investments in these new segments may not succeed.

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

We engage in acquisitions and strategic transactions and make strategic investments, which are important to our business strategy, with the goal of maximizing stockholder value. We acquire businesses and other assets, including patents, technology, wireless spectrum and other intangible assets, enter into joint ventures or other strategic transactions and purchase minority equity interests in or make loans to companies that may be private and early-stage. Our strategic activities are generally focused on opening new or expanding opportunities for our technologies and supporting the design and introduction of new products and services (or enhancing existing products or services) for voice and data communications. Many of our strategic activities entail a high degree of risk and require the use of domestic and/or foreign capital, and investments may not become liquid for several years after the date of the investment, if at all. Our strategic activities may not generate financial returns or result in increased adoption or continued use of our technologies, products or services. In some cases, we may be required to consolidate or record our share of the earnings or losses of companies in which we have acquired ownership interests. In addition, we may record impairment charges related to our strategic activities. Any losses or impairment charges that we incur related to strategic activities will have a negative impact on our financial results, and we may continue to incur new or additional losses related to strategic assets or investments that we have not fully impaired or exited. In part due to our inexperience with technologies and/or products of and/or geographic regions served by our strategic activities, we may underestimate the costs and/or overestimate the benefits, including product and other synergies and growth opportunities that we expect to realize, and we may not achieve them. If we do not achieve the anticipated benefits of business acquisitions or other strategic activities, our results of operations may be adversely affected, and we may not enhance stockholder value by engaging in these transactions.

Achieving the anticipated benefits of business acquisitions, including joint ventures and other strategic investments in which we have management and operational control, depends in part upon our ability to integrate the businesses in an efficient and effective manner. Such integration involves significant challenges, including, among others: retaining key employees; successfully integrating new employees, business systems, technology and products; retaining customers and suppliers of the businesses; consolidating research and development and/or supply operations; minimizing the diversion of management’s attention from ongoing business matters; and consolidating corporate and administrative infrastructures. We may not derive any commercial value from associated technologies or products or from future technologies or products based on these technologies, and we may be subject to liabilities that are not covered by indemnification protection that we may obtain, or we may become subject to litigation. Additionally, we may not be successful in expanding into geographic regions and/or categories of products served by or adjacent to the associated businesses or in addressing potential new opportunities that may arise out of the combination.

If we are unsuccessful in executing our Strategic Realignment Plan, our business and results of operations may be adversely affected.

In the fourth quarter of 2015, we announced a Strategic Realignment Plan designed to improve execution, enhance financial performance and drive profitable growth as we work to create sustainable long-term value for stockholders. As part of this Strategic Realignment Plan, among other actions, we are implementing a cost reduction plan, which includes a series of targeted reductions across our businesses, particularly in our semiconductor business, QCT, and a reduction to our annual share-based compensation grants in fiscal 2016. We expect these cost reduction initiatives to be substantially implemented by the end of fiscal 2016. Additional information regarding our Strategic Realignment Plan is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 9. Strategic Realignment Plan.”

We cannot provide assurance that our Strategic Realignment Plan will be successful, that anticipated cost savings will be realized, that our operations, business and financial results will improve and/or that these efforts will not disrupt our operations (beyond what is intended). Our ability to achieve the anticipated cost savings and other benefits within the expected time frames is subject to many estimates and assumptions, which are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. Further, we may experience delays in the timing of these efforts and/or higher than expected or unanticipated costs in implementing them. Moreover, changes in the size, alignment or organization of our workforce could adversely affect employee morale and retention, relations with customers and business partners, our ability to develop and deliver products and services as anticipated and/or impair our ability to realize our current or future business and financial objectives. If we do not succeed in these efforts, if these efforts are more costly or time-consuming than expected, if our estimates and assumptions are not correct, if we experience delays or if other unforeseen events occur, our business and results of operations may be adversely affected.

