QUALCOMM INC/DE
Form 10-Q
July 25, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 29, 2008

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. Yes þ 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 þ	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 þ

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 21, 2008, were as follows:

Class	Number of Shares
Common Stock, $0.0001 per share par value	1,640,962,214

INDEX

Table of Contents

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 29, 2008	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,970	$ 2,411
Marketable securities	3,644	4,170
Accounts receivable, net	917	715
Inventories	618	469
Deferred tax assets	358	435
Collateral held under securities lending	326	421
Other current assets	228	200
Total current assets	9,061	8,821
Marketable securities	4,567	5,234
Property, plant and equipment, net	1,912	1,788
Goodwill	1,520	1,325
Deferred tax assets	870	318
Other assets	1,667	1,009
Total assets	$ 19,597	$ 18,495
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 653	$ 635
Payroll and other benefits related liabilities	356	311
Unearned revenues	186	218
Income taxes payable	15	119
Obligations under securities lending	326	421
Other current liabilities	575	554
Total current liabilities	2,111	2,258
Unearned revenues	124	142
Income taxes payable	222	
Other liabilities	314	260
Total liabilities	2,771	2,660

Commitments and contingencies (Note 6)

Stockholders equity:				
Preferred stock, $0.0001 par value; issuable in series; 8 shares authorized; none outstanding at June 29, 2008 and September 30, 2007				
Common stock, $0.0001 par value; 6,000 shares authorized; 1,640 and 1,646 shares issued and outstanding at June 29, 2008 and September 30, 2007, respectively				
Paid-in capital		6,783		7,057
Retained earnings		10,104		8,541
Accumulated other comprehensive (loss) income		(61)		237
Total stockholders equity		16,826		15,835
Total liabilities and stockholders equity	$	19,597	$	18,495

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Revenues:				
Equipment and services	$ 1,867	$ 1,484	$ 5,295	$ 4,196
Licensing and royalty fees	895	841	2,513	2,369
Total revenues	2,762	2,325	7,808	6,565
Operating expenses:				
Cost of equipment and services revenues	889	688	2,493	1,956
Research and development	596	454	1,660	1,348
Selling, general and administrative	453	401	1,261	1,155
Total operating expenses	1,938	1,543	5,414	4,459
Operating income	824	782	2,394	2,106
Investment income, net (Note 3)	58	190	324	572
Income before income taxes	882	972	2,718	2,678
Income tax expense	(134)	(174)	(436)	(507)
Net income	$ 748	$ 798	$ 2,282	$ 2,171
Basic earnings per common share	$ 0.46	$ 0.48	$ 1.40	$ 1.31
Diluted earnings per common share	$ 0.45	$ 0.47	$ 1.38	$ 1.28
Shares used in per share calculations:				
Basic	1,626	1,670	1,626	1,661
Diluted	1,654	1,704	1,654	1,694
Dividends per share announced	$ 0.16	$ 0.14	$ 0.44	$ 0.38

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended June 29, 2008	July 1, 2007
Operating Activities:		
Net income	$ 2,282	$ 2,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	336	283
Non-cash income tax expense	148	365
Non-cash portion of share-based compensation expense	393	371
Incremental tax benefits from stock options exercised	(310)	(199)
Net realized gains on marketable securities and other investments	(158)	(173)
Other-than-temporary losses on marketable securities and other investments	202	11
Other items, net	1	5
Changes in assets and liabilities, net of effects of acquisitions (Note 8):		
Accounts receivable, net	(178)	(62)
Inventories	(142)	(147)
Other assets	35	(137)
Trade accounts payable	(4)	127
Payroll, benefits and other liabilities	12	69
Unearned revenues	(50)	84
Net cash provided by operating activities	2,567	2,768
Investing Activities:		
Capital expenditures	(983)	(571)
Purchases of available-for-sale securities	(4,944)	(5,921)
Proceeds from sale of available-for-sale securities	5,548	6,254
Other investments and acquisitions, net of cash acquired	(283)	(230)
Change in collateral held under securities lending	95	(153)
Other items, net	30	13
Net cash used by investing activities	(537)	(608)
Financing Activities:		
Proceeds from issuance of common stock	700	474
Incremental tax benefits from stock options exercised	310	199
Dividends paid	(716)	(632)
Proceeds from put options		17
Repurchase and retirement of common stock	(1,670)	(264)
Change in obligations under securities lending	(95)	153
Net cash used by financing activities	(1,471)	(53)

Effect of exchange rate changes on cash		2
Net increase in cash and cash equivalents	559	2,109
Cash and cash equivalents at beginning of period	2,411	1,607
Cash and cash equivalents at end of period	$ 2,970	$ 3,716

