QUALCOMM INC/DE
Form 10-Q
July 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 June 24, 2018
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 ¨

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 ¨

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ 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 July 23, 2018, was as follows:

Class	Number of Shares
Common Stock, $0.0001 per share par value	1,469,111,039

QUALCOMM INCORPORATED
Form 10-Q
For the Quarter Ended June 24, 2018

PART I. FINANCIAL INFORMATION

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

	June 24, 2018	September 24, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$35,619	$ 35,029
Marketable securities	291	2,279
Accounts receivable, net	3,163	3,632
Inventories	1,785	2,035
Other current assets	3,460	618
Total current assets	44,318	43,593
Marketable securities	35	1,270
Deferred tax assets	844	2,900
Property, plant and equipment, net	3,073	3,216
Goodwill	6,630	6,623
Other intangible assets, net	3,174	3,737
Other assets	4,016	4,147
Total assets	$62,090	$ 65,486
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Trade accounts payable	$1,644	$ 1,971
Payroll and other benefits related liabilities	1,379	1,183
Unearned revenues	507	502
Short-term debt	7,103	2,495
Other current liabilities	5,579	4,756
Total current liabilities	16,212	10,907
Unearned revenues	1,708	2,003
Income taxes payable	2,659	—
Long-term debt	15,378	19,398
Other liabilities	3,065	2,432
Total liabilities	39,022	34,740
Commitments and contingencies (Note 6)		
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; 1,469 and 1,474 shares issued and outstanding, respectively	—	274

Retained earnings	22,745	30,088
Accumulated other comprehensive income	323	384
Total stockholders’ equity	23,068	30,746
Total liabilities and stockholders’ equity	$62,090	$ 65,486

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Revenues:				
Equipment and services	$4,110	$4,121	$12,750	$11,949
Licensing	1,489	1,250	4,178	4,438
Total revenues	5,599	5,371	16,928	16,387
Costs and expenses:				
Cost of revenues	2,491	2,488	7,394	7,140
Research and development	1,416	1,391	4,237	4,087
Selling, general and administrative	655	710	2,297	1,917
Other (Note 2)	112	9	1,605	962
Total costs and expenses	4,674	4,598	15,533	14,106
Operating income	925	773	1,395	2,281
Interest expense	(212)	(133)	(561)	(330)
Investment and other income, net (Note 2)	243	218	454	635
Income before income taxes	956	858	1,288	2,586
Income tax benefit (expense) (Note 3)	263	7	(5,659)	(290)
Net income (loss)	1,219	865	(4,371)	2,296
Net loss attributable to noncontrolling interests	—	1	—	1
Net income (loss) attributable to Qualcomm	$1,219	$866	$(4,371)	$2,297
Basic earnings (loss) per share attributable to Qualcomm	$0.82	$0.59	$(2.96)	$1.55
Diluted earnings (loss) per share attributable to Qualcomm	$0.82	$0.58	$(2.96)	$1.54
Shares used in per share calculations:				
Basic	1,478	1,478	1,479	1,478
Diluted	1,487	1,491	1,479	1,491
Dividends per share announced	$0.62	$0.57	$1.76	$1.63

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Net income (loss)	$1,219	$ 865	$(4,371)	$2,296
Other comprehensive (loss) income, net of income taxes:				
Foreign currency translation (losses) gains	(237)	138	(64)	128
Reclassification of foreign currency translation gains included in net income (loss)	—	(1)	—	(1)
Noncredit other-than-temporary impairment losses related to certain available-for-sale debt securities and subsequent changes in fair value	—	—	—	6
Reclassification of net other-than-temporary losses on available-for-sale securities included in net income (loss)	—	1	1	82
Net unrealized gains (losses) on other available-for-sale securities	3	37	2	(104)
Reclassification of net realized losses (gains) on available-for-sale securities included in net income (loss)	2	(72)	(7)	(200)
Net unrealized gains (losses) on derivative instruments	3	(40)	(3)	(43)
Reclassification of net realized losses (gains) on derivative instruments included in net income (loss)	7	(3)	10	(5)
Total other comprehensive (loss) income	(222)	60	(61)	(137)
Total comprehensive income (loss)	997	925	(4,432)	2,159
Comprehensive loss attributable to noncontrolling interests	—	1	—	1
Comprehensive income (loss) attributable to Qualcomm	$997	$ 926	$(4,432)	$2,160

See accompanying notes.

