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 substantially 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 2012 were $19.1 billion, with net income of $6.1 billion, whch were impacted by the following key items:

- We shipped approximately 590 million Mobile Station Modem (MSM) integrated circuits for CDMA- and OFDMA-based wireless devices, an increase of 22%, compared to approximately 483 million MSM integrated circuits in fiscal 2011. (1)
- Total reported device sales were approximately $187.3 billion, an increase of approximately 25%, compared to approximately $149.5 billion in fiscal 2011. (2)
- 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 the second quarter of fiscal 2012.

Against this backdrop, the following recent developments occurred during fiscal 2012 with respect to key elements of our business or our industry:

- Worldwide wireless connections grew by approximately 9% to reach approximately 6.4 billion. (3)
- Worldwide 3G connections (all CDMA-based) grew by approximately 24% to approximately 1.8 billion, which was approximately 29% of total wireless subscriptions, including approximately 552 million CDMA2000 1X/1xEV-DO subscriptions and approximately 1.3 billion WCDMA/HSPA/TD-SCDMA subscriptions. (3)

(1) Some customers built devices that incorporated two MSM integrated circuits. In such cases, which represent approximately 1% of our gross volume, we count only one MSM integrated circuit in reporting the MSM integrated circuit shipments.

(2) 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 multimode CDMA/OFDMA 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, such as transportation, insurance and packing costs, 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.

(3) According to Wireless Intelligence estimates as of November 5, 2012, for the quarter ending September 30, 2012. Wireless Intelligence estimates for CDMA2000 1X/1xEV-DO connections do not include 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. Operating 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.

QCT is a leading developer and supplier of integrated circuits and system software based on CDMA, OFDMA and other technologies for use in voice and data communications, networking, application processing, multimedia and global positioning system products. QCT's integrated circuit products 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 and Blu-ray players. The MSM integrated circuits, which include the Mobile Data Modem, Qualcomm Single Chip and Qualcomm Snapdragon processor-based 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 63%, 59% and 61% of total consolidated revenues in fiscal 2012, 2011 and 2010, 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 manufacturers for probe, assembly and final test services.

QTL grants licenses or otherwise provides rights to use portions of our intellectual property portfolio, which, among other rights, includes certain patent rights essential to and/or useful in the manufacture and sale of certain wireless products, including, without limitation, products implementing CDMA2000, WCDMA, CDMA TDD (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 licensed products, net of certain permissible deductions (e.g., certain shipping costs, packing costs, VAT, etc.). QTL revenues comprised 33%, 36% and 33% of total consolidated revenues in fiscal 2012, 2011 and 2010, respectively. The vast majority of such revenues were generated through our licensees' sales of CDMA2000 and WCDMA subscriber equipment products.

QWI, which includes our QES, QIS, QGOV and Firethorn divisions, generates revenues primarily through sales of products, services (including software development) and software aimed at the support and delivery of wireless applications. QES sells integrated wireless systems and services to transportation and logistics companies to manage their assets and workforce. QIS 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 provides development and other services and related products involving wireless communications technologies to government agencies and their contractors. Firethorn builds and manages software applications that enable mobile commerce services. QWI revenues comprised 3%, 4% and 6% of total consolidated revenues in fiscal 2012, 2011 and 2010, respectively.

QSI makes strategic investments that we believe will open new 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, including the broadband wireless access (BWA) spectrum held by our subsidiaries (BWA subsidiaries) that were established to operate a wireless network in India. 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. The assets and liabilities of the BWA subsidiaries are presented as held for sale at September 30, 2012 as a result of our agreement with Bharti Airtel Limited (Bharti), which provides that Bharti's ownership interest in the BWA subsidiaries will increase over time to 100% if certain conditions are met. In addition, the results of QSI's FLO TV business are presented as discontinued operations and are therefore not included in QSI's segment revenues or loss before income taxes.