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Financial Statement Preparation. The accompanying interim condensed consolidated financial statements have been prepared by QUALCOMM Incorporated (the Company or QUALCOMM), without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair presentation of its consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet at September 30, 2007 was derived from the audited financial statements at that date but may not include all disclosures required by accounting principles generally accepted in the United States. The Company operates and reports using a 52-53 week fiscal year ending on the last Sunday in September. The three-month and nine-month periods ended June 29, 2008 included 13 weeks and 39 weeks, respectively. The three-month and nine-month periods ended July 1, 2007 included 13 weeks and 40 weeks, respectively.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of results of operations, financial position and cash flows. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company s 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.

Principles of Consolidation. The Company s condensed consolidated financial statements include the assets, liabilities and operating results of majority-owned subsidiaries. The ownership of the other interest holders of consolidated subsidiaries is reflected as minority interest and is not significant. All significant intercompany accounts and transactions have been eliminated. Certain of the Company s foreign subsidiaries are included in the consolidated financial statements one month in arrears to facilitate the timely inclusion of such entities in the Company s condensed consolidated financial statements. The Company does not have any investments in entities it believes are variable interest entities for which the Company is the primary beneficiary.

Income Taxes. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 were effective for the Company beginning October 1, 2007. See Note 4 for additional information, including the effects of adoption on the Company s condensed consolidated financial statements.

Earnings Per Common Share. Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed by dividing net income by the combination of dilutive common share equivalents, comprised of shares issuable under the Company s share-based compensation plans and shares subject to written put options, and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money share equivalents, which is 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 option, the amount of compensation cost, if any, for future service that the Company has not yet recognized, and the estimated tax benefits that would be recorded in paid-in capital, if any, when the option is exercised are assumed to be used to repurchase shares in the current period. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and nine months ended June 29, 2008 were 28,061,000 and

27,656,000, respectively. The incremental dilutive common share equivalents, calculated using the treasury stock method, for the three months and nine months ended July 1, 2007 were 33,975,000 and 33,256,000, respectively.

Table of Contents

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Employee stock options to purchase approximately 89,552,000 and 110,702,000 shares of common stock during the three months and nine months ended June 29, 2008, respectively, and employee stock options to purchase approximately 87,158,000 and 94,589,000 shares of common stock during the three months and nine months ended July 1, 2007, respectively, were outstanding but not included in the computation of diluted earnings per common share because the effect on diluted earnings per share would be anti-dilutive.

Comprehensive Income. Total comprehensive income consisted of the following (in millions):

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
Net income	$ 748	$ 798	$ 2,282	$ 2,171
Other comprehensive income (loss):				
Foreign currency translation	(1)	6	8	17
Net unrealized gains (losses) on securities and derivative instruments, net of income taxes	32	86	(336)	273
Reclassification adjustment for net realized gains on securities and derivative instruments included in net income, net of income taxes	(20)	(31)	(75)	(98)
Reclassification adjustment for other-than-temporary losses on marketable securities included in net income, net of income taxes	43		105	2
Total other comprehensive income (loss)	54	61	(298)	194
Total comprehensive income	$ 802	$ 859	$ 1,984	$ 2,365

Accumulated other comprehensive (loss) income consisted of the following (in millions):

	June 29, 2008	September 30, 2007
Net unrealized (losses) gains on marketable securities and derivative instruments, net of income taxes	$ (66)	$ 240
Foreign currency translation	5	(3)
	$ (61)	$ 237

Share-Based Payments. Total estimated share-based compensation expense was as follows (in millions, except per share data):

	Three Months Ended		Nine Months Ended	
	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007

Cost of equipment and services revenues	$ 10	$ 10	$ 29	$ 29
Research and development	64	50	182	166
Selling, general and administrative	65	56	185	179
Share-based compensation expense before taxes	139	116	396	374
Related income tax benefits	(45)	(40)	(128)	(128)
Share-based compensation expense, net of taxes	$ 94	$ 76	$ 268	$ 246
Net share-based compensation expense, per common share:				
Basic	$ 0.06	$ 0.05	$ 0.16	$ 0.15
Diluted	$ 0.06	$ 0.04	$ 0.16	$ 0.15

Table of Contents

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company recorded $83 million and $60 million in share-based compensation expense during the nine months ended June 29, 2008 and July 1, 2007, respectively, related to share-based awards granted during those periods. In addition, for the nine months ended June 29, 2008 and July 1, 2007, $310 million and $199 million, respectively, was reclassified to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities to reflect the incremental tax benefits from stock options exercised in those periods. At June 29, 2008, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $1.7 billion, which is expected to be recognized over a weighted-average period of 3.6 years. Net stock options, after forfeitures and cancellations, granted during the nine months ended June 29, 2008 and July 1, 2007 represented 2.7% and 1.9%, respectively, of outstanding shares as of the beginning of each fiscal period. Total stock options granted during the nine months ended June 29, 2008 and July 1, 2007 represented 3.0% and 2.2%, respectively, of outstanding shares as of the end of each fiscal period.