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

	Nine Months Ended	
	June 24, 2018	June 25, 2017
Operating Activities:		
Net (loss) income	$(4,371)	$2,296
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	1,165	1,064
Income tax provision in excess of (less than) income tax payments (Note 3)	4,973	(467)
Non-cash portion of share-based compensation expense	659	712
Net realized gains on marketable securities and other investments	(101)	(375)
Indefinite and long-lived asset impairment charges	96	76
Impairment losses on marketable securities and other investments	40	163
Other items, net	25	14
Changes in assets and liabilities:		
Accounts receivable, net	470	(1,021)
Inventories	245	(182)
Other assets	90	111
Trade accounts payable	(296)	(543)
Payroll, benefits and other liabilities	1,514	878
Unearned revenues	(178)	(149)
Net cash provided by operating activities	4,331	2,577
Investing Activities:		
Capital expenditures	(625)	(428)
Purchases of available-for-sale marketable securities	(5,835)	(15,509)
Proceeds from sales and maturities of available-for-sale securities	9,105	19,643
Purchases of other marketable securities	(49)	(705)
Deposits of investments designated as collateral	—	(2,000)
Acquisitions and other investments, net of cash acquired	(192)	(1,401)
Proceeds from other investments	207	18
Other items, net	4	40
Net cash provided (used) by investing activities	2,615	(342)
Financing Activities:		
Proceeds from short-term debt	9,385	6,848
Repayment of short-term debt	(7,198)	(7,598)
Proceeds from long-term debt	—	10,953
Repayment of long-term debt	(1,571)	—
Deposit to redeem long-term debt	(2,831)	—
Proceeds from issuance of common stock	387	331
Repurchases and retirements of common stock	(1,425)	(1,027)
Dividends paid	(2,600)	(2,411)
Payments of tax withholdings related to vesting of share-based awards	(273)	(263)

Payment of purchase consideration related to RF360 joint venture	(157)	—
Other items, net	(54)	(133)
Net cash (used) provided by financing activities	(6,337)	6,700
Effect of exchange rate changes on cash and cash equivalents	(19)	28
Net increase in cash and cash equivalents	590	8,963
Cash and cash equivalents at beginning of period	35,029	5,946
Cash and cash equivalents at end of period	$35,619	$14,909

See accompanying notes.

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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 24, 2017. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. Each of the three-month and nine-month periods ended June 24, 2018 and June 25, 2017 included 13 weeks and 39 weeks, respectively.

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

During the third quarter of fiscal 2018, the Company eliminated the one-month reporting lag previously used to consolidate its RF360 Holdings joint venture to provide contemporaneous reporting within its consolidated financial statements. The effect of this change is not material to the consolidated financial statements, and therefore, the impact of eliminating the one-month reporting lag has been included in the Company's results of operations for the three months and nine months ended June 24, 2018.

Earnings (Loss) Per Common Share. Basic earnings (loss) per common share is computed by dividing net income (loss) attributable to Qualcomm by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is computed by dividing net income attributable to Qualcomm by the combination of dilutive common share equivalents, comprised of shares issuable under the Company's share-based compensation plans, if any, and the weighted-average number of common shares outstanding during the reporting period. Due to the net loss for the nine months ended June 24, 2018, all of the common share equivalents issuable under share-based compensation plans had an anti-dilutive effect and were therefore excluded from the computation of diluted loss per share. The following table provides information about the diluted earnings per share calculation (in millions):

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Dilutive common share equivalents included in diluted shares	9.0	12.2	—	13.5
Shares of common stock equivalents not included because the effect would be anti-dilutive or certain performance conditions were not satisfied at the end of the period	0.6	0.6	43.2	3.8

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		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Cost of revenues	$9	$ 10	$30	$ 30
Research and development	140	147	447	455
Selling, general and administrative	40	70	182	227
Share-based compensation expense before income taxes	189	227	659	712
Related income tax benefit	(34)	(28)	(111)	(113)
	$155	$ 199	$548	$ 599