Nonreportable segments are comprised of display and other product and services initiatives, including our QMT division. QMT continues to develop an interferometric modulator (IMOD) display technology based on micro-electro-mechanical-system (MEMS) structure combined with thin film optics. During the third quarter of fiscal 2012, we updated the business plan and related internal forecasts for our QMT division to reflect a focus on licensing our next generation IMOD display technology while directly commercializing only certain IMOD products. As a result, we tested the QMT division's goodwill and other long-lived assets for impairment and concluded that the fair value of the QMT reporting unit was greater than its carrying value and that the carrying values of QMT's long-lived asset groups were recoverable. During the fourth quarter of fiscal 2012, we revised our plans with respect to certain equipment comprising an asset group and recorded an impairment charge of $54 million.

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 the second quarter of fiscal 2012. All remaining assets have been considered disposed of since March 27, 2011, the date on which the assets ceased to be used. Since the shut down of the FLO TV business and network, we have been working to sell the remaining assets and exit contracts. Accordingly, the results of operations of the FLO TV business are presented as discontinued operations. Income (loss) from discontinued operations includes share-based compensation and excludes certain general corporate expenses allocated to the FLO TV business during the periods presented.

Summarized results from discontinued operations were as follows (in millions):

	Year Ended		
	September 30, 2012	September 25, 2011	September 26, 2010
Revenues	$ —	$ 5	$ 9
Income (loss) from discontinued operations	1,203	(507)	(459)
Income tax (expense) benefit	(427)	194	186
Discontinued operations, net of income taxes	$ 776	$ (313)	$ (273)

Looking Forward

The deployment of 3G networks enables 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 November 2012, to complement their existing 3G networks, more than 110 wireless operators have deployed and more than 300 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. In addition, we expect an increasing number of devices, such as computers, consumer electronics and networking equipment, to require multiple communications technologies to support a variety of connected applications.

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 China, India and other emerging regions. We expect that the emergence of lower-end 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, such as tablets and e-readers, 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 the development of technologies and products for voice and data communications, primarily in the wireless industry, including advancements to 3G and 4G LTE (an OFDMA-based standard) networks, wireless baseband chips, our converged computing/communications (Snapdragon) chips, multimedia products, software and services, as well as our IMOD and other display technologies.
- We expect industry demand for 28 nanometer integrated circuits to continue to be strong. Accordingly, even as we continue to increase our supply of 28 nanometer integrated circuits, we may still experience supply shortages for our 28 nanometer integrated circuit products during the early part of fiscal 2013. Our QCT business anticipates a strong first quarter in fiscal 2013 as the supply of 28 nanometer integrated circuits increases and as new 3G and 3G/4G devices are launched for the holiday season.

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, share-based compensation, 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, licensing of our intellectual property and software, and sales of messaging, software hosting, software development and other services and related hardware. 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 30, 2012, our goodwill and other intangible assets, net of accumulated amortization, were $3.9 billion and $2.9 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 or received in a non-monetary exchange, the estimated fair values of the assets received (or, for non-monetary exchanges, the estimated fair values of the assets transferred if more clearly evident) are used to establish their recorded values, except when neither the values of the assets received or the assets transferred in non-monetary exchanges are determinable within reasonable limits. 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 2012 and 2011, we recorded $23 million and $114 million, respectively, in goodwill impairment charges related to our Firethorn division due to the operating performance of new product applications falling significantly short of expectations.

We hold investments in marketable securities, including equity securities, non-investment-grade debt securities, equity and debt mutual and exchange-traded funds, corporate bonds and notes, auction rate securities and mortgage- and asset-backed securities. The fair value of these investments totaled $23 billion at September 30, 2012, 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 may record an impairment loss, which could have an adverse impact on our results of operations. During fiscal 2012, 2011 and 2010, we recorded $71 million, $39 million and $111 million, respectively, in net impairment losses on our investments in marketable securities.

