
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 25, 2023

OR

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

For the transition period from _____ to _____ .

Commission File Number 0-19528

QUALCOMM Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

5775 Morehouse Dr., San Diego, California
(Address of Principal Executive Offices)

95-3685934
(I.R.S. Employer
Identification No.)

92121-1714
(Zip Code)

(858) 587-1121

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value	QCOM	Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

Yes No

The number of shares outstanding of the registrant's common stock was 1,116 million at July 31, 2023.

QUALCOMM Incorporated
Form 10-Q
For the Quarter Ended June 25, 2023

	<u>Page</u>
<u>Risk Factors Summary</u>	<u>4</u>
 <u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Balance Sheets</u> <u>6</u>
	<u>Condensed Consolidated Statements of Operations</u> <u>7</u>
	<u>Condensed Consolidated Statements of Comprehensive Income</u> <u>8</u>
	<u>Condensed Consolidated Statements of Cash Flows</u> <u>9</u>
	<u>Condensed Consolidated Statements of Stockholders' Equity</u> <u>10</u>
	<u>Notes to Condensed Consolidated Financial Statements</u> <u>11</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>21</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>51</u>
<u>Item 4.</u>	<u>Controls and Procedures</u> <u>51</u>
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> <u>52</u>
<u>Item 1A.</u>	<u>Risk Factors</u> <u>52</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities</u> <u>52</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> <u>52</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> <u>52</u>
<u>Item 5.</u>	<u>Other Information</u> <u>52</u>
<u>Item 6.</u>	<u>Exhibits</u> <u>53</u>
 <u>SIGNATURES</u>	 <u>54</u>

Risk Factors Summary:

Our business is subject to numerous risks and uncertainties, including those described in the section labeled “Risk Factors” in “Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report. These risks include, but are not limited to, the following:

RISKS RELATED TO OUR OPERATING BUSINESSES

- *We derive a significant portion of our revenues from a small number of customers and licensees, and particularly from their sale of premium tier devices. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuates, our business and results of operations could be negatively affected.*
- *Our business, particularly our semiconductor business, may suffer as a result of our customers vertically integrating (i.e., developing their own integrated circuit products).*
- *A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions.*

RISKS RELATED TO NEW INITIATIVES

- *Our growth depends in part on our ability to extend our technologies and products into new and expanded product areas, and industries and applications beyond mobile handsets. Our research, development and other investments in these new and expanded product areas, industries and applications, and related technologies and products, as well as in our existing technologies and products, and new technologies, may not generate operating income or contribute to future results of operations that meet our expectations.*
- *We may engage in acquisitions and other strategic transactions or make investments, or be unable to consummate planned strategic acquisitions, which could adversely affect our results of operations or fail to enhance stockholder value.*

RISKS RELATED TO SUPPLY AND MANUFACTURING

- *We depend on a limited number of third-party suppliers for the procurement, manufacture, assembly and testing of our products manufactured in a fabless production model. If we fail to execute supply strategies that provide supply assurance, technology leadership and reasonable margins, our business and results of operations may be harmed. We are also subject to order and shipment uncertainties that could negatively impact our results of operations.*
- *There are numerous risks associated with the operation and control of our manufacturing facilities, including a higher portion of fixed costs relative to a fabless model; environmental compliance and liability; impacts related to climate change; exposure to natural disasters, health crises, geopolitical conflicts and cyber-attacks; timely supply of equipment and materials; and various manufacturing issues.*

RISKS RELATED TO CYBERSECURITY OR MISAPPROPRIATION OF OUR CRITICAL INFORMATION

- *Our business and operations could suffer in the event of security breaches of our IT systems, or other misappropriation of our technology, intellectual property or other proprietary or confidential information.*

RISKS RELATED TO HUMAN CAPITAL MANAGEMENT

- *We may not be able to attract and retain qualified employees, and recent changes to our hybrid work model may not be successful.*

RISKS SPECIFIC TO OUR LICENSING BUSINESS

- *The continued and future success of our licensing programs requires us to continue to evolve our patent portfolio and to renew or renegotiate license agreements that are expiring.*
- *Efforts by some original equipment manufacturers (OEMs) to avoid paying fair and reasonable royalties for the use of our intellectual property may require the investment of substantial management time and financial resources and may result in legal decisions or actions by governments, courts, regulators or agencies, Standards Development Organizations (SDOs) or other industry organizations that harm our business.*
- *Changes in our patent licensing practices, whether due to governmental investigations, legal challenges or otherwise, could adversely impact our business and results of operations.*

RISKS RELATED TO REGULATORY AND LEGAL CHALLENGES

- *Our business may suffer as a result of adverse rulings in governmental investigations or proceedings or other legal proceedings.*

RISKS RELATED TO INDUSTRY DYNAMICS AND COMPETITION

- *Our revenues depend on our customers' and licensees' sales of products and services based on CDMA, OFDMA and other communications technologies, including 5G, and customer demand for our products based on these technologies.*
- *Our industry is subject to intense competition in an environment of rapid technological change. Our success depends in part on our ability to adapt to such change and compete effectively; and such change and competition could result in decreased demand for our products and technologies or declining average selling prices for our products or those of our customers or licensees.*