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QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At June 24, 2018, total unrecognized compensation expense related to nonvested restricted stock units granted prior to that date was $1.1 billion, which is expected to be recognized over a weighted-average period of 1.9 years. At June 24, 2018, the Company had 23.8 million restricted stock units outstanding and 6.5 million stock options outstanding.
Recent Accounting Pronouncements.
Share-based Awards: In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance that changed the accounting for share-based awards, including income taxes, classification of awards and classification in the statement of cash flows. The Company adopted the new guidance in the first quarter of fiscal 2018. In accordance with the new guidance, excess tax benefits or deficiencies associated with share-based awards are recognized through earnings when the awards vest or settle, rather than in stockholders' equity. In the nine months ended June 24, 2018, net excess tax benefits associated with share-based awards of $15 million were recognized in the Company's income tax provision. In addition, cash flows related to excess tax benefits are presented as an operating activity and cash payments made on an employee's behalf for withheld shares are presented as financing activities, with the prior periods adjusted accordingly. As a result of these changes, amounts for the nine months ended June 25, 2017 have been adjusted as follows: net cash provided by operating activities increased by $301 million with a corresponding offset to net cash used in financing activities. The new guidance also impacts the Company's earnings per share calculation as the estimate of dilutive common share equivalents under the treasury stock method no longer assumes that the estimated tax benefits realized when an award is settled are used to repurchase shares. There was no impact of this change on the Company's calculation of earnings per share as a result of the net loss for the nine months ended June 24, 2018. The Company elected to continue its practice of estimating forfeitures expected to occur in determining the amount of compensation cost to be recognized each period.
Revenue Recognition: In May 2014, the FASB issued new guidance related to revenue recognition, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new guidance requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective approach, with the cumulative effect of applying the new guidance recognized as an adjustment to the opening retained earnings balance. The Company is finalizing its identification of changes to policy, processes, systems and controls, as well as its assessment of data availability and presentation necessary to meet the additional disclosure requirements of the guidance in the notes to the consolidated financial statements.
The Company currently expects the adoption of this new guidance to most significantly impact its licensing business (Qualcomm Technology Licensing, or QTL). Specifically, the Company expects a change in the timing of revenues recognized from sales-based royalties, which are the vast majority of QTL's revenues. The Company currently recognizes sales-based royalties as revenues in the period in which such royalties are reported by licensees, which is after the conclusion of the quarter in which the licensees' sales occur and when all other revenue recognition criteria are met. Under the new guidance, the Company will be required to estimate and recognize sales-based royalties in the period in which the associated sales occur, resulting in an acceleration of revenue recognition compared to the current method. As a result of recognizing royalty revenues based on estimates, adjustments to revenues will be required in subsequent periods based on the actual amounts reported by licensees. Upon adoption of the new guidance, licenses to use portions of the Company's intellectual property portfolio will be considered one performance obligation, and license fees will be recognized as revenues on a straight-line basis over the estimated period of benefit of the license to

the licensee, which is similar to the recognition of license revenues under the current guidance. The Company currently accounts for customer incentive arrangements in its licensing and semiconductor businesses, including volume-related and other pricing rebates or cost reimbursements for marketing and other activities involving certain of the Company's products and technologies, in part based on the maximum potential liability. Under the new guidance, the Company will estimate the amount of all customer incentives. The Company does not otherwise expect the adoption of the new guidance to have a material impact on its businesses.

Financial Assets: In January 2016, the FASB issued new guidance on classifying and measuring financial instruments, which requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk be recognized separately in other comprehensive income. Additionally, it changes the disclosure requirements for financial instruments. For equity investments that do not have readily determinable fair values, the Company expects to use the measurement alternative, which is defined as cost, less impairments, adjusted by observable price changes in orderly transactions for identical or similar investments. The Company anticipates the adoption

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

of the new guidance will increase the volatility of the Company's investment and other income, net due to recording the changes in fair value of equity investments through earnings. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective transition method for equity investments that have readily determinable fair values, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, and the prospective transition method for equity investments that do not have readily determinable fair values. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements.

In June 2016, the FASB issued new guidance that changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021 and generally requires the modified retrospective transition method, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, except for certain financial assets where the prospective transition method is required, such as available-for-sale debt securities for which an other-than-temporary impairment has been recorded. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements and whether to adopt the new guidance early.

Leases: In February 2016, the FASB issued new guidance related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The Company will adopt the new guidance in the first quarter of fiscal 2020 and expects to use the modified retrospective approach, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements and whether to apply any of the optional practical expedients.

Hedge Instruments: In August 2017, the FASB issued new guidance that expands and refines hedge accounting for both financial and non-financial risks, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes targeted improvements related to the assessment of hedge effectiveness. The new guidance also modifies disclosure requirements for hedging activities. The Company plans to adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective transition method, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, and does not expect the effects of the adoption to have a material impact on its consolidated financial statements.

Other: In August 2016, the FASB issued new guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the retrospective transition method for each period presented, and does not expect the effects of the adoption to have a material impact on its consolidated statements of cash flows.

In October 2016, the FASB issued new guidance that changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the modified retrospective transition method, with the cumulative effect of applying the new guidance recognized as an adjustment to opening retained earnings in the year of adoption, and is in the process of determining the effects the adoption will have on its consolidated financial statements.

