Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ materially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled Risk Factors and elsewhere in this Annual Report.

Overview

Recent Developments

Revenues for fiscal 2013 were $24.9 billion, with net income attributable to Qualcomm of $6.9 billion, which primarily resulted from the following key items:

- We shipped approximately 716 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, an increase of 21%, compared to approximately 590 million MSM integrated circuits in fiscal 2012.
- Total reported device sales were approximately $231.2 billion, an increase of approximately 23%, compared to approximately $187.3 billion in fiscal 2012. (1)

Against this backdrop, the following recent developments occurred during fiscal 2013 with respect to key elements of our business or our industry:

- Worldwide cellular connections grew by approximately 6% to reach approximately 6.8 billion. (2)
- Worldwide 3G connections (all CDMA-based) grew by approximately 18% to approximately 2.2 billion, which was approximately 32% of total cellular subscriptions, including approximately 0.5 billion CDMA2000 1X/1xEV-DO subscriptions and approximately 1.7 billion WCDMA/HSPA/TD-SCDMA subscriptions. (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. 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 November 4, 2013, for the quarter ended September 30, 2013 (estimates excluded Wireless Local Loop).

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, fixed license fees (payable in one or more installments) and ongoing royalties for use of our intellectual property, and fees for messaging and other services and related hardware sales, software development and licensing, and related services and software hosting services. Costs and expenses primarily consist of cost of equipment and services revenues and research and development and selling, general and administrative expenses.

We conduct business primarily through four reportable segments: QCT, QTL, QWI and QSI. Our reportable segments are operated by QUALCOMM Incorporated and its direct and indirect subsidiaries. At the beginning of fiscal 2013, we completed a corporate reorganization in which certain assets of QUALCOMM Incorporated, as well as the stock of certain of its direct and indirect subsidiaries, were contributed to its wholly-owned subsidiary Qualcomm Technologies, Inc. (QTI). QTL continues to be operated by QUALCOMM Incorporated, which continues to own the vast majority of our patent portfolio. Substantially all of our products and services businesses, including QCT, and substantially all of our engineering, research and development functions, are operated by QTI and its subsidiaries. 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 (Qualcomm CDMA Technologies) 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 and system software are sold to or 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 and infrastructure equipment, and in wired devices, particularly broadband gateway equipment, desktop computers, televisions, set-top boxes and Blu-ray players. The MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Qualcomm

Snapdragon processor devices, 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 67%, 63% and 59% of total consolidated revenues in fiscal 2013, 2012 and 2011, respectively.

QCT utilizes a fabless production business 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 been assembled into packages or modules and have completed the final 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 wafers and die from semiconductor manufacturing foundries and contract with separate third-party suppliers for probe, assembly and test services.

QTL (Qualcomm Technology Licensing) 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 (including TD-SCDMA), GSM/GPRS/EDGE and/or OFDMA standards and their derivatives. QTL licensing revenues are comprised of license fees as well as 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 (e.g., certain shipping costs, packing costs, VAT, etc.). QTL recognizes royalty revenues based on royalties reported by licensees during the quarter 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 30%, 33% and 36% of total consolidated revenues in fiscal 2013, 2012 and 2011, 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.

QWI (Qualcomm Wireless & Internet), which includes our Omnitracs, QIS, QGOV and QRS divisions, generates revenues primarily through sales of products, services (including software development) and software aimed at the support and delivery of wireless applications. Omnitracs sells integrated wireless systems and services to transportation and logistics companies to manage their assets and workforce. On August 21, 2013, we entered into a definitive agreement under which we agreed to sell the North and Latin American operations of Omnitracs to a U.S.-based private equity firm for $800 million in cash, subject to the terms and conditions of the definitive agreement. The transaction is subject to customary closing conditions, including receipt of regulatory approvals, and is expected to close in the first quarter of fiscal 2014. We expect to record the gain on sale, net of income taxes, as a discontinued operation upon close. However, the revenues and operating results were not presented as a discontinued operation in any fiscal period because they were immaterial. QIS (Qualcomm Internet Services) provides content enablement services for the wireless industry, including its Brew, Plaza and other products and services. QIS also provides QChat push-to-talk and other software products and services for wireless operators. QGOV (Qualcomm Government Technologies) provides development and other services and related products involving wireless communications technologies to government agencies and their contractors. QRS (Qualcomm Retail Solutions) builds and manages software applications that enable certain mobile location-awareness and commerce services. QWI revenues comprised 2%, 3% and 4% of total consolidated revenues in fiscal 2013, 2012 and 2011, respectively.