RISKS RELATED TO PRODUCT DEFECTS OR SECURITY VULNERABILITIES

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

RISKS RELATED TO INTELLECTUAL PROPERTY

- *The enforcement and protection of our intellectual property may be expensive, could fail to prevent misappropriation or unauthorized use of our intellectual property, could result in the loss of our ability to enforce one or more patents, and could be adversely affected by changes in patent laws, by laws in certain foreign jurisdictions that may not effectively protect our intellectual property and by ineffective enforcement of laws in such jurisdictions.*
- *Claims by other companies that we infringe their intellectual property could adversely affect our business.*
- *Our use of open source software may harm our business.*

GENERAL RISK FACTORS

- *The COVID-19 pandemic, or a similar health crisis, may impact our business or results of operations in the future.*
- *We operate in the highly cyclical semiconductor industry, which is subject to significant downturns. We are also susceptible to declines in global, regional and local economic conditions generally. Our stock price and financial results are subject to substantial quarterly and annual fluctuations due to these dynamics, among others.*
- *Our business may suffer due to the impact of, or our failure to comply with, the various existing, new or amended laws, regulations, policies or standards to which we are subject.*
- *There are risks associated with our debt.*
- *Tax liabilities could adversely affect our results of operations.*

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUALCOMM Incorporated
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except par value amounts)
(Unaudited)

	<u>June 25, 2023</u>	<u>September 25, 2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,087	\$ 2,773
Marketable securities	2,544	3,609
Accounts receivable, net	3,850	5,643
Inventories	6,628	6,341
Held for sale assets	317	733
Other current assets	1,050	1,625
Total current assets	20,476	20,724
Deferred tax assets	2,773	1,803
Property, plant and equipment, net	5,216	5,168
Goodwill	10,591	10,508
Other intangible assets, net	1,618	1,882
Held for sale assets	218	1,200
Other assets	8,110	7,729
Total assets	\$ 49,002	\$ 49,014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 1,744	\$ 3,796
Payroll and other benefits related liabilities	1,546	1,486
Unearned revenues	249	369
Short-term debt	914	1,945
Held for sale liabilities	300	581
Other current liabilities	3,710	3,689
Total current liabilities	8,463	11,866
Unearned revenues	92	144
Income taxes payable	1,098	1,472
Long-term debt	14,530	13,537
Held for sale liabilities	36	119
Other liabilities	4,113	3,863
Total liabilities	28,332	31,001
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 8 shares authorized; none outstanding	—	—
Common stock and paid-in capital, \$0.0001 par value; 6,000 shares authorized; 1,115 and 1,121 shares issued and outstanding, respectively	77	195
Retained earnings	20,163	17,840
Accumulated other comprehensive income (loss)	430	(22)
Total stockholders' equity	20,670	18,013
Total liabilities and stockholders' equity	\$ 49,002	\$ 49,014

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Revenues:				
Equipment and services	\$ 7,108	\$ 9,266	\$ 22,737	\$ 27,365
Licensing	1,343	1,670	4,452	5,440
Total revenues	8,451	10,936	27,189	32,805
Costs and expenses:				
Cost of revenues	3,792	4,816	11,989	13,767
Research and development	2,222	2,052	6,683	6,016
Selling, general and administrative	618	655	1,854	1,887
Other (Note 2)	(4)	(1,059)	285	(1,059)
Total costs and expenses	6,628	6,464	20,811	20,611
Operating income	1,823	4,472	6,378	12,194
Interest expense	(172)	(70)	(521)	(345)
Investment and other income (expense), net	106	(163)	166	(321)
Income from continuing operations before income taxes	1,757	4,239	6,023	11,528
Income tax expense	(22)	(509)	(313)	(1,465)
Income from continuing operations	1,735	3,730	5,710	10,063
Discontinued operations, net of income taxes	68	—	32	—
Net income	\$ 1,803	\$ 3,730	\$ 5,742	\$ 10,063
Basic earnings per share:				
Continuing operations	\$ 1.56	\$ 3.32	\$ 5.11	\$ 8.96
Discontinued operations	0.06	—	0.03	—
Net income	\$ 1.62	\$ 3.32	\$ 5.14	\$ 8.96
Diluted earnings per share:				
Continuing operations	\$ 1.54	\$ 3.29	\$ 5.07	\$ 8.84
Discontinued operations	0.06	—	0.03	—
Net income	\$ 1.60	\$ 3.29	\$ 5.10	\$ 8.84
Shares used in per share calculations:				
Basic	1,115	1,122	1,117	1,124
Diluted	1,124	1,134	1,126	1,139

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Net income	\$ 1,803	\$ 3,730	\$ 5,742	\$ 10,063
Other comprehensive income, net of income taxes:				
Foreign currency translation (losses) gains	(29)	(99)	205	(182)
Net unrealized gains (losses) on available-for-sale debt securities	7	(25)	43	(105)
Net unrealized (losses) gains on derivative instruments	(3)	121	131	394
Other gains	—	—	6	—
Other reclassifications included in net income	37	6	67	(17)
Total other comprehensive income	12	3	452	90
Comprehensive income	\$ 1,815	\$ 3,733	\$ 6,194	\$ 10,153

See accompanying notes.