In November 2016, the FASB issued new guidance related to the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. The Company will adopt the new guidance in the first quarter of fiscal 2019 using the retrospective transition method for each period presented. At June 24, 2018, the Company had restricted cash and cash equivalents of $2.0 billion related to funds deposited as collateral for outstanding letters of credit in connection with the NXP Purchase Agreement (Note 8), and $2.8 billion related to irrevocably deposited cash to redeem notes in July 2018 (Note 5). Otherwise, the Company does not expect the effects of the retrospective adoption to have a material impact on its consolidated statements of cash flows.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2. Composition of Certain Financial Statement Items

Inventories (in millions)

	June 24, 2018	September 24, 2017
Raw materials	$ 82	$ 103
Work-in-process	666	799
Finished goods	1,037	1,133
	$ 1,785	$ 2,035

Other Current Assets (in millions)

	June 24, 2018	September 24, 2017
Deposit to redeem long-term debt (Note 5)	$ 2,836	$ —
Other	624	618
	$ 3,460	$ 618

Other Current Liabilities (in millions)

	June 24, 2018	September 24, 2017
Customer incentives and other customer-related liabilities	$ 3,112	$ 2,804
Accrual for EC fine (Note 6)	1,166	—
Income taxes payable	448	312
Accrual for TFTC fine (Note 6)	154	778
Other	699	862
	$ 5,579	$ 4,756

Other Income, Costs and Expenses. Other expenses in the three and nine months ended June 24, 2018 included $112 million and $422 million, respectively, in restructuring and restructuring-related charges related to the Company’s Cost Plan (Note 9). Other expenses in the nine months ended June 24, 2018 also included a $1.2 billion charge related to the European Commission (EC) fine (Note 6).

Other expenses in the nine months ended June 25, 2017 consisted of a $927 million charge related to the KFTC fine, including related foreign currency losses, and $35 million in restructuring and restructuring-related charges related to the Company’s Strategic Realignment Plan.

Investment and Other Income, Net (in millions)

	Three Months Ended		Nine Months Ended	
	June 24, 2018	June 25, 2017	June 24, 2018	June 25, 2017
Interest and dividend income	$ 182	$ 147	$ 461	$ 466
Net realized gains on marketable securities	10	124	24	330
Net realized gains on other investments	16	15	77	45
Impairment losses on marketable securities	—	(2)	(1)	(127)
Impairment losses on other investments	(19)	(13)	(39)	(36)
Net (losses) gains on derivative investments	(30)	4	(21)	25

Equity in net losses of investees	(28)	(31)	(67)	(42)
Net gains (losses) on foreign currency transactions	112	(26)	20	(26)
	$243	$ 218	$454	$ 635

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3. Income Taxes

On December 22, 2017, tax reform legislation known as the Tax Cuts and Jobs Act (the Tax Legislation) was enacted in the United States (U.S.). The Tax Legislation significantly revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate to 21%, implementing a modified territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings and profits of U.S.-owned foreign subsidiaries (the Toll Charge). As a fiscal-year taxpayer, certain provisions of the Tax Legislation impacted the Company in fiscal 2018, including the change in the corporate income tax rate and the Toll Charge, while other provisions will be effective starting at the beginning of fiscal 2019, including the implementation of a modified territorial tax system. The U.S. federal income tax rate reduction was effective as of January 1, 2018. Accordingly, the Company's federal statutory income tax rate for fiscal 2018 reflects a blended rate of approximately 25%.

Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, given the amount and complexity of the changes in tax law resulting from the Tax Legislation, the Company has not finalized the accounting for the income tax effects of the Tax Legislation. This includes the provisional amounts recorded related to the Toll Charge, the remeasurement of deferred taxes and the change in the Company's indefinite reinvestment assertion. Further, the Company is in the process of analyzing the effects of new taxes due on certain foreign income, such as GILTI (global intangible low-taxed income), BEAT (base-erosion anti-abuse tax) and FDII (foreign-derived intangible income), and limitations on interest expense deductions (if certain conditions apply), all of which are effective starting in fiscal 2019, as well as other provisions of the Tax Legislation. The Company has elected to account for GILTI as period costs if and when incurred. As a result of recognizing the impact of the Tax Legislation in income tax expense (benefit), certain tax effects, which were nominal, were stranded in accumulated other comprehensive income, and the Company will not reclassify such amounts to retained earnings. The impact of the Tax Legislation may differ from this estimate, possibly materially, during the remainder of the one-year measurement period due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Legislation.