QSI (Qualcomm Strategic Initiatives) makes strategic investments that we believe may open new or expand opportunities for our technologies, support the design and introduction of new products and services for voice and data communications or possess unique capabilities or technology. Many of these strategic investments are in early-stage companies. QSI also holds wireless spectrum. As part of our strategic investment activities, we intend to pursue various exit strategies from each of our QSI investments at some point in the future. During the third quarter of fiscal 2013, we deconsolidated subsidiaries that were established to operate a wireless network in India using broadband wireless access spectrum (the BWA subsidiaries) due to events that resulted in a change in control of these subsidiaries. The former BWA subsidiaries were merged into one entity on August 5, 2013, and on October 17, 2013, all of our interest in the remaining former subsidiary was sold.

Nonreportable segments are comprised of our QMT (Qualcomm MEMS Technologies) division and other display, wireless technology and service initiatives that include, but are not limited to: low power consumption, high optical performance flat display modules; medical device connectivity and related data management; augmented reality; and device-to-device communication. QMT continues to develop an interferometric modulator (IMOD) display technology based on micro-electro-mechanical-systems (MEMS) structure combined with thin film optics.

Discontinued Operations

On March 27, 2011, the FLO TV business and network were shut down. On December 27, 2011, we completed the sale of substantially all of our 700 MHz spectrum for $1.9 billion, and as a result, we recognized a gain in discontinued operations of $1.2 billion during fiscal 2012. The results of the discontinued FLO TV operations were as follows (in millions):

	Year Ended	
	September 30, 2012	September 25, 2011
Revenues	$ —	$ 5
Income (loss) from discontinued operations	$ 1,203	$ (507)
Income tax (expense) benefit	(427)	194
Discontinued operations, net of income taxes	$ 776	$ (313)

Looking Forward

The deployment of 3G networks has enabled increased voice capacity and higher data rates than prior generation networks, thereby supporting more minutes of use and a wide range of mobile broadband data applications for handsets, 3G connected computing devices and other consumer electronics. According to the Global mobile Suppliers Association (GSA), as of October 2013, to complement their existing 3G networks, more than 220 wireless operators have deployed and more than 420 wireless operators are planning to deploy OFDMA-based technology, often called 4G, in new wireless spectrum to gain additional capacity for data services. As a result, we expect continued growth in the coming years in consumer demand for 3G and 3G/4G multimode products and services around the world.

As we look forward to the next several months, the following items are likely to have an impact on our business:

- The worldwide transition from 2G to 3G and 3G/4G networks is expected to continue, including the further expansion of 3G in emerging regions, such as China. We expect that the growth of low-tier smartphone products will contribute to such expansion.
- We expect consumer demand for advanced 3G and 3G/4G multimode devices, including smartphones and data-centric devices, to continue at a strong pace.
- We expect that CDMA-based device prices will continue to vary broadly due to the increased penetration of smartphones combined with active competition throughout the world at all price tiers. Additionally, varying rates of economic growth by region and stronger growth of CDMA-based device shipments in emerging regions, as compared to developed regions, are expected to continue to impact the average and range of selling prices of CDMA-based devices.
- We continue to invest significant resources toward advancements to 3G, 3G/4G and 4G LTE (an OFDMA-based standard) technologies, audio and video codecs, wireless baseband chips, our converged computing/communications (Snapdragon) chips, multimedia products, software and services. We are also investing across a broad spectrum of opportunities that leverage our existing technical and business expertise to deploy new business models and enter into new industry segments, such as our IMOD and other display technologies; 3G/LTE and Wi-Fi products designed for implementation of small cells and the 1000x data challenge; wireless charging; proximity-based communications; very high speed connectivity; mobile location awareness and commerce; mobile health; wearable technology; gaming; and products for the connected home, the digital 6th sense and the Internet of Everything.

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 as to the benefits of our business model 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 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 Annual Report.