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

	Nine Months Ended	
	June 25, 2023	June 26, 2022
Operating Activities:		
Net income from continuing operations	\$ 5,710	\$ 10,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,347	1,272
Income tax provision less than income tax payments	(836)	(234)
Share-based compensation expense	1,876	1,510
Net (gains) losses on marketable securities and other investments	(84)	374
Impairment losses on other investments	120	41
Other items, net	23	(41)
Changes in assets and liabilities:		
Accounts receivable, net	1,807	(216)
Inventories	(192)	(2,201)
Other assets	604	(2,360)
Trade accounts payable	(2,052)	948
Payroll, benefits and other liabilities	(604)	(1,274)
Unearned revenues	(116)	(232)
Net cash used by operating activities from discontinued operations	(394)	—
Net cash provided by operating activities	<u>7,209</u>	<u>7,650</u>
Investing Activities:		
Capital expenditures	(1,157)	(1,628)
Purchases of debt and equity marketable securities	(22)	(1,269)
Proceeds from sales and maturities of debt and equity marketable securities	1,119	1,960
Acquisitions and other investments, net of cash acquired	(107)	(4,743)
Proceeds from sales of property, plant and equipment	121	—
Proceeds from other investments	13	125
Other items, net	18	41
Net cash provided by investing activities from discontinued operations	1,395	—
Net cash provided (used) by investing activities	<u>1,380</u>	<u>(5,514)</u>
Financing Activities:		
Proceeds from short-term debt	4,668	3,065
Repayment of short-term debt	(5,166)	(3,066)
Repayment of debt of acquired company	—	(349)
Proceeds from long-term debt	1,880	1,477
Repayment of long-term debt	(1,446)	(1,540)
Proceeds from issuance of common stock	233	188
Repurchases and retirements of common stock	(2,573)	(2,629)
Dividends paid	(2,569)	(2,371)
Payments of tax withholdings related to vesting of share-based awards	(499)	(751)
Other items, net	(16)	(28)
Net cash used by financing activities from discontinued operations	(58)	—
Net cash used by financing activities	<u>(5,546)</u>	<u>(6,004)</u>
Effect of exchange rate changes on cash and cash equivalents	35	(50)
Net increase (decrease) in total cash and cash equivalents	3,078	(3,918)
Total cash and cash equivalents at beginning of period (including \$326 million classified as held for sale at September 25, 2022)	<u>3,099</u>	<u>7,116</u>
Total cash and cash equivalents at end of period (including \$90 and \$522 million classified as held for sale at June 25, 2023 and June 26, 2022, respectively)	<u>\$ 6,177</u>	<u>\$ 3,198</u>

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Total stockholders' equity, beginning balance	\$ 19,698	\$ 13,328	\$ 18,013	\$ 9,950
Common stock and paid-in capital:				
Balance at beginning of period	\$ —	\$ —	\$ 195	\$ —
Common stock issued under employee benefit plans	1	1	233	188
Repurchases and retirements of common stock	(400)	(352)	(1,818)	(1,014)
Share-based compensation	643	540	1,966	1,577
Tax withholdings related to vesting of share-based payments	(167)	(189)	(499)	(751)
Balance at end of period	77	—	77	—
Retained earnings:				
Balance at beginning of period	19,280	13,113	17,840	9,822
Net income	1,803	3,730	5,742	10,063
Repurchases and retirements of common stock	—	(148)	(755)	(1,615)
Dividends	(920)	(865)	(2,664)	(2,440)
Balance at end of period	20,163	15,830	20,163	15,830
Accumulated other comprehensive income (loss):				
Balance at beginning of period	418	215	(22)	128
Other comprehensive income	12	3	452	90
Balance at end of period	430	218	430	218
Total stockholders' equity, ending balance	\$ 20,670	\$ 16,048	\$ 20,670	\$ 16,048
Dividends per share announced	\$ 0.80	\$ 0.75	\$ 2.30	\$ 2.11

See accompanying notes.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation and Significant Accounting Policies Update

Financial Statement Preparation. These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. These condensed consolidated financial statements are unaudited and should be read in conjunction with our Annual Report on Form 10-K for our fiscal year ended September 25, 2022. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. We operate and report using a 52-53 week fiscal year ending on the last Sunday in September. Each of the three and nine months ended June 25, 2023 and June 26, 2022 included 13 weeks and 39 weeks, respectively.