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

Our stock price and earnings have fluctuated in the past and are likely to fluctuate in the future. Factors that may have a significant impact on the market price of our stock and/or earnings include those identified throughout this “Risk Factors” section, volatility of the stock market in general and technology-based companies in particular, announcements concerning us, our suppliers, our competitors or our customers or licensees and variations between our actual results or guidance and expectations of securities analysts, among others. Further, increased volatility in the financial markets and/or overall economic conditions may reduce the amounts that we realize in the future on our cash equivalents and/or marketable securities and may reduce our earnings as a result of any impairment charges that we record to reduce recorded values of marketable securities to their fair values.

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

There are risks associated with our indebtedness.

Our outstanding indebtedness and any additional indebtedness we incur may have negative consequences, including, among others:

- requiring us to use cash to pay the principal of and interest on our indebtedness, thereby reducing the amount of cash flow available for other purposes;
- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, stock repurchases, dividends or other general corporate and other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and/or
- increasing our vulnerability to interest rate fluctuations to the extent a portion of our debt has variable interest rates.

Our ability to make payments of principal of and interest on our indebtedness depends upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things: repatriate funds to the United States at substantial tax cost; refinance or restructure all or a portion of our indebtedness; reduce or delay planned capital or operating expenditures; or sell selected assets. Such measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms or at all, and if prevailing interest rates at the time of any such financing and/or refinancing are higher than our current rates, interest expense related to such financing and/or refinancing would increase. If there are adverse changes in the ratings assigned to our debt securities by credit rating agencies, our borrowing costs, our ability to access debt in the future and/or the terms of the financing could be adversely affected.

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

Our future success depends largely upon the continued service of our executive officers and other key management and technical personnel and on our ability to continue to identify, attract, retain and motivate them, particularly in an environment of cost reductions, including equity compensation and headcount. Implementing our business strategy requires specialized engineering and other talent, as our revenues are highly dependent on technological and product innovations. The market for employees in our industry is extremely competitive. Further, existing immigration laws make it more difficult for us to recruit and retain highly skilled foreign national graduates of universities in the United States, making the pool of available talent even smaller. If we are unable to attract and retain qualified employees, our business may be harmed.

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

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

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

- Certain of our revenues, such as royalties, that are derived from licensee or customer sales denominated in foreign currencies could decrease;
- Our foreign suppliers may raise their prices if they are impacted by currency fluctuations, resulting in higher than expected costs and lower margins; and/or
- Foreign exchange hedging transactions that we engage in to reduce the impact of currency fluctuations may require the payment of structuring fees, limit the U.S. dollar value of royalties from licensees' sales that are denominated in foreign currencies, cause earnings volatility if the hedges do not qualify for hedge accounting and expose us to counterparty risk if the counterparty fails to perform.

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

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

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

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

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

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

Potential tax liabilities could adversely affect our results of operations.

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

We have tax incentives in Singapore provided that we meet specified employment and other criteria, and as a result of the expiration of these incentives, our Singapore tax rate is expected to increase in fiscal 2017 and again in fiscal 2027. If we do not meet the criteria required to retain such incentives, our Singapore tax rate could increase prior to those dates, and our results of operations could be adversely affected.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our 2015 Annual Report on Form 10-K. At December 27, 2015, there have been no material changes to the financial market risks described at September 27, 2015. We do not currently anticipate any other near-term changes in the nature of our financial market risk exposures or in management’s objectives and strategies with respect to managing such exposures.

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the first quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding our material pending legal proceedings is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies.” We are also engaged in numerous other legal actions arising in the ordinary course of our business and, while there can be no assurance, we believe that the ultimate outcome of these other legal actions will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

ITEM 1A. RISK FACTORS

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

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

Issuer purchases of equity securities during the first quarter of fiscal 2016 were:

	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
	(In thousands)		(In thousands)	(In millions)
September 28, 2015 to October 25, 2015	17,875	$55.94	17,875	$5,908
October 26, 2015 to November 22, 2015	17,704	56.48	17,704	4,908
November 23, 2015 to December 27, 2015	1,027	48.70	1,027	4,858
Total	36,606	56.00	36,606	