Future Accounting Requirements. In September 2006, the FASB issued Statement No. 157 (FAS 157), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value in the financial statements. FAS 157 does not require any new fair value measurements, but applies to other accounting pronouncements that require or permit fair value measurements. In February 2007, the FASB issued Statement No. 159 (FAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which provides companies the irrevocable option to measure many financial assets and liabilities at fair value with the changes in fair value recognized in earnings resulting in an opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The accounting provisions of FAS 157 and FAS 159 will be effective for the Company s fiscal 2009 beginning September 29, 2008. The Company is in the process of determining the effects, if any, the adoption of FAS 157 and FAS 159 will have on its consolidated financial statements.

In December 2007, the FASB revised Statement No. 141 (FAS 141R), Business Combinations, which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R will be effective for the Company s fiscal 2010 beginning September 28, 2009. The Company is in the process of determining the effects, if any, the adoption of FAS 141R will have on its consolidated financial statements.

In March 2008, the FASB issued Statement No. 161 (FAS 161), Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of using derivative instruments, the method by which the derivative instruments and related hedged items are accounted for under FASB Statement No.133 and its related interpretations, and the effect of derivative instruments and related hedged items on financial position, financial performance and cash flows. FAS 161 also requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. FAS 161 will be effective for the Company s second quarter of fiscal 2009. The Company is currently assessing the impact that the adoption of FAS 161 will have on its financial statement disclosures.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 Composition of Certain Financial Statement Items

Marketable Securities.

	Current		Noncurrent	
	June 29, 2008	September 30, 2007	June 29, 2008	September 30, 2007
	(In millions)		(In millions)	
Available-for-sale:				
U.S. Treasury securities	$ 121	$ 58	$	$
Government-sponsored enterprise securities	260	219		
Foreign government bonds	18	8		
Corporate bonds and notes	2,454	2,939	166	21
Mortgage- and asset-backed securities	519	414		
Auction rate securities		159	193	
Non-investment-grade debt securities	20	19	2,115	1,812
Equity securities	164	203	879	1,316
Equity mutual funds and exchange traded funds			1,214	1,871
Debt mutual funds	88	151		214
	$ 3,644	$ 4,170	$ 4,567	$ 5,234

At June 29, 2008 and September 30, 2007, marketable securities included $318 million and $411 million, respectively, of securities that were loaned under the Company s securities lending program. At June 29, 2008 and September 30, 2007, unrealized gains on marketable securities were $134 million and $510 million, respectively, and unrealized losses were $253 million and $89 million, respectively. The unrealized losses on the Company s investments in marketable securities generally relate to liquidity, credit and economic concerns that have depressed security values over the past several months. The Company considers these unrealized losses to be temporary.

Since March 30, 2008, the Company classified its auction rate securities as noncurrent assets due to a disruption in credit markets that caused the auction mechanism to fail to set market-clearing rates and provide liquidity for sellers. However, a failed auction does not represent a default by the issuer of the underlying security. All of the Company s auction rate securities are rated AAA/Aaa, are collateralized by student loans substantially guaranteed by the U.S. government and continue to pay interest in accordance with their contractual terms. At June 29, 2008, the recorded values of the auction rate securities approximate their par values.

Property, Plant and Equipment.

	June 29, 2008	September 30, 2007
	(In millions)	
Land	$ 124	$ 124
Buildings and improvements	1,058	954
Computer equipment	905	800
Machinery and equipment	1,132	999
Furniture and office equipment	55	48
Leasehold improvements	234	205

	3,508	3,130
Less accumulated depreciation and amortization	(1,596)	(1,342)
	$ 1,912	$ 1,788

The net book values of property under capital leases included in buildings and improvements totaled $116 million and $91 million at June 29, 2008 and September 30, 2007, respectively. Capital lease additions were $18 million and $32 million during the three months and nine months ended June 29, 2008, respectively, and $7 million and $21 million during the three months and nine months ended July 1, 2007, respectively.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Intangible Assets. Net wireless