The Company has preliminarily accounted for the effects of the Tax Legislation, which resulted in a charge of $5.73 billion to income tax expense recorded discretely in the first nine months of fiscal 2018, comprised of $5.3 billion related to the estimated Toll Charge and $412 million resulting from the estimated impact of remeasurement of U.S. deferred tax assets and liabilities that existed at the end of fiscal 2017 at a lower enacted corporate income tax rate. These amounts included a $135 million tax benefit recorded in the third quarter of fiscal 2018 related to the remeasurement of a U.S. deferred tax liability that was established as a result of a change in one of the Company's tax positions due to Tax Legislation. In addition, the Company recorded $12 million net tax expense discretely in the third quarter of fiscal 2018 related to refining estimates associated with the Toll Charge and impact of remeasurement of U.S. deferred tax assets and liabilities.

The Toll Charge is based on the Company's post-1986 earnings and profits of U.S.-owned foreign subsidiaries through December 31, 2017 for which the Company had previously deferred U.S. income taxes. The Company has not yet finalized its calculation of the total post-1986 foreign earnings and profits for the respective foreign subsidiaries. Further, the Toll Charge is based in part on the amount of those earnings held in cash and other specific assets. The Company remeasured its deferred tax assets and liabilities that existed at the end of fiscal 2017 based on the income tax rate at which they are expected to reverse, which primarily assumes the reduced income tax rate of 21% applicable in fiscal 2019, resulting in a reduction to noncurrent net deferred tax assets of $412 million in the first nine months of

fiscal 2018.
As of December 24, 2017, the Company no longer considers available cash balances that existed at the end of fiscal 2017 related to undistributed pre-fiscal 2018 earnings and profits of certain U.S.-owned foreign subsidiaries to be indefinitely reinvested and recorded a tax expense of $92 million related to foreign withholding taxes during the first nine months of fiscal 2018. The Company otherwise continues to consider other undistributed earnings of certain U.S.-owned foreign subsidiaries to be indefinitely reinvested based on its current plans for use and/or investment outside of the U.S., and therefore, no liability has been recorded for such taxes. However, as a result of the Tax Legislation, the Company is reassessing its intentions related to its indefinite reinvestment assertion. Should the Company decide to no longer indefinitely reinvest such earnings outside the U.S., the Company would have to adjust the income tax provision in the period such determination is made.
As a result of the Toll Charge imposed by the Tax Legislation, the Company expects to fully utilize all of its unused federal tax credits that existed at the end of fiscal 2017 of $1.4 billion, which resulted in a reduction to noncurrent deferred tax assets in the first quarter of fiscal 2018, and the federal tax credits that are expected to be generated in fiscal 2018. The Company will elect to pay the Toll Charge, interest free, over a period of eight years, with payments beginning on January

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15, 2019. The Company did not discount the amount of the Toll Charge. The cash amount the Company currently estimates will be paid for the Toll Charge, net of tax credit carryforwards and expected tax credits estimated to be generated in fiscal 2018, is $2.7 billion. The estimated first installment of $215 million is due on January 15, 2019 and was included in other current liabilities. The remaining liability was included in noncurrent income taxes payable.
During the third quarter of fiscal 2018, the Company entered into a new tax incentive agreement in Singapore that results in a reduced tax rate from March 2017 through March 2022, provided that the Company meets specified employment and investment criteria in Singapore. The Company's Singapore tax rate will increase in fiscal 2022 as a result of expiration of these incentives and again in March 2027 upon the expiration of tax incentives under a prior agreement. As a result of this new tax incentive, the Company's estimated income tax expense for fiscal 2018 was reduced by approximately $126 million.
The Company estimates its annual effective income tax rate to be approximately 264% for fiscal 2018, as compared to the 18% effective income tax rate for fiscal 2017, primarily as a result of the estimated charge of $5.82 billion recorded to income tax expense in the first nine months of fiscal 2018 related to the combined effect of the Toll Charge, the remeasurement of deferred tax assets and liabilities and the Company's decision to no longer indefinitely reinvest certain foreign earnings, all of which resulted from the Tax Legislation. The estimated annual effective tax rate for fiscal 2018 was also impacted by the EC fine (Note 6) recorded in the first quarter of fiscal 2018, which is not deductible for tax purposes and is attributable to a foreign jurisdiction. Tax benefits from foreign income taxed at rates lower than rates in the U.S. are expected to be approximately 37% in fiscal 2018, compared to 32% in fiscal 2017, primarily due to lower estimated U.S. revenues principally related to decreased royalty revenues from Apple's contract manufacturers, an increase in the allocation of expenses to the Company's U.S. operations and the new tax incentive in Singapore, partially offset by the lower U.S. federal statutory income tax rate enacted by the Tax Legislation. The estimated annual effective tax rate for fiscal 2018 also reflects a blended U.S. federal statutory income tax rate of 25% as a result of the Tax Legislation. The annual effective tax rate of 18% for fiscal 2017 reflected the KFTC and TFTC fines (Note 6), which were not deductible for tax purposes and were each attributable to the U.S. and foreign jurisdictions.
The effective tax rate of 28% benefit for the third quarter of fiscal 2018 was lower than the estimated annual effective tax rate primarily due to the estimated charge of $5.95 billion recorded discretely to income tax expense in the first six months of fiscal 2018 related to the effects of certain components of the Tax Legislation and the EC fine recorded in the first quarter of fiscal 2018, as well as tax benefits recorded in the third quarter of fiscal 2018 resulting from an increase in the allocation of expenses to the Company's U.S. operations and the new tax incentive in Singapore.
Unrecognized tax benefits were $356 million and $372 million at June 24, 2018 and September 24, 2017, respectively. The Company believes that it is reasonably possible that the total amounts of unrecognized tax benefits at June 24, 2018 may increase or decrease in the next 12 months.
The Company is subject to income taxes in the U.S. and numerous foreign jurisdictions, and is currently under examination by various tax authorities worldwide, most notably in countries where the Company earns a routine return and tax authorities believe substantial value-add activities are performed. These examinations are at various stages with respect to assessments, claims, deficiencies and refunds, many of which are open for periods after fiscal 2000. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts give rise to a revision become known. As of June 24, 2018, the Company believes that adequate amounts have been reserved for based on facts known. However, the final determination of tax audits and any related legal proceedings could materially differ from