Critical Accounting Estimates

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, valuation of intangible assets and investments, income taxes and litigation. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Although we believe that our estimates and the assumptions supporting our assessments are reasonable, actual results that differ from our estimates could have a significant adverse effect on our operating results and financial position. We believe that the following significant accounting estimates may involve a higher degree of judgment and complexity than others.

Revenue Recognition. We derive revenue principally from sales of integrated circuit products and licensing of our intellectual property. The timing of revenue recognition and the amount of revenue actually recognized in each case depends upon a variety of factors, including the specific terms of each arrangement and the nature of our deliverables and obligations.

We license or otherwise provide rights to use portions of our intellectual property portfolio, which includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products. Licensing revenues include license fees (payable in one or more installments) and ongoing royalties based on licensees' sales of products incorporating or using our licensed intellectual property. License fees are recognized over the estimated period of benefit of the license to the licensee, typically 5 to 15 years. From time to time, licensees will not report royalties timely due to legal disputes or other reasons, and when this occurs, the timing and comparability of royalty revenues could be affected.

Valuation of Intangible Assets and Investments. Our business acquisitions typically result in the recording of goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. We also acquire intangible assets in other types of transactions. At September 29, 2013, our goodwill and other intangible assets, net of accumulated amortization, were $4.0 billion and $2.6 billion, respectively. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. For intangible assets acquired in a non-monetary exchange, the estimated fair values of the assets transferred (or the estimated fair values of the assets received, if more clearly evident) are used to establish their recorded values, unless the values of neither the assets received nor the assets transferred are determinable within reasonable limits, in which case the assets received are measured based on the carrying values of the assets transferred. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. An estimate of fair value can be affected by many assumptions that require significant judgment. For example, the income approach generally requires assumptions related to the appropriate business model to be used to estimate cash flows, total addressable market, pricing and share forecasts, competition, technology obsolescence, future tax rates and discount rates. Our estimate of the fair value of certain assets may differ materially from that determined by others who use different assumptions or utilize different business models. New information may arise in the future that affects our fair value estimates and could result in adjustments to our estimates in the future, which could have an adverse impact on our results of operations.

Goodwill and other indefinite-lived intangible assets are tested annually for impairment and in interim periods if certain events occur indicating that the carrying amounts may be impaired. Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Our judgments regarding the existence of impairment indicators and future cash flows related to goodwill and other intangible assets are based on operational performance of our businesses, market conditions and other factors. Although there are inherent uncertainties in this assessment process, the estimates and assumptions we use, including estimates of future cash flows, volumes, market penetration and discount rates, are consistent with our internal planning. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge on a portion or all of our goodwill and other intangible assets. Furthermore, we cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on our reported asset values. Future events could cause us to conclude that impairment indicators exist and that goodwill or other intangible assets associated with our acquired businesses are impaired. Any resulting impairment loss could have an adverse impact on our financial position and results of operations. During fiscal 2013 and 2012, we recorded $158 million and $54 million, respectively, in impairment charges resulting from revisions to our estimates of expected cash flows for certain long-lived assets of our QMT division as we continue to pursue our licensing model.

We hold investments in marketable securities, including U.S. treasury and government-related securities, corporate bonds and notes, mortgage- and asset-backed securities, auction rate securities, common and preferred stock and equity and debt funds. The fair value of these investments totaled $23.3 billion at September 29, 2013, with increases and decreases in fair value generally recorded through stockholders' equity as other comprehensive income or loss. We record impairment charges through the statement of operations when we believe an investment has experienced a decline that is other than temporary. The determination that a decline is other than temporary is subjective and influenced by many factors. In addition, the fair values of our strategic investments may be subject to substantial quarterly and annual fluctuations and to significant market volatility.

Adverse changes in market conditions or poor operating results of investees could result in losses or an inability to recover the carrying value of the investments, thereby requiring impairment charges. When assessing these investments for an other-than-temporary decline in value, we consider such factors as, among other things, how significant the decline in value is as a percentage of the original cost; how long the market value of the investment has been below its original cost; the extent of the general decline in prices or an increase in the default or recovery rates of securities in an asset class; negative events such as a bankruptcy filing or a need to raise capital or seek financial support from the government or others; the performance and pricing of the investee's securities in relation to the securities of its competitors within the industry and the market in general; and analyst recommendations, as applicable. We also review the financial statements of the investee to determine if the investee is experiencing financial difficulties. If we determine that a security price decline is other than temporary, we record an impairment loss, which could have an adverse impact on our results of operations. During fiscal 2013, 2012 and 2011, we recorded $72 million, $71 million and $39 million, respectively, in net impairment losses on our investments in marketable securities.