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

Note 2. Composition of Certain Financial Statement Items

Inventories (in millions)

	June 25, 2023	September 25, 2022
Raw materials	\$ 194	\$ 221
Work-in-process	4,366	3,329
Finished goods	2,068	2,791
	<u>\$ 6,628</u>	<u>\$ 6,341</u>

Revenues. We disaggregate our revenues by segment (Note 7), by products and services (as presented on our condensed consolidated statement of operations), and for our QCT (Qualcomm CDMA Technologies) segment, by revenue stream, which is based on the industry and application in which our products are sold (as presented below). Beginning in the first quarter of fiscal 2023, QCT RFFE (radio frequency front-end) revenues, which were previously presented as a separate revenue stream, are now included within our Handset, Automotive and internet of things (IoT) revenue streams, as applicable, based on the industry and application in which the related RFFE products are sold. Prior period information has been recast to reflect this change. RFFE revenues include revenues from the sale of 4G, 5G sub 6 and 5G millimeter wave RFFE products (a substantial portion of which relate to mobile handsets) and exclude radio frequency transceiver components. This change aligns with changes made to our internal reporting of revenues. We believe this change provides a more meaningful presentation in understanding QCT revenues going forward, as we expect RFFE revenues to correspond with trends in Handsets, Automotive and IoT (as applicable) and is more consistent with how our revenue diversification is viewed externally. In certain cases, the determination of QCT revenues by industry and application requires the use of certain assumptions. Substantially all of QCT's revenues consist of equipment revenues that are recognized at a point in time, and substantially all of QTL's (Qualcomm Technology Licensing) revenues represent licensing revenues that are recognized over time and are principally from royalties generated through our licensees' sales of mobile handsets.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

QCT revenue streams were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Handsets (1)	\$ 5,255	\$ 7,047	\$ 17,114	\$ 21,385
Automotive (2)	434	385	1,337	1,044
IoT (3)	1,485	1,946	4,557	5,344
Total QCT revenues	\$ 7,174	\$ 9,378	\$ 23,008	\$ 27,773

(1) Includes revenues from products sold for use in mobile handsets.

(2) Includes revenues from products sold for use in automobiles, including connectivity, digital cockpit and advanced driver assistance systems (ADAS) and automated driving (AD).

(3) Primarily includes products sold for use in the following industries and applications: consumer (including computing, voice and music and extended reality (XR)), edge networking (including mobile broadband and wireless access points) and industrial (including handhelds, retail, transportation and logistics and utilities).

Revenues recognized from performance obligations satisfied (or partially satisfied) in previous periods generally include certain QCT sales-based royalty revenues related to system software, certain amounts related to QCT customer incentives and QTL royalty revenues recognized related to devices sold in prior periods (including adjustments to prior period royalty estimates, which includes the impact of the reporting by our licensees of actual royalties due) and were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Revenues recognized from previously satisfied performance obligations	\$ 216	\$ 260	\$ 521	\$ 578

Unearned revenues (which are considered contract liabilities) consist primarily of certain customer contracts for which QCT received fees upfront and QTL license fees for intellectual property with continuing performance obligations. In the nine months ended June 25, 2023 and June 26, 2022, we recognized revenues of \$302 million and \$482 million, respectively, that were recorded as unearned revenues at September 25, 2022 and September 26, 2021, respectively.

Remaining performance obligations, which are primarily included in unearned revenues (as presented on our condensed consolidated balance sheet), represent the aggregate amount of the transaction price of certain customer contracts yet to be recognized as revenues as of the end of the reporting period and exclude revenues related to (a) contracts that have an original expected duration of one year or less and (b) sales-based royalties (i.e., future royalty revenues) pursuant to our license agreements.

Concentrations. A significant portion of our revenues are concentrated with a small number of customers/licensees of our QCT and QTL segments. The comparability of customer/licensee concentrations for the interim periods presented are impacted by the timing of customer/licensee device launches and/or innovation cycles and other seasonal trends, among other fluctuations in demand. Revenues from each customer/licensee that were 10% or greater of total revenues were as follows:

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Customer/licensee (x)	24%	22%	21%	20%
Customer/licensee (y)	23	17	28	20

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Other Income, Costs and Expenses. Other expense in the nine months ended June 25, 2023 consisted of \$285 million in restructuring and restructuring-related charges, substantially all of which related to severance costs, resulting from certain cost reduction initiatives committed to in fiscal 2023. We expect actions associated with existing restructuring plans to be substantially completed (including payments of the related severance) by the end of fiscal 2023.

Given the continued uncertainty in the macroeconomic and demand environment, we expect to take additional restructuring actions to enable continued investments in key growth and diversification opportunities. While we are in the process of developing our plans, we currently expect these actions to consist largely of workforce reductions, and in connection with any such actions we would expect to incur significant additional restructuring charges, a substantial portion of which we expect to incur in the fourth quarter of fiscal 2023. We currently anticipate these additional actions to be substantially completed in the first half of fiscal 2024.

Other income in the three and nine months ended June 26, 2022 consisted of a \$1.1 billion benefit resulting from the General Court of the European Union issuing a ruling to annul a decision made by the European Commission (EC). The benefit was the result of reversing a previously accrued fine and the associated interest that was accrued as a financial guarantee for the decision made by the EC in fiscal 2018.