Share-Based Compensation. Share-based compensation expense recognized during fiscal 2012, 2011 and 2010 was $1.0 billion, $821 million and $614 million, respectively. Share-based compensation is measured at the grant date, or at the acquisition date for assumed awards, based on the estimated fair value of the award and is recognized as expense over the requisite service period. We estimate the fair value of stock option awards granted using a lattice binomial option-pricing model and the fair value of stock option awards assumed using the Black-Scholes option-pricing model. Accordingly, the fair value of an option award as determined using an option-pricing model is affected by our stock price on the valuation date as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends. For purposes of estimating the fair value of stock options, we used the implied volatility of market-traded options in our stock for the expected volatility assumption input to the option-pricing model. The assumption inputs related to employee exercise behavior include estimates of the post-vest forfeiture rate and suboptimal exercise factors, which are based on historical experience. Beginning in fiscal 2010, we began to issue restricted stock units (RSUs) to employees. Since such time, the number of stock options granted to employees has decreased, and we expect this trend to continue into the foreseeable future. We estimate the fair value of RSUs based on the fair value of the underlying stock on the date of grant or date the awards are assumed. If RSUs do not have the right to participate in dividends, the fair value is discounted by the dividend yield. Judgment is required in estimating the amount of share-based awards that are expected to be forfeited. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate, share-based compensation expense is adjusted accordingly.

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 dealing with 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 30, 2012, net deferred tax assets were $1.7 billion, which included a valuation allowance of $142 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 30, 2012, we had unused federal, state and foreign net operating losses of $154 million, $591 million and $41 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 2012. Therefore, we have provided a $27 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.

During fiscal 2012, we established our QCT segment's non-United States headquarters 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 in Singapore. The location of QCT's headquarters in Singapore will not result in any change in foreign tax during the first five years, as compared to tax that would be owed under the previous structure of QCT's non-United States operations. Our Singapore tax rate is expected to increase in fiscal 2017 and again in fiscal 2027 as a result of expiration of these incentives.

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 $5.8 billion related to the United States federal and state income taxes and foreign withholding taxes on approximately $16.4 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 30, 2012	September 25, 2011	September 26, 2010	2012 vs. 2011 Change	2011 vs. 2010 Change
Equipment and services	$ 12,465	$ 9,223	$ 6,971	$ 3,242	$ 2,252
Licensing	6,656	5,734	4,011	922	1,723
	$ 19,121	$ 14,957	$ 10,982	$ 4,164	$ 3,975

The increases in equipment and services revenues in fiscal 2012 and 2011 were primarily due to increases in QCT revenues of $3.25 billion and $2.18 billion, respectively. The increases in licensing revenues in fiscal 2012 and 2011 were primarily due to increases in QTL revenues of $905 million and $1.76 billion, respectively.

QCT and QTL segment revenues related to the products of two companies comprised 38% of total consolidated revenues in fiscal 2012; QCT and QTL segment revenues from two customers/licensees comprised 26% and 25% in fiscal 2011 and 2010, respectively.

Revenues from customers in China, South Korea and Taiwan comprised 42%, 22% and 14%, respectively, of total consolidated revenues for fiscal 2012, as compared to 32%, 19%, and 17%, respectively, for fiscal 2011, and 29%, 27% and 12%, for fiscal 2010. 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's licensing and royalty revenues, the invoiced addresses of our licensees.

Operating Expenses (in millions)

	Year Ended				
	September 30, 2012	September 25, 2011	September 26, 2010	2012 vs. 2011 Change	2011 vs. 2010 Change
Cost of equipment and services (E&S) revenues	$ 7,096	$ 4,877	$ 3,301	$ 2,219	$ 1,576
Cost as % of E&S revenues	57%	53%	47%		

The decreases in margin percentage in fiscal 2012 and 2011 were primarily attributable to decreases in QCT gross margin percentage, and in fiscal 2011, the gross margin percentage was also adversely affected by $137 million in charges from the recognition of the step-up of inventories to fair value and amortization of intangible assets related to the acquisition of Atheros in fiscal 2011. Our margin percentage may fluctuate in future periods depending on the mix of products sold and services provided, competitive pricing, new product introduction costs and other factors.