Income Taxes. Our income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service (IRS) and other tax authorities. In addition, the calculation of our tax liabilities involves uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While we believe we have appropriate support for the positions taken on our tax returns, we regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known. We are participating in the IRS Compliance Assurance Process program whereby we endeavor to agree with the IRS on the treatment of all issues prior to filing our federal return. A benefit of participation in this program is that post-filing adjustments by the IRS are less likely to occur.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax-planning strategies. At September 29, 2013, net deferred tax assets were $1.6 billion, which included a valuation allowance of $51 million. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against our deferred tax assets, which could result in an increase in our effective tax rate and an adverse impact on operating results.

We can only use net operating losses to offset taxable income of certain legal entities in certain tax jurisdictions. At September 29, 2013, we had unused federal, state and foreign net operating losses of $131 million, $604 million and $75 million, respectively. Based upon our assessments of projected future taxable income and losses and historical losses incurred by these entities, we expect that the future taxable income of the entities in these tax jurisdictions will not be sufficient to utilize the net operating losses we have incurred through fiscal 2013. Therefore, we have provided a $32 million valuation allowance for these net operating losses. Significant judgment is required to forecast the timing and amount of future taxable income in certain jurisdictions. Adjustments to our valuation allowance based on changes to our forecast of taxable income are reflected in the period the change is made.

Our QCT segment's non-United States headquarters is located in Singapore. We obtained tax incentives in Singapore, including a tax exemption for the first five years, provided that we meet specified employment and incentive criteria, and as a result of expiration of these incentives, our Singapore tax rate will increase in fiscal 2017 and again in fiscal 2027.

We consider the operating earnings of certain non-United States subsidiaries to be indefinitely invested outside the United States based on estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. We have not recorded a deferred tax liability of approximately $7.6 billion related to the United States federal and state income taxes and foreign withholding taxes on approximately $21.6 billion of undistributed earnings of foreign subsidiaries indefinitely invested outside the United States. Should we decide to repatriate the foreign earnings, we would have to adjust the income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

Litigation. We are currently involved in certain legal proceedings, and we intend to continue to vigorously defend ourselves. However, the unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, results of operations, financial condition or cash flows. We estimate the range of liability related to pending litigation where the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the claim. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of the potential liability could materially impact our results of operations.

Results of Operations

Revenues (in millions)	Year Ended				
	September 29, 2013	**September 30, 2012**	**September 25, 2011**	**2013 vs. 2012 Change**	**2012 vs. 2011 Change**
Equipment and services	$ 16,988	$ 12,465	$ 9,223	$ 4,523	$ 3,242
Licensing	7,878	6,656	5,734	1,222	922
	$ 24,866	$ 19,121	$ 14,957	$ 5,745	$ 4,164

The increases in equipment and services revenues in fiscal 2013 and 2012 were primarily due to increases in QCT revenues of $4.58 billion and $3.25 billion, respectively. The increases in licensing revenues in fiscal 2013 and 2012 were primarily due to increases in QTL revenues of $1.23 billion and $905 million, respectively.

QCT and QTL segment revenues related to the products of Samsung Electronics and Hon Hai Precision Industry Co., Ltd/Foxconn, its affiliates and other suppliers to Apple Inc. comprised 43% and 38% of total consolidated revenues in fiscal 2013 and 2012, respectively. QCT and QTL segment revenues from Samsung Electronics and HTC comprised 26% of total consolidated revenues in fiscal 2011.

Revenues from customers in China, South Korea and Taiwan comprised 49%, 20% and 11%, respectively, of total consolidated revenues for fiscal 2013, as compared to 42%, 22%, and 14%, respectively, for fiscal 2012, and 32%, 19% and 17%, for fiscal 2011. We distinguish revenues from external customers by geographic areas based on the location to which our products, software or services are delivered or, for QTL licensing revenues, the invoiced addresses of our licensees.