Investment and Other Income (Expense), Net (in millions)

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Interest and dividend income	\$ 79	\$ 22	\$ 193	\$ 59
Net losses on marketable securities	(23)	(104)	(3)	(327)
Net gains on other investments	17	25	17	97
Net gains (losses) on deferred compensation plan assets	48	(80)	95	(110)
Impairment losses on other investments	(19)	(20)	(120)	(41)
Other	4	(6)	(16)	1
	\$ 106	\$ (163)	\$ 166	\$ (321)

Note 3. Income Taxes

We estimate our annual effective income tax rate to be 6% for fiscal 2023, which is lower than the U.S. federal statutory rate, primarily due to (i) a significant portion of our income qualifying for preferential treatment as foreign-derived intangible income (FDII) at a 13% effective tax rate, which includes certain benefits discussed below from the new requirement to capitalize research and development expenditures for federal income tax purposes, (ii) a benefit from our federal research and development tax credit, (iii) benefits from fiscal 2021 and 2022 FDII deductions related to a change in sourcing of research and development expenditures and (iv) a benefit related to foreign currency gains on a noncurrent receivable related to our refund claim of Korean withholding tax. Our effective tax rate of 1% for the third quarter of fiscal 2023 was lower than our estimated annual effective tax rate of 6% primarily due to benefits from fiscal 2021 and 2022 FDII deductions related to a change in sourcing of research and development expenditures recognized discretely in the third quarter.

Beginning in fiscal 2023, for federal income tax purposes, we are required to capitalize and amortize domestic research and development expenditures over five years and foreign research and development expenditures over fifteen years (such expenditures were previously deducted as incurred). Our cash flows from operations will be adversely affected due to significantly higher cash tax payments. However, since the resulting deferred tax asset is established at the statutory rate of 21% (rather than the effective tax rate of 13% to 16% after considering the FDII deduction), capitalization favorably affects our provision for income taxes and results of operations. The adverse cash flow impact and favorable tax provision impact will diminish in future years as capitalized research and development expenditures continue to amortize.

Income taxes payable (recorded in other current liabilities) were \$1.4 billion and \$634 million at June 25, 2023 and September 25, 2022, respectively. This increase was primarily due to an announcement (IR-2023-33) by the Internal Revenue Service (IRS), which postponed our remaining current year U.S. federal income tax-payment deadlines until October 2023.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4. Capital Stock

Stock Repurchase Program. On October 12, 2021, we announced a \$10.0 billion stock repurchase program. The stock repurchase program has no expiration date. At June 25, 2023, \$5.5 billion remained authorized for repurchase under our stock repurchase program.

Shares Outstanding. Shares of common stock outstanding at June 25, 2023 were as follows (in millions):

Balance at September 25, 2022	1,121
Issued	15
Repurchased	(21)
Balance at June 25, 2023	<u>1,115</u>

Dividends. On July 14, 2023, we announced a cash dividend of \$0.80 per share on our common stock, payable on September 21, 2023 to stockholders of record as of the close of business on August 31, 2023.

Earnings Per Common Share. Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is computed by dividing net income by the combination of the weighted-average number of common shares outstanding and the weighted-average number of dilutive common share equivalents, comprised of shares issuable under our share-based compensation plans, during the reporting period. The following table provides information about the diluted earnings per share calculation (in millions):

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Dilutive common share equivalents included in diluted shares	9	12	9	15
Shares of common stock equivalents not included because the effect would be anti-dilutive or certain performance conditions were not satisfied at the end of the period	8	2	6	1

Note 5. Debt

Long-term Debt. In November 2022, we issued unsecured fixed-rate notes, consisting of \$700 million of fixed-rate 5.40% notes and \$1.2 billion of fixed-rate 6.00% notes (collectively, November 2022 Notes) that mature on May 20, 2033 and May 20, 2053, respectively. The net proceeds from the November 2022 Notes were used to repay \$946 million of fixed-rate notes and \$500 million of floating-rate notes that matured in January 2023 and the excess will be used for general corporate purposes.

At June 25, 2023, the aggregate fair value of our outstanding fixed-rate notes, based on Level 2 inputs, was approximately \$14.9 billion.

Interest Rate Swaps. At September 25, 2022, we had outstanding forward-starting interest rate swaps with an aggregate notional amount, denominated in U.S. dollars, of \$1.6 billion. During the first quarter of fiscal 2023, in connection with the issuance of the November 2022 Notes, we terminated these swaps, and the related gains of \$334 million, included within accumulated comprehensive income, are being recorded as a reduction to interest expense over the hedged portions of the related debt.

Commercial Paper Program. We have an unsecured commercial paper program, which provides for the issuance of up to \$4.5 billion of commercial paper. At June 25, 2023 and September 25, 2022, we had no amounts and \$499 million, respectively, of outstanding commercial paper recorded as short-term debt.

Note 6. Commitments and Contingencies

Legal and Regulatory Proceedings.