	Year Ended				
	September 30, 2012	September 25, 2011	September 26, 2010	2012 vs. 2011 Change	2011 vs. 2010 Change
Research and development	$ 3,915	$ 2,995	$ 2,451	$ 920	$ 544
% of revenues	20%	20%	22%		
Selling, general, and administrative	2,324	1,945	1,503	379	442
% of revenues	12%	13%	14%		
Other	104	114	—	(10)	114

The dollar increases in research and development expenses in fiscal2012 and 2011 were primarily attributable to increases of $741 million and $403 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 $149 million and $104 million, respectively, in share-based compensation. Remaining dollar increases were related to development of our display technologies, other new product initiatives and our services businesses.

The dollar increase in selling, general and administrative expenses in fiscal2012 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 $54 million long-lived asset impairment charge related to our QMT division, 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). The dollar increase in selling, general and administrative expenses in fiscal 2011 was primarily attributable to a $142 million increase in employee-related expenses, an $86 million increase in share-based compensation, a $66 million increase in depreciation and amortization expense (primarily attributable to the acquisition of Atheros), the effect of a $62 million gain on the sale of our Australia spectrum license recorded in fiscal 2010 and a $44 million increase in charitable contributions (primarily related to the establishment and initial funding of the Qualcomm Charitable Foundation in fiscal 2011).

Other operating 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 and $23 million in goodwill impairment charges related to our Firethorn division. Other operating expenses in fiscal 2011 were comprised of a $114 million goodwill impairment charge related to our Firethorn division.

Net Investment Income (in millions)	Year Ended				
	September 30, 2012	September 25, 2011	September 26, 2010	2012 vs. 2011 Change	2011 vs. 2010 Change
Interest and dividend income:					
Corporate and other segments	$ 590	$ 480	$ 522	$ 110	$ (42)
QSI	19	20	8	(1)	12
Interest expense	(90)	(114)	(43)	24	(71)
Net realized gains on investments:					
Corporate and other segments	327	335	379	(8)	(44)
QSI	42	2	26	40	(24)
Net impairment losses on investments:					
Corporate and other segments	(49)	(39)	(110)	(10)	71
QSI	(34)	(13)	(15)	(21)	2
Gains (losses) on derivative instruments	84	(3)	3	87	(6)
Equity in losses of investees	(9)	(7)	(4)	(2)	(3)
	$ 880	$ 661	$ 766	$ 219	$ (105)

The increase in interest and dividend income in fiscal 2012 on cash and marketable securities held by corporate and other segments was a result of higher average cash and marketable securities balances and higher interest rates earned on those investments. Interest expense in fiscal 2012 and 2011 was primarily attributable to loans and debentures related to the BWA spectrum won in the India auction in June 2010. The decrease in interest expense in fiscal 2012 resulted primarily from the fact that we did not capitalize interest during fiscal 2011, compared to $29 million of interest capitalized during fiscal 2012. The increase in 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 which have expired. The decrease in net impairment losses on investments in fiscal 2011 was due to an overall increase in marketable securities values compared to fiscal 2010.

Income Tax Expense (in millions)	Year Ended				
	September 30, 2012	September 25, 2011	September 26, 2010	2012 vs. 2011 Change	2011 vs. 2010 Change
Income tax expense	$ 1,279	$ 1,132	$ 973	$ 147	$ 159
Effective tax rate	19%	20%	22%	(1)%	(2)%

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 30, 2012	September 25, 2011	September 26, 2010
Expected income tax provision at federal statutory tax rate	35%	35%	35%
State income tax provision, net of federal benefit	—%	5%	5%
Benefits from foreign income taxed at other than U.S. rates	(16%)	(19%)	(20%)
Benefits related to the research and development tax credit	(1%)	(3%)	(1%)
Change in valuation allowance	1%	1%	(1%)
Tax expense related to the valuation of deferred tax assets to reflect changes in California law	—%	1%	4%
Effective tax rate	19%	20%	22%

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. The effective tax rate for fiscal 2010 reflected the United States federal research and development credits generated through December 31, 2009, the date on which they expired, and a tax expense of approximately $137 million that arose because certain deferred revenue was taxable in fiscal 2010, but the resulting deferred tax asset is reversing in subsequent years in which our effective state tax rate is lower as a result of California tax legislation previously enacted.