Costs and Expenses (in millions)	Year Ended				
	September 29, 2013	**September 30, 2012**	**September 25, 2011**	**2013 vs. 2012 Change**	**2012 vs. 2011 Change**
Cost of equipment and services (E&S) revenues	$ 9,820	$ 7,096	$ 4,877	$ 2,724	$ 2,219
Cost as % of E&S revenues	58%	57%	53%		

The decreases in margin percentage in fiscal 2013 and 2012 were primarily attributable to decreases in QCT gross margin percentage. Our margin percentage may continue to fluctuate in future periods depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

	Year Ended				
	September 29, 2013	**September 30, 2012**	**September 25, 2011**	**2013 vs. 2012 Change**	**2012 vs. 2011 Change**
Research and development	$ 4,967	$ 3,915	$ 2,995	$ 1,052	$ 920
% of revenues	20%	20%	20%		
Selling, general, and administrative	$ 2,518	$ 2,270	$ 1,945	$ 248	$ 325
% of revenues	10%	12%	13%		
Other	$ 331	$ 158	$ 114	$ 173	$ 44

The dollar increases in research and development expenses in fiscal 2013 and 2012 were primarily attributable to increases of $904 million and $741 million, respectively, in costs related to the development of CDMA-based 3G, OFDMA-based 4G LTE and other technologies for integrated circuit and related software products and to expand our intellectual property portfolio and increases of $97 million and $149 million, respectively, in share-based compensation. Remaining dollar increases were related to research and development of other new product and licensing initiatives.

The dollar increase in selling, general and administrative expenses in fiscal 2013 was primarily attributable to a $113 million increase in employee-related expenses, a $56 million increase in selling and marketing expenses, a $40 million increase in patent-related expenses and a $29 million increase in depreciation and amortization expense, partially offset by a decrease of $23 million in share-based compensation. The dollar increase in selling, general and administrative expenses in fiscal 2012 was primarily attributable to a $96 million increase in employee-related expenses, a $77 million increase in costs related to litigation and other legal matters, a $65 million increase in share-based compensation, a $45 million increase in selling and marketing expenses and a $28 million increase in patent-related expenses, partially offset by a $55 million decrease in charitable contributions (primarily related to the establishment and initial funding of the Qualcomm Charitable Foundation in fiscal 2011).

Other expenses in fiscal 2013 were comprised of a $173 million charge resulting from the ParkerVision verdict against us and a $158 million impairment charge resulting from revisions to our estimates of expected cash flows for certain long-lived assets of our QMT division as we continue to pursue our licensing model. Other expenses in fiscal 2012 were comprised of an $81 million charge related to a payment made to the Indian government concurrent with the issuance of the BWA spectrum license, a $54 million impairment charge related to certain long-lived assets of our QMT division and $23 million in goodwill impairment charges related to our QRS division. Other expenses in fiscal 2011 were comprised of a $114 million goodwill impairment charge related to our QRS division.

Net Investment Income (in millions)	**Year Ended**				
	September 29, 2013	**September 30, 2012**	**September 25, 2011**	**2013 vs. 2012 Change**	**2012 vs. 2011 Change**
Interest and dividend income	$ 697	$ 609	$ 500	$ 88	$ 109
Interest expense	(23)	(90)	(114)	67	24
Net realized gains on marketable securities	317	342	335	(25)	7
Net realized gains on other investments	52	27	2	25	25
Impairment losses on marketable securities and other investments	(85)	(83)	(52)	(2)	(31)
Net gains (losses) on derivative instruments	—	84	(3)	(84)	87
Net gains on deconsolidation of subsidiaries	12	—	—	12	—
Equity in net losses of investees	(6)	(9)	(7)	3	(2)
	$ 964	$ 880	$ 661	$ 84	$ 219

The increases in interest and dividend income resulted from higher average balances of cash, cash equivalents and marketable securities in fiscal 2013 and 2012 and higher interest rates in fiscal 2012 compared to fiscal 2011. The decreases in interest expense resulted from capitalizing a portion of interest starting in fiscal 2012 related to the former BWA subsidiaries, which were deconsolidated in fiscal 2013. Net gains on derivative instruments in fiscal 2012 primarily resulted from changes in the fair value of put options sold in connection with our stock repurchase program that expired in fiscal 2012.