Consolidated Securities Class Action Lawsuit: On January 23, 2017 and January 26, 2017, securities class action complaints were filed by purported stockholders of us in the United States District Court for the Southern District of California against us and certain of our then current and former officers and directors. The complaints alleged, among other

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

things, that we violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, by making false and misleading statements and omissions of material fact in connection with certain allegations that we are or were engaged in anticompetitive conduct. The complaints sought unspecified damages, interest, fees and costs. On May 4, 2017, the court consolidated the two actions, and on July 3, 2017, the plaintiffs filed a consolidated amended complaint asserting the same basic theories of liability and requesting the same basic relief. On May 23, 2022, the plaintiffs filed a motion for class certification, and on March 20, 2023, the court issued an order granting in part and denying in part the plaintiffs' motion for class certification. The order denied class certification on the basis of alleged misrepresentations relating to our chip-level licensing practices, but certified a class on the basis of alleged misrepresentations relating to the separate operations of QCT and QTL. On April 3, 2023, we filed a petition with the United States Court of Appeals for the Ninth Circuit (Ninth Circuit) seeking permission to appeal the district court's class certification order, which the Ninth Circuit denied. No trial date has been set. We believe the plaintiffs' claims are without merit.

Consumer Class Action Lawsuits: Beginning in January 2017, a number of consumer class action complaints were filed against us in the United States District Courts for the Southern and Northern Districts of California, each on behalf of a putative class of purchasers of cellular phones and other cellular devices. In April 2017, the Judicial Panel on Multidistrict Litigation transferred the cases that had been filed in the Southern District of California to the Northern District of California. On July 11, 2017, the plaintiffs filed a consolidated amended complaint alleging that we violated California and federal antitrust and unfair competition laws by, among other things, refusing to license standard-essential patents to our competitors, conditioning the supply of certain of our baseband chipsets on the purchaser first agreeing to license our entire patent portfolio, entering into exclusive deals with companies, including Apple Inc., and charging unreasonably high royalties that do not comply with our commitments to standard setting organizations. The complaint sought unspecified damages and disgorgement and/or restitution, as well as an order that we be enjoined from further unlawful conduct. On July 5, 2018, the plaintiffs filed a motion for class certification, and on September 27, 2018, the court granted that motion. We appealed the district court's class certification order to the Ninth Circuit. On September 29, 2021, the Ninth Circuit vacated the class certification order, ruling that the district court had failed to correctly assess the propriety of applying California law to a nationwide class, and remanded the case to the district court. On June 10, 2022, the plaintiffs filed an amended complaint, limiting the proposed class to California residents rather than a nationwide class. On August 1, 2022, we filed a motion to dismiss the amended complaint, and on January 6, 2023, the court issued an order granting in part and denying in part our motion to dismiss. The order preserved the plaintiffs' claims related to exclusive dealing under California antitrust and unfair competition laws and dismissed the remainder of the plaintiffs' claims, which were related to our licensing practices. On April 7, 2023, we filed a motion for summary judgment on the plaintiffs' remaining claims. A hearing on our motion is scheduled for August 3, 2023. We believe the plaintiffs' claims are without merit.

Since November 2017, several other consumer class action complaints have been filed against us in Canada (in the Supreme Court of British Columbia and the Quebec Superior Court), Israel (in the Haifa District Court) and the United Kingdom (in the Competition Appeal Tribunal), each on behalf of a putative class of purchasers of cellular phones and other cellular devices, alleging violations of certain of those countries' competition and consumer protection laws. The claims in these complaints are similar to those in the U.S. consumer class action complaints. The complaints seek damages. We believe the plaintiffs' claims are without merit.

ParkerVision, Inc. v. QUALCOMM Incorporated: On May 1, 2014, ParkerVision filed a complaint against us in the United States District Court for the Middle District of Florida alleging that certain of our products infringed seven ParkerVision patents. On August 21, 2014, ParkerVision amended the complaint, alleging that we infringed 11 ParkerVision patents and sought damages and injunctive and other relief. ParkerVision subsequently reduced the number of patents asserted to three. The asserted patents are now expired, and injunctive relief is no longer available. ParkerVision continues to seek damages related to the sale of many of our radio frequency (RF) products sold between 2008 and 2018. On March 23, 2022, the court entered judgment in our favor on all claims and closed the case. On April 20, 2022, ParkerVision filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. We believe that ParkerVision's claims are without merit.

Arm Ltd. v. QUALCOMM Incorporated: On August 31, 2022, Arm Ltd. (ARM) filed a complaint against us in the United States District Court for the District of Delaware. Our subsidiaries Qualcomm Technologies, Inc. and NuVia, Inc. (Nuvia) are also named in the complaint. The complaint alleges that following our acquisition of Nuvia, we and Nuvia breached Nuvia's Architecture License Agreement with ARM (the Nuvia ALA) by failing to comply with the termination obligations under the Nuvia ALA. The complaint seeks specific performance, including that we cease all use of and destroy any technology that was developed under the Nuvia ALA, including processor core technology. ARM also contends that we

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

violated the Lanham Act through trademark infringement and false designation of origin through unauthorized use of ARM's trademarks and seeks associated injunctive and declaratory relief. ARM further seeks exemplary or punitive damages, costs, expenses and reasonable attorney's fees, and equitable relief addressing any infringement occurring after entry of judgment. We believe ARM's claims are without merit.