Our Segment Results (in millions)

The following should be read in conjunction with the fiscal2012, 2011 and 2010 financial results for each reporting segment. See “Notes to Consolidated Financial Statements, Note 8. Segment Information.”

	QCT	QTL	QWI	QSI	Reconciling Items	Total
2012						
Revenues	$ 12,141	$ 6,327	$ 633	$ —	$ 20	$ 19,121
EBT (1)	2,296	5,585	(15)	(170)	(1,134)	6,562
EBT as a % of revenues	19%	88%	(2%)			
2011						
Revenues	$ 8,859	$ 5,422	$ 656	$ —	$ 20	$ 14,957
EBT (1)	2,056	4,753	(152)	(132)	(838)	5,687
EBT as a % of revenues	23%	88%	(23%)			
2010						
Revenues	$ 6,695	$ 3,659	$ 628	$ —	$ —	$ 10,982
EBT (1)	1,693	3,020	12	7	(239)	4,493
EBT as a % of revenues	25%	83%	2%			

(1) Earnings (loss) before taxes.

QCT Segment. Equipment and services revenues, mostly related to sales of MSM and accompanying RF and PM integrated circuits, were $11.91 billion, $8.65 billion and $6.47 billion in fiscal 2012, 2011 and 2010, respectively. The increases in equipment and services revenues in fiscal2012 and 2011 resulted primarily from increases of $1.71 billion and $1.23 billion, respectively, related to higher unit shipments, increases of $803 million and $391 million, respectively, related to sales of connectivity products (primarily resulting from the acquisition of Atheros in the third quarter of fiscal 2011) and increases of $651 million and $461 million, respectively, related to the net effects of changes in product mix and lower selling prices of such products.[(1)] Approximately 590 million, 483 million and 399 million MSM integrated circuits were sold during fiscal 2012, 2011 and 2010, respectively (excluding the second MSM for customers who built devices with two MSMs starting in fiscal 2011).

The decreases in EBT as a percentage of revenues in fiscal2012 and 2011 were primarily due to decreases in gross margin percentage, partially offset by the effects of higher increases in QCT revenues relative to the increases in research and development expenses and selling, general and administrative expenses. QCT gross margin percentage decreased in fiscal 2012 and 2011 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 36% in fiscal 2012 from $714 million to $973 million primarily due to an increase in work-in-process and finished goods related to growth of the business.

(1) During fiscal 2012, we updated the method we use to quantify the dollar impact of changes in QCT unit shipments as compared to the impact of changes in product mix and changes in product prices. The information presented for the fiscal 2011 increase reflects the updated method.

QTL Segment. During the second quarter of fiscal 2011, we entered into agreements with two licensees to settle ongoing disputes, including an arbitration proceeding with Panasonic, and recorded $401 million in revenues related to prior quarters. The $1.31 billion and $1.36 billion increases in revenues, excluding the $401 million effect of these settlements, in fiscal 2012 and 2011, respectively, were primarily due to increases in sales of CDMA-based devices by licensees and higher average royalties per unit for CDMA-based devices. The increases in QTL earnings before taxes and operating margin percentage in fiscal 2011 compared to fiscal 2010 were attributable to the 48% increase in licensing revenue relative to a 5% increase in operating expenses.

QWI Segment. The decrease in QWI revenues in fiscal2012 was primarily due to a $25 million decrease in QES revenues resulting from lower shipments of mobile information units and lower services revenues. The increase in QWI revenues in fiscal 2011 was primarily due to increases in QGOV and QES revenues of $27 million and $20 million, respectively, partially offset by a $23 million decrease in QIS revenues. The increase in QGOV revenues was primarily attributable to growth in customer funded development contracts, and the increase in QES revenues was primarily attributable to higher shipments of our mobile information units. The decrease in QIS revenues was primarily attributable to a decrease in Brew revenues resulting from lower consumer demand.