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

(2) On March 9, 2015, we announced a repurchase program authorizing us to repurchase up to $15 billion of our common stock. At December 27, 2015, $4.9 billion remained authorized for repurchase. The stock repurchase program has no expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(b) On December 7, 2015, the Board of Directors of the Company amended and restated the Company’s Bylaws (the Amended and Restated Bylaws) to implement proxy access, commencing with the Company’s 2017 annual meeting of stockholders. Section 5A of the Amended and Restated Bylaws permits a stockholder, or a group of up to 20 stockholders, owning 3% or more of the Company’s outstanding common stock continuously for at least 3 years, to nominate and include in the Company’s proxy materials director nominees constituting up to 20% of the Board, provided that the stockholder(s) and the director nominee(s) satisfy the eligibility, procedural and disclosure requirements specified in the Amended and Restated Bylaws. The foregoing summary of the Amended and Restated Bylaws is not complete and is subject to, and qualified in its entirety by, the full text of the Amended and Restated Bylaws, which are filed as Exhibit 3.3 hereto.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Form	File No./ Film No.	Date of First Filing	Exhibit Number	Filed Herewith
2.2	Master Transaction Agreement, dated January 13, 2016, by and among Qualcomm Global Trading Pte. Ltd., each other Purchaser Group member, TDK Japan, each other Seller Group member, and, solely for purposes of Section 10.9 thereof, QUALCOMM Incorporated.	8-K	000-19528/ 161339867	1/13/2016	2.1	
3.1	Restated Certificate of Incorporation, as amended.	10-Q	000-19528/ 12766084	4/18/2012	3.1	
3.2	Certificate of Elimination of the Series A Junior Participating Preferred Stock.	8-K	000-19528/ 151134143	9/30/2015	3.2	
3.3	Amended and Restated Bylaws.					X
4.1	Indenture, dated May 20, 2015, between the Company and U.S. Bank National Association, as trustee.	8-K	000-19528/ 15880967	5/21/2015	4.1	
4.2	Officers' Certificate, dated May 20, 2015, for the Floating Rate Notes due 2018, the Floating Rate Notes due 2020, the 1.400% Notes due 2018, the 2.250% Notes due 2020, the 3.000% Notes due 2022, the 3.450% Notes due 2025, the 4.650% Notes due 2035 and the 4.800% Notes due 2045.	8-K	000-19528/ 15880967	5/21/2015	4.2	
4.3	Form of Floating Rate Notes due 2018.	8-K	000-19528/ 15880967	5/21/2015	4.3	
4.4	Form of Floating Rate Notes due 2020.	8-K	000-19528/ 15880967	5/21/2015	4.4	
4.5	Form of 1.400% Notes due 2018.	8-K	000-19528/ 15880967	5/21/2015	4.5	
4.6	Form of 2.250% Notes due 2020.	8-K	000-19528/ 15880967	5/21/2015	4.6	
4.7	Form of 3.000% Notes due 2022.	8-K	000-19528/ 15880967	5/21/2015	4.7	
4.8	Form of 3.450% Notes due 2025.	8-K	000-19528/ 15880967	5/21/2015	4.8	
4.9	Form of 4.650% Notes due 2035.	8-K	000-19528/ 15880967	5/21/2015	4.9	
4.10	Form of 4.800% Notes due 2045.	8-K	000-19528/ 15880967	5/21/2015	4.10	
10.29	Form of 2016 Annual Cash Incentive Plan Performance Unit Agreement (1)					X
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Steve Mollenkopf.					X
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for George S. Davis.					X
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Steve Mollenkopf.					X

32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for George S. Davis.	X
101.INS	XBRL Instance Document.	X
101.SCH	XBRL Taxonomy Extension Schema.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X
101.LAB	XBRL Taxonomy Extension Labels Linkbase.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X

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

SIGNATURES

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

QUALCOMM Incorporated

/s/ George S. Davis
George S. Davis
Executive Vice President and Chief Financial Officer

Dated: January 27, 2016