On September 30, 2022, we filed our Answer and Counterclaim in response to ARM's complaint denying ARM's claims. Our counterclaim seeks a declaratory judgment that we did not breach the Nuvia ALA or the Technology License Agreement between Nuvia and ARM and that, following the acquisition of Nuvia, our architected cores (including all further developments, iterations or instantiations of the technology we acquired from Nuvia), server System-on-Chip (SoC) and compute SoC are fully licensed under our existing Architecture License Agreement and Technology License Agreement with ARM (the ARM-Qualcomm Agreements). We further seek an order enjoining ARM from making any claim that our products are not licensed under the ARM-Qualcomm Agreements, are not ARM-compliant or that we are prohibited from using ARM's marks in the marketing of any such products. On October 26, 2022, we filed an Amended Counterclaim seeking additional declaratory relief that certain statements ARM is making in the marketplace concerning our rights under the ARM-Qualcomm Agreements are false, and that ARM has no right to prevent us from shipping our products, which are validly licensed. Trial is scheduled to begin on September 23, 2024.

Korea Fair Trade Commission (KFTC) Investigation (2015): On March 17, 2015, the KFTC notified us that it was conducting an investigation of us relating to the Korean Monopoly Regulation and Fair Trade Act (MRFTA). On December 27, 2016, the KFTC announced that it had reached a decision in the investigation, finding that we violated provisions of the MRFTA. On January 22, 2017, we received the KFTC's formal written decision, which found that the following conducts violate the MRFTA: (i) refusing to license, or imposing restrictions on licenses for, cellular communications standard-essential patents with competing modem chipset makers; (ii) conditioning the supply of modem chipsets to handset suppliers on their execution and performance of license agreements with us; and (iii) coercing agreement terms including portfolio license terms, royalty terms and free cross-grant terms in executing patent license agreements with handset makers. The KFTC's decision orders us to: (a) upon request by modem chipset companies, engage in good-faith negotiations for patent license agreements, without offering unjustifiable conditions, and if necessary submit to a determination of terms by an independent third party; (b) not demand that handset companies execute and perform under patent license agreements as a precondition for purchasing modem chipsets; (c) not demand unjustifiable conditions in our license agreements with handset companies and, upon request, renegotiate existing patent license agreements; and (d) notify modem chipset companies and handset companies of the decision and order imposed on us and report to the KFTC new or amended agreements. According to the KFTC's decision, the foregoing will apply to transactions between us and the following enterprises: (1) handset manufacturers headquartered in Korea and their affiliate companies; (2) enterprises that sell handsets in or to Korea and their affiliate companies; (3) enterprises that supply handsets to companies referred to in (2) above and the affiliate companies of such enterprises; (4) modem chipset manufacturers headquartered in Korea and their affiliate companies; and (5) enterprises that supply modem chipsets to companies referred to in (1), (2) or (3) above and the affiliate companies of such enterprises. The KFTC's decision also imposed a fine of 1.03 trillion Korean won (approximately \$927 million), which we paid on March 30, 2017.

On February 21, 2017, we filed an action in the Seoul High Court to cancel the KFTC's decision. The Seoul High Court held hearings concluding on August 14, 2019, and on December 4, 2019, announced its judgment affirming certain portions of the KFTC's decision and finding other portions of the KFTC's decision unlawful. The Seoul High Court cancelled the KFTC's remedial orders described in (c) above, and solely insofar as they correspond thereto, the Seoul High Court cancelled the KFTC's remedial orders described in (d) above. The Seoul High Court dismissed the remainder of our action to cancel the KFTC's decision. On December 19, 2019, we filed a notice of appeal to the Korea Supreme Court challenging those portions of the Seoul High Court decision that are not in our favor. The KFTC filed a notice of appeal to the Korea Supreme Court challenging the portions of the Seoul High Court decision that are not in its favor. On April 12, 2023, the Korea Supreme Court delivered its judgment, which dismissed all appeals by both Qualcomm and the KFTC, affirming the judgment of the Seoul High Court. The Korea Supreme Court judgment concludes the appeal process.

Korea Fair Trade Commission (KFTC) Investigation (2020): On June 8, 2020, the KFTC informed us that it was conducting an investigation of us relating to the MRFTA. The KFTC did not provide a formal notice on the scope of its investigation, but we believe it concerned our business practices in connection with our sale of RFFE components. On April 18, 2023, the KFTC informed us that it had closed its investigation without finding any violation.

Icera Complaint to the European Commission (EC): On June 7, 2010, the EC notified and provided us with a redacted copy of a complaint filed with the EC by Icera, Inc. (subsequently acquired by Nvidia Corporation) alleging that we were

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

engaged in anticompetitive activity. On July 16, 2015, the EC announced that it had initiated formal proceedings in this matter. On July 18, 2019, the EC issued a decision finding that between 2009 and 2011, we engaged in predatory pricing by selling certain baseband chipsets to two customers at prices below cost with the intention of hindering competition and imposed a fine of approximately 242 million euros. On October 1, 2019, we filed an appeal of the EC's decision with the General Court of the European Union. From March 13, 2023 to March 15, 2023, the court held a hearing on our appeal. The court has not yet issued a ruling. We believe that our business practices do not violate the European Union (EU) competition rules.