amounts reflected in the Company’s income tax provision and the related accruals.

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Note 4. Stockholders' Equity

Changes in stockholders' equity in the nine months ended June 24, 2018 were as follows (in millions):

	Total Stockholders' Equity
Balance at September 24, 2017	$ 30,746
Net loss	(4,371)
Other comprehensive loss	(61)
Common stock issued under employee benefit plans and related tax benefits	393
Share-based compensation	699
Tax withholdings related to vesting of share-based payments	(273)
Dividends	(2,640)
Stock repurchases	(1,425)
Balance at June 24, 2018	$ 23,068

Accumulated Other Comprehensive Income. Changes in the components of accumulated other comprehensive income, net of income taxes, in stockholders' equity in the nine months ended June 24, 2018 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 (Loss) Gain on Derivative Instruments	Other Gains	Total Accumulated Other Comprehensive Income
Balance at September 24, 2017	$ 147	$ 23	$ 218	$ (8)	$ 4	$ 384
Other comprehensive (loss) income before reclassifications	(64)	—	2	(3)	—	(65)
Reclassifications from accumulated other comprehensive income	—	1	(7)	10	—	4
Other comprehensive (loss) income	(64)	1	(5)	7	—	(61)
Balance at June 24, 2018	$ 83	$ 24	$ 213	$ (1)	$ 4	$ 323

Reclassifications from accumulated other comprehensive income related to available-for-sale securities were negligible in each the three and nine months ended June 24, 2018 and $71 million and $118 million in the three and nine months ended June 25, 2017, respectively, and were recorded in investment and other income, net (Note 2).

Stock Repurchase Program. On May 9, 2018, the Company announced a stock repurchase program authorizing it to repurchase up to $10 billion of the Company's common stock. The stock repurchase program has no expiration date. The $10 billion stock repurchase program replaced a $15 billion stock repurchase program announced on March 9, 2015, of which $1.2 billion remained authorized for repurchase under the prior program. In the nine months ended June 24, 2018 and June 25, 2017, the Company repurchased and retired 24.2 million and 16.7 million shares for $1.4 billion and $1.0 billion, respectively, before commissions. At June 24, 2018, $9.0 billion remained authorized for repurchase under the May 2018 stock repurchase program.

If the Company has not received regulatory approval by the State Administration for Market Regulation in China (SAMR) or other material developments have not occurred, the Company expects to terminate the proposed acquisition of NXP Semiconductors N.V. (NXP) by Qualcomm River Holdings B.V. (Qualcomm River Holdings), an indirect, wholly owned subsidiary of QUALCOMM Incorporated (the NXP Acquisition) after July 25, 2018 at 11:59 p.m. New York time

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(Note 8). In the event the NXP Acquisition is terminated, the Company intends to implement a stock repurchase program to repurchase up to $30 billion of the Company’s outstanding common stock. This new stock repurchase program, if implemented, will have no expiration date and will replace the May 2018 stock repurchase program.