Income Tax Expense (in millions)	**Year Ended**				
	September 29, 2013	**September 30, 2012**	**September 25, 2011**	**2013 vs. 2012 Change**	**2012 vs. 2011 Change**
Income tax expense	$ 1,349	$ 1,279	$ 1,132	$ 70	$ 147
Effective tax rate	16%	19%	20%	(3)%	(1)%

The following table summarizes the primary factors that caused our annual effective tax rates to be less than the United States federal statutory rate:

	Year Ended		
	September 29, 2013	**September 30, 2012**	**September 25, 2011**
Expected income tax provision at federal statutory tax rate	35%	35%	35%
State income tax provision, net of federal benefit	—%	—%	5%
Benefits from foreign income taxed at other than U.S. rates	(17%)	(16%)	(19%)
Benefits related to the research and development tax credit	(2%)	(1%)	(3%)
Change in valuation allowance	—%	1%	1%
Other	—%	—%	1%
Effective tax rate	16%	19%	20%

The effective tax rate for fiscal 2013 reflected a tax benefit of $64 million related to fiscal 2012 resulting from the retroactive extension of the United States research and development tax credit. Additionally, the effective tax rate for fiscal 2013 as compared to fiscal 2012 reflected increased foreign earnings taxed at less than the United States federal rate.

The effective tax rate for fiscal 2012 as compared to fiscal 2011 reflected a reduction in our effective state tax rate as a result of California tax legislation previously enacted, partially offset by increased earnings taxed at the United States tax rate. The annual effective tax rate for fiscal 2012 only reflected the United States federal research and development credit generated through December 31, 2011, the date on which the credit expired.

The effective tax rate for fiscal 2011 reflected tax benefits of $44 million related to an agreement reached on a component of our fiscal 2006 through fiscal 2010 state tax returns and $32 million related to fiscal 2010 resulting from the retroactive extension of the United States federal research and development tax credit.

Our Segment Results (in millions)

The following should be read in conjunction with the fiscal2013, 2012 and 2011 financial results for each reporting segment. See “Notes to Consolidated Financial Statements, Note 8. Segment Information.”

	QCT	QTL	QWI	QSI
2013				
Revenues	$ 16,715	$ 7,554	$ 613	$ —
EBT (1)	3,189	6,590	(8)	56
EBT as a % of revenues	19%	87%	(1%)	
2012				
Revenues	$ 12,141	$ 6,327	$ 633	$ —
EBT (1)	2,296	5,585	(15)	(170)
EBT as a % of revenues	19%	88%	(2%)	
2011				
Revenues	$ 8,859	$ 5,422	$ 656	$ —
EBT (1)	2,056	4,753	(152)	(132)
EBT as a % of revenues	23%	88%	(23%)	

(1) Earnings (loss) before taxes.

QCT Segment. The increases in QCT revenues in fiscal 2013 and 2012 of $4.57 billion and $3.28 billion, respectively, were primarily due to increases in equipment and services revenues. Equipment and services revenues, mostly related to sales of MSM and accompanying RF and PM integrated circuits, were $16.49 billion, $11.91 billion and $8.65 billion in fiscal 2013, 2012 and 2011, respectively. The increases in equipment and services revenues in fiscal2013 and 2012 resulted primarily from increases of $2.09 billion and $651 million, respectively, related to the net effects of changes in product mix and lower average selling prices of such products, increases of $2.05 billion and $1.71 billion, respectively, related to higher unit shipments and increases of $212 million and $803 million, respectively, related to sales of connectivity products. Approximately 716 million, 590 million and 483 million MSM integrated circuits were sold during fiscal 2013, 2012 and 2011, respectively.

QCT EBT as a percentage of revenues remained flat in fiscal 2013 as compared to fiscal 2012. During fiscal 2013, QCT revenues increased 38% relative to a combined increase of 26% in research and development expenses and selling, general and administrative expenses, partially offset by a decrease in gross margin percentage. The decrease in QCT EBT as a percentage of revenues in fiscal 2012 was primarily due to a decrease in gross margin percentage, partially offset by an increase of 37% in QCT revenues relative to a combined increase of 33% in research and development expenses and selling, general and administrative expenses. QCT gross margin percentage decreased in fiscal 2013 as a result of the net effects of lower average selling prices and unfavorable product mix, partially offset by a decrease in average unit costs. QCT gross margin percentage decreased in fiscal 2012 as a result of the net effects of lower average selling prices, unfavorable product mix and higher product support costs, partially offset by a decrease in average unit costs. The higher product support costs in fiscal 2012 primarily related to increased expenses incurred to facilitate additional supply of 28 nanometer integrated circuits.