QWI operating expenses in fiscal 2012 and 2011 included $23 million and $114 million, respectively, of goodwill impairment charges related to our Firethorn division. The $46 million increase in QWI earnings before taxes in fiscal 2012, excluding the impairment charges, was primarily attributable to a $26 million decrease in Firethorn operating loss (before the impairment charges) and a $25 million decrease in QIS operating loss. The $50 million decrease in QWI earnings before taxes in fiscal 2011, excluding the impairment charge, was primarily attributable to the operating loss of our QIS division.

QSI Segment. QSI operating expenses for fiscal 2012 included $81 million related to a payment made to the Indian government concurrent with issuance of the BWA spectrum license. The $43 million decrease in QSI loss before taxes from continuing operations in fiscal 2012, excluding this charge, was primarily attributable to a $40 million increase in net realized gains on investments and a $20 million decrease in interest expense as a result of capitalizing interest starting in the third quarter of fiscal 2012 related to the BWA network in India. QSI earnings before taxes from continuing operations for fiscal 2010 included a $62 million gain on the sale of our Australia spectrum license. The remaining $77 million increase in QSI loss before taxes from continuing operations in fiscal 2011 was primarily due to a $72 million increase in interest expense attributable to loans related to the BWA spectrum won in the India auction in June 2010.

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 $26.8 billion at September 30, 2012, an increase of $5.9 billion from September 25, 2011. This increase included $1.9 billion in proceeds from the sale of substantially all of our 700 MHz spectrum and $1.7 billion in proceeds from the issuance of common stock under our equity compensation plans. Our cash, cash equivalents and marketable securities at September 30, 2012 consisted of $9.8 billion held domestically and $17.0 billion held by foreign subsidiaries. Of the amount of cash, cash equivalents and marketable securities held by our foreign subsidiaries at September 30, 2012, $16.4 billion is indefinitely reinvested and would be subject to material tax effects if repatriated. Due to tax and accounting considerations, we derive liquidity for operations primarily from domestic cash flow and investments held domestically. Total cash provided by operating activities increased to $6.0 billion during fiscal 2012, compared to $4.9 billion during fiscal 2011.

During fiscal 2012, we repurchased and retired 23,893,000 shares of common stock for $1.3 billion, before commissions. At September 30, 2012, approximately $2.8 billion remained available for repurchase under our stock repurchase program. Since September 30, 2012, we repurchased and retired 4,132,000 shares of common stock for $240 million. 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 interest of our stockholders.

We paid dividends totaling $1.6 billion, $1.3 billion and $1.2 billion, or $0.93, $0.81 and $0.72 per common share, during fiscal 2012, 2011 and 2010, respectively. On March 6, 2012, we announced an increase in our quarterly dividend from $0.215 to $0.25 per share of common stock. We announced cash dividends totaling $426 million, or $0.25 per share, during the fourth quarter of fiscal 2012, which were paid on September 26, 2012. On October 17, 2012, we announced a cash dividend of $0.25 per share of common stock, payable on December 21, 2012 to stockholders of record as of December 7, 2012. 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 2012. Days sales outstanding, on a consolidated basis, were 29 days at September 30, 2012, compared to 22 days at September 25, 2011. 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 and cash equivalents, 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 $3.9 billion and $3.0 billion in fiscal 2012 and 2011, 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 $1.3 billion and $593 million in fiscal 2012 and 2011, respectively, including approximately $480 million and $225 million, respectively, 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 2013, some of which relate to research and development activities and capital expenditures, totaled $3.1 billion at September 30, 2012.
- The acquisition of Atheros in fiscal 2011 was more significant than others we have made in the past. 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.
- At September 30, 2012, we have loan and debenture liabilities in the aggregate of $1.1 billion, which were classified as held for sale, related to the BWA spectrum won in India that are denominated in Indian rupees. At September 30, 2012, loans in the aggregate of $545 million are due and payable in full on December 18, 2012, and $519 million in debentures, including accrued interest, are due and payable in full on June 25, 2017. We intend to refinance the loans with long-term loans on or before December 18, 2012. Each holder has the right to demand redemption of its portion of the debentures outstanding on June 25, 2013 subject to sufficient prior written notice. As a result, the debentures were classified as current liabilities. The loans bear interest at rates that are reset quarterly (ranging from 10.00% to 10.50% at September 30, 2012); interest payments are due monthly. The debentures bear interest at an agreed-upon annual rate, which is compounded annually and reset semi-annually beginning on June 25, 2013 (10.25% at September 30, 2012) with interest due upon redemption.