Dividends. On July 12, 2018, the Company announced a cash dividend of $0.62 per share on the Company’s common stock, payable on September 26, 2018 to stockholders of record as of the close of business on September 5, 2018. In the nine months ended June 24, 2018 and June 25, 2017, dividends charged to retained earnings were as follows (in millions, except per share data):

	2018		2017	
	Per Share	Total	Per Share	Total
First quarter	$0.57	$862	$0.53	$801
Second quarter	0.57	857	0.53	798
Third quarter	0.62	921	0.57	858
	$1.76	$2,640	$1.63	$2,457

Employee Benefit Plans. On March 23, 2018, the Company’s stockholders approved an amendment to the Amended and Restated QUALCOMM Incorporated 2001 Employee Stock Purchase Plan to increase the share reserve by 30,000,000 shares to approximately 101,709,000.

Note 5. Debt

Revolving Credit Facility. The Company has an Amended and Restated Revolving Credit Facility (2016 Amended and Restated Revolving Credit Facility) that provides for unsecured revolving facility loans, swing line loans and letters of credit in an aggregate amount of up to $5.0 billion, of which $530 million and $4.47 billion will expire in February 2020 and November 2021, respectively. Proceeds from the 2016 Amended and Restated Revolving Credit Facility, if drawn, are expected to be used for general corporate purposes. At June 24, 2018 and September 24, 2017, the Company had not borrowed any funds under the 2016 Amended and Restated Revolving Credit Facility.

Commercial Paper Program. The Company has an unsecured commercial paper program, which provides for the issuance of up to $5.0 billion of commercial paper. Net proceeds from this program are used for general corporate purposes. Maturities of commercial paper can range from 1 day to up to 397 days. At June 24, 2018 and September 24, 2017, the Company had $3.2 billion and $999 million, respectively, of outstanding commercial paper included in short-term debt with a weighted-average interest rate of 2.34% and 1.19%, respectively, which included fees paid to the commercial paper dealers, and weighted-average remaining days to maturity of 46 days and 45 days, respectively. The carrying value of the outstanding commercial paper approximated its estimated fair value at June 24, 2018 and September 24, 2017.

NXP-Related Credit and Term Loan Facilities. If the Company has not received regulatory approval from SAMR or other material developments have not occurred, the Company expects to terminate the NXP Acquisition after July 25, 2018 at 11:59 p.m. New York time (Note 8). As a result, the following credit agreements are expected to remain undrawn and terminate in accordance with their terms.

The Company is party to a credit agreement, as amended, that provides for senior unsecured delayed-draw revolving facility loans in an aggregate amount of $3.0 billion (as amended, the 2018 Revolving Credit Facility). Proceeds from the 2018 Revolving Credit Facility, if drawn, will be used in part to finance the NXP Acquisition and for general corporate purposes. Commitments under the 2018 Revolving Credit Facility expire on the first to occur of (i) the termination of Qualcomm River Holdings’s obligation to consummate the proposed acquisition of NXP, (ii) if the closing date under the 2018 Revolving Credit Facility has not occurred, the date that is five business days following July 25, 2018 and (iii) the termination of the commitments in accordance with the provisions of the 2018 Revolving Credit Facility providing for voluntary and mandatory commitment reductions. In the event the NXP Acquisition is terminated, these commitments will expire. Loans under the 2018 Revolving Credit Facility, if drawn, will mature on December 31, 2018 and will bear interest, at the option of the Company, at either the reserve-adjusted Eurocurrency Rate (determined in accordance with the 2018 Revolving Credit Facility) or the Base Rate (determined in accordance with the 2018 Revolving Credit Facility), in each case plus an applicable margin based on the Company’s long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurocurrency Rate and the Base Rate based on Qualcomm’s debt ratings as of June 24, 2018 will be 0.75% and 0.00% per annum, respectively. The 2018 Revolving Credit Facility has a ticking fee, which is based on Qualcomm’s debt ratings and initially accrues at a rate of 0.05% per annum commencing on March 6, 2018. At June 24, 2018, the Company had not borrowed any funds under the 2018 Revolving Credit Facility.