QCT inventories increased by 34% in fiscal 2013 from $973 million to $1.30 billion primarily due to certain higher value MSM products and an increase in work-in-process and finished goods related to growth of the business.

QTL Segment. The increases in QTL revenues in fiscal 2013 and 2012 of $1.23 billion and $905 million, respectively, were primarily due to increases in sales of CDMA-based devices by licensees. The net increase in QTL revenues in fiscal 2012 also included the effect of $401 million in revenues recorded in fiscal 2011 in connection with settlement agreements entered into with two licensees. The decrease in QTL EBT as a percentage of revenues during fiscal 2013 was attributable to an increase of 19% in revenues relative to an increase of 29% in costs and expenses primarily due to increased allocation of patent expenses in connection with the corporate reorganization and increased research and development expenses.

QWI Segment. The decrease in QWI revenues in fiscal2013 was primarily due to a decrease of $13 million in QIS revenues. The decrease in QWI revenues in fiscal 2012 was primarily due to a $25 million decrease in Omnitracs revenues. QWI costs and expenses in fiscal 2012 and 2011 included $23 million and $114 million respectively, of goodwill impairment charges related to our QRS division. The $16 million decrease in QWI EBT during fiscal 2013, excluding the impairment charges, was primarily attributable to a $19 million increase in QRS operating loss (before the impairment charges). The $46 million increase in QWI EBT in fiscal 2012, excluding the impairment charges, was primarily attributable to a $26 million decrease in QRS operating loss (before the impairment charges) and a $25 million decrease in QIS operating loss.

QSI Segment. QSI costs and expenses for fiscal 2012 included $81 million related to a payment made to the Indian government concurrent with the issuance of the BWA spectrum license. The increases in QSI EBT in fiscal 2013 and 2012 of $145 million and $43 million, respectively, excluding this expense, were primarily due to increases of $67 million and $40 million, respectively, in net realized gains on investments and decreases of $60 million and $20 million, respectively, in interest expense as a result of capitalizing interest starting in the third quarter of fiscal 2012 related to the BWA subsidiaries, which were deconsolidated in fiscal 2013.

Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations and proceeds from the issuance of common stock under our stock option and employee stock purchase plans. Cash, cash equivalents and marketable securities were $29.4 billion at September 29, 2013, an increase of $2.6 billion from September 30, 2012. This increase included $1.5 billion in proceeds from the issuance of common stock under our equity compensation plans. Our cash, cash equivalents and marketable securities at September 29, 2013 consisted of $8.1 billion held by United States-based subsidiaries and $21.3 billion held by foreign subsidiaries. Of our cash, cash equivalents and marketable securities at September 29, 2013, $21.2 billion is indefinitely reinvested and would be subject to material tax effects if repatriated. Due to tax considerations, we derive liquidity for operations primarily from domestic cash flow and investments held domestically. Total cash provided by operating activities increased to $8.8 billion during fiscal 2013, compared to $6.0 billion during fiscal 2012.

During fiscal 2013, we repurchased and retired 71,696,000 shares of common stock for$4.6 billion, before commissions. At September 29, 2013, approximately $4.9 billion remained available for repurchase under a new stock repurchase program announced in September, and we currently expect to complete a minimum of $4 billion of stock repurchases during fiscal 2014. The stock repurchase program has no expiration date. We continue to evaluate repurchases as a means of returning capital to stockholders, subject to our periodic determinations that repurchases are in the best interests of our stockholders.

We paid dividends totaling $2.1 billion and $1.6 billion, or $1.20 and $0.93 per common share, during fiscal 2013 and 2012, respectively. On March 5, 2013, we announced an increase in our quarterly dividend from $0.25 to $0.35 per share of common stock. On October 24, 2013, we announced a cash dividend of$0.35 per share of common stock, payable on December 19, 2013 to stockholders of record as of December 2, 2013. 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.

Accounts receivable increased 47% during fiscal 2013. Days sales outstanding, on a consolidated basis, were 30 days atSeptember 29, 2013 compared to 29 days at September 30, 2012. The increase in accounts receivable and the related days sales outstanding were primarily due to growth of the business and the effects of timing of shipments and customer payments for receivables related to integrated circuits.