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 30, 2012, our outstanding contractual obligations included (in millions):

Contractual Obligations
Payments Due By Fiscal Period

		Total		2013		2014-2015		2016-2017		Beyond 2017		No Expiration Date
Purchase obligations (1)	$	3,616	$	3,053	$	521	$	32	$	10	$	—
Loans and debentures (2)		1,064		1,064		—		—		—		—
Operating lease obligations		444		131		170		73		70		—
Capital lease obligations (3)		134		5		9		10		110		—
Equity funding commitments (4)		2		—		—		—		—		2
Other long-term liabilities (5)(6)		52		—		44		5		1		2
Total contractual obligations	$	5,312	$	4,253	$	744	$	120	$	191	$	4

(1) Total purchase obligations include $3.1 billion in commitments to purchase integrated circuit product inventories.

(2) Amounts include principal and interest. The loans and debentures are payable in Indian rupees. The majority of the loans ($468 million at September 30, 2012) bear interest at an annual rate based on the highest rate among the bank lenders, which is reset quarterly, plus 0.25% (10.00% at September 30, 2012) with interest payments due monthly. The remaining loan ($77 million at September 30, 2012) bears interest at an annual rate based on the highest rate of the bank that is party to the loan or of the other bank lenders, which is reset quarterly, plus 0.25% (10.50% at September 30, 2012) with interest payments due monthly. All of the loans are due and payable in full on December 18, 2012; we intend to refinance the loans with long-term loans on or before that date. The debentures bear interest at an agreed-upon annual rate, which is compounded annually and reset semi-annually beginning on June 25, 2013 (10.25% at September 30, 2012) with interest due upon redemption. The debentures can be redeemed by us without penalty on certain dates. Additionally, each holder has the right to demand redemption of its portion of the debentures outstanding on June 25, 2013 subject to sufficient prior written notice.

(3) Amounts represent future minimum lease payments including interest payments. Capital lease obligations are included in other liabilities in the consolidated balance sheet at September 30, 2012.

(4) 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.

(5) 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.

(6) Our consolidated balance sheet at September 30, 2012 included an $82 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 30, 2012 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 June 2011, the Financial Accounting Standards Board revised the authoritative guidance for comprehensive income to require an entity to present total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminated the option to present the components of other comprehensive income as part of the statement of stockholders' equity. The guidance will be effective for us beginning in the first quarter of fiscal 2013 and will be applied retrospectively. The adoption of the guidance will impact the presentation of the financial statements 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 investment- and non-investment-grade fixed and floating rate securities, consisting of cash equivalents, marketable debt securities, debt funds and derivative instruments, including interest rate swaps. Changes in the general level of United States interest rates can affect the principal values and yields of fixed interest-bearing securities and the fair value of interest rate swaps held in connection with our marketable securities portfolios classified as trading. If interest rates in the general economy were to rise rapidly in a short period of time, our fixed interest-bearing securities could lose value. When the general economy weakens significantly, the credit profile, financial strength and growth prospects of certain issuers of interest-bearing securities held in our investment portfolios may deteriorate, and our interest-bearing securities may lose value either temporarily or other than temporarily. We may implement investment strategies of different types with varying duration and risk/return trade-offs that do not perform well.