The Company is party to a credit agreement, as amended, that provides for senior unsecured delayed-draw term facility loans in an aggregate amount of $4.0 billion (as amended, the 2016 Term Loan Facility). Proceeds from the 2016 Term Loan Facility, if drawn, will be used to finance the NXP Acquisition. Commitments under the 2016 Term Loan Facility expire on the first to occur of (i) the consummation of the proposed acquisition of NXP without using loans under the 2016 Term Loan Facility, (ii) the termination of Qualcomm River Holdings’s obligation to consummate the proposed acquisition of NXP and (iii) the date that is five business days following July 25, 2018. In the event the NXP Acquisition is terminated, these commitments will expire. At June 24, 2018 and September 24, 2017, the Company had not borrowed any funds under the 2016 Term Loan Facility.

The Company is party to a credit agreement, as amended, that provides for senior unsecured delayed-draw term facility loans in an aggregate amount of $7.0 billion (as amended, the 2018 Term Loan Facility). Proceeds from the 2018 Term Loan Facility, if drawn, will be used in part to finance the NXP Acquisition and for general corporate purposes. Commitments under the 2018 Term Loan Facility expire on the first to occur of (i) the consummation of the proposed acquisition of NXP without using loans under the 2018 Term Loan Facility, (ii) the termination of Qualcomm River Holdings’s obligation to consummate the proposed acquisition of NXP, (iii) the date that is five business days following July 25, 2018 and (iv) the termination of the commitments in accordance with the provisions of the 2018 Term Loan Facility providing for voluntary and mandatory commitment reductions. In the event the NXP Acquisition is terminated, these commitments will expire. Loans under the 2018 Term Loan Facility, if drawn, will mature on December 31, 2018 and will bear interest, at the option of the Company, at either the reserve-adjusted Eurocurrency Rate (determined in accordance with the 2018 Term Loan Facility) or the Base Rate (determined in accordance with the 2018 Term Loan Facility), in each case plus an applicable margin based on the Company’s long-term unsecured senior, non-credit enhanced debt ratings. The initial margins over the reserve-adjusted Eurocurrency Rate and the Base Rate based on Qualcomm’s debt ratings as of June 24, 2018 will be 0.875% and 0.00% per annum, respectively. The 2018 Term Loan Facility has a ticking fee, which is based on Qualcomm’s debt ratings and initially accrues at a rate of 0.05% per annum commencing on March 6, 2018. At June 24, 2018, the Company had not borrowed any funds under the 2018 Term Loan Facility.

Long-term Debt. In May 2018, the Company initiated private offerings to exchange the Company’s floating-rate notes due 2019, floating-rate notes due 2020, fixed-rate 1.85% notes due 2019 and fixed-rate 2.10% notes due 2020 (collectively, the Old Notes) issued in May 2017 that were subject to special mandatory redemption provisions. The Company offered certain eligible holders of the Old Notes the option to exchange Old Notes for (i) new notes that have the same principal amount and terms of the Old Notes, except for a new special mandatory redemption date of November 1, 2018 and maturity dates that are one day after the applicable maturity dates for the applicable series of Old Notes and (ii) a cash fee of 0.25% of the principal amount of the Old Notes. For holders not eligible to participate in the exchanges, the Company offered to repurchase the Old Notes pursuant to cash tender offers for 100.25% of the principal amount of the Old Notes. The offers to exchange and offers to repurchase the Company’s 2.10% fixed-rate notes due 2020 were not accepted because the amount of such notes validly tendered and not withdrawn in the applicable exchange offer was not sufficient to meet the minimum tender condition. On May 31, 2018, the Company exchanged $122 million of Old Notes for new notes and repurchased $71 million of Old Notes in the aggregate pursuant to the offers to exchange and the offers to repurchase. Also on May 31, 2018, the Company called for full redemption of all of its then-outstanding 1.85% fixed-rate notes due 2019 and 2.10% fixed-rate notes due 2020 pursuant to the optional redemption provision in the fixed-rate notes, and irrevocably deposited cash of $2.8 billion with the trustee of the notes, which represented an amount sufficient to satisfy and discharge such fixed-rate notes in full. On June 8, 2018, the Company called for full redemption all of its then-outstanding floating-rate notes due 2019 and floating-rate notes due 2020 pursuant to the special mandatory redemption provisions in the floating-rate notes. On July 2, 2018, $2.6 billion was paid to the holders of the fixed-rate notes in full redemption of such notes out of the $2.8 billion in cash previously deposited with the trustee, with the excess amount then refunded to the Company. On July 6, 2018, $1.2 billion was paid to the holders of the floating-rate notes in full redemption of such notes. At June 24, 2018, the $2.8 billion of irrevocably deposited cash was included in other current assets and the Old Notes redeemed in July 2018 were included in short-term debt.

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

June 24, 2018	September 24, 2017