We believe our current cash, cash equivalents and marketable securities and our expected cash flow generated from operations will provide us with flexibility and satisfy our working and other capital requirements over the next fiscal year and beyond based on our current business plans.

- Our research and development expenditures were$5.0 billion and $3.9 billion in fiscal 2013 and 2012, respectively, 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$1.0 billion and $1.3 billion in fiscal 2013 and 2012, respectively, including approximately $480 million in fiscal 2012 related to the construction of a new manufacturing facility in Taiwan for our QMT division. 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.
- Our purchase obligations for fiscal 2014, some of which relate to research and development activities and capital expenditures, totaled$3.3 billion at September 29, 2013.
- On August 21, 2013, we entered into a definitive agreement under which we agreed to sell the North and Latin American operations of our Omnitracs division for $800 million, subject to closing conditions, including receipt of regulatory approvals. We expect the transaction to close in the first quarter of fiscal 2014.

- 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 business.

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 S-K 303(a)(4)(ii).

At September 29, 2013, our outstanding contractual obligations included (in millions):

Contractual Obligations
Payments Due By Fiscal Period

	Total	2014	2015-2016	2017-2018	Beyond 2018	No Expiration Date
Purchase obligations (1)	$ 3,558	$ 3,284	$ 256	$ 8	$ 10	$ —
Operating lease obligations	343	89	135	72	47	—
Capital lease obligations (2)	36	1	3	3	29	—
Equity funding commitments (3)	2	—	—	—	—	2
Other long-term liabilities (4)(5)	42	—	26	8	6	2
Total contractual obligations	$ 3,981	$ 3,374	$ 420	$ 91	$ 92	$ 4

(1) Total purchase obligations include $2.8 billion in commitments to purchase integrated circuit product inventories. Integrated circuit product inventory obligations represent purchase commitments for silicon wafers and assembly and test services. Under our manufacturing relationships with our foundry partners and assembly and test service providers, cancelation of outstanding purchase orders is generally allowed but requires payment of all costs incurred through the date of cancelation.

(2) Amounts represent future minimum lease payments including interest payments. Capital lease obligations are included in other liabilities in the consolidated balance sheet at September 29, 2013.

(3) These commitments do not have fixed funding dates and are subject to certain conditions. Commitments represent the maximum amounts to be financed or funded under these arrangements; actual financing or funding may be in lesser amounts or not at all.

(4) Certain long-term liabilities reflected on our balance sheet, such as unearned revenues, are not presented in this table because they do not require cash settlement in the future. Other long-term liabilities as presented in this table include the related current portions.

(5) Our consolidated balance sheet at September 29, 2013 included a $208 million noncurrent liability for uncertain tax positions, all of which may result in cash payment. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

Additional information regarding our financial commitments atSeptember 29, 2013 is provided in the notes to our consolidated financial statements. See “Notes to Consolidated Financial Statements, Note 7. Commitments and Contingencies.”

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance on disclosure requirements for items reclassified out of accumulated other comprehensive income. This new guidance requires entities to present (either on the face of the statement of operations or in the notes to the financial statements) the effects on the line items in the statement of operations for amounts reclassified out of accumulated other comprehensive income. The new guidance will be effective for us beginning in the first quarter of fiscal 2014. The adoption of the guidance will impact our financial statement presentation and/or our disclosures but will not impact our financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. We invest a portion of our cash in a number of diversified fixed and floating rate securities, consisting of cash equivalents, marketable debt securities, debt funds and derivative instruments, including interest rate swaps, that are subject to interest rate risk. Changes in the general level of interest rates can affect the fair value of our investment portfolio. If interest rates in the general economy were to rise, our holdings could lose value.

Historically, we presented a table that disclosed certain information (including principal or notional amounts, interest rates and maturities) regarding our interest-bearing instruments. However, given the increased size and diversity in our investment portfolio, we believe that providing a sensitivity analysis provides more meaningful disclosure regarding the impact to our holdings of potential changes in interest rates. As a result, in lieu of the tabular presentation, we are providing a sensitivity analysis that shows the effect of an assumed 100 basis point adverse movement in interest rates across the entire yield curve.