In the third quarter of fiscal 2019, we recorded a charge of \$275 million to other expenses related to the EC fine. We provided a financial guarantee in the first quarter of fiscal 2020 to satisfy the obligation in lieu of cash payment while we appeal the EC's decision. The fine is accruing interest at a rate of 1.50% per annum while it is outstanding and included in other current liabilities.

Contingent Losses and Other Considerations: We will continue to vigorously defend ourselves in the pending matters described above. However, litigation and investigations are inherently uncertain, and we face difficulties in evaluating or estimating likely outcomes or ranges of possible loss, particularly in antitrust and trade regulation investigations. Other than with respect to the EC fine related to the Icera Complaint to the European Commission, we have not recorded any accrual at June 25, 2023 for contingent losses associated with these matters based on our belief that losses, while reasonably possible, are not probable. Further, any possible amount or range of loss cannot be reasonably estimated at this time. The unfavorable resolution of one or more of these matters could have a material adverse effect on our business, results of operations, financial condition or cash flows. We are engaged in numerous other legal actions not described above arising in the ordinary course of our business (for example, proceedings relating to employment matters or the initiation or defense of proceedings relating to intellectual property rights) and, while there can be no assurance, we believe that the ultimate outcome of these other legal actions will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

Note 7. Segment Information

We are organized on the basis of products and services and have three reportable segments. We conduct business primarily through our QCT semiconductor business and our QTL licensing business. QCT develops and supplies integrated circuits and system software based on 3G/4G/5G and other technologies, including RFFE, for use in mobile devices; automotive systems for connectivity, digital cockpit and ADAS/AD; and IoT including consumer electronic devices; industrial devices; and edge networking products. QTL grants licenses or otherwise provides 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. Our QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments. We also have nonreportable segments, including QGOV (Qualcomm Government Technologies) and our cloud AI inference processing initiative.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Revenues				
QCT	\$ 7,174	\$ 9,378	\$ 23,008	\$ 27,773
QTL	1,230	1,519	4,044	4,917
QSI	9	8	22	22
Reconciling items	38	31	115	93
Total	<u>\$ 8,451</u>	<u>\$ 10,936</u>	<u>\$ 27,189</u>	<u>\$ 32,805</u>
EBT				
QCT	\$ 1,744	\$ 2,996	\$ 6,035	\$ 9,450
QTL	811	1,080	2,799	3,640
QSI	(21)	(101)	(83)	(248)
Reconciling items	(777)	264	(2,728)	(1,314)
Total	<u>\$ 1,757</u>	<u>\$ 4,239</u>	<u>\$ 6,023</u>	<u>\$ 11,528</u>

Reconciling items for revenues and EBT in the previous table were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Revenues				
Nonreportable segments	\$ 38	\$ 31	\$ 115	\$ 93
EBT				
Unallocated cost of revenues	\$ (42)	\$ (76)	\$ (155)	\$ (182)
Unallocated research and development expenses	(520)	(408)	(1,537)	(1,294)
Unallocated selling, general and administrative expenses	(172)	(171)	(464)	(462)
Unallocated other income (expenses) (Note 2)	4	1,059	(285)	1,059
Unallocated interest expense	(172)	(69)	(520)	(345)
Unallocated investment and other income (expense), net	130	(58)	252	(68)
Nonreportable segments	(5)	(13)	(19)	(22)
Total	<u>\$ (777)</u>	<u>\$ 264</u>	<u>\$ (2,728)</u>	<u>\$ (1,314)</u>

Note 8. Acquisitions and Divestitures

Veoneer. On October 4, 2021, we and SSW Partners, a New York-based investment partnership, entered into a definitive agreement to acquire Veoneer, Inc. (Veoneer). The transaction closed on April 1, 2022 (the Closing Date). Total cash consideration paid in the transaction was \$4.7 billion, consisting of (i) \$4.6 billion paid in respect of Veoneer's outstanding capital stock and equity awards and amounts paid to settle Veoneer's convertible senior notes (which were converted at the election of the note holders and settled in cash in the third quarter of fiscal 2022) and (ii) a \$110 million termination fee paid to Magna International Inc. (Magna) in the first quarter of fiscal 2022. We funded substantially all of the cash consideration payable in the transaction in exchange for (i) the Arriver business (which SSW transferred to us shortly after the Closing Date) and (ii) the right to receive a majority of the proceeds upon the sale of the Non-Arriver businesses by SSW Partners. We intend to incorporate Arriver's computer vision, drive policy and driver assistance technologies into our Snapdragon automotive platform to deliver an integrated software SoC ADAS platform for automakers and Tier-1 automotive suppliers. SSW Partners retained Veoneer's Tier-1 automotive supplier businesses, primarily consisting of the Active Safety and the Restraint Control Systems businesses (the Non-Arriver businesses), with the intent to sell such businesses in multiple transactions.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Although we do not own or operate the Non-Arriver businesses, we are the primary beneficiary, within the meaning of the Financial Accounting Standards Board (FASB) accounting guidance related to consolidation (ASC 810), of these businesses under the variable interest model, until sold by SSW. Factors considered in reaching this conclusion included, among others: (i) our involvement in the design of and our funding of substantially all of the total cash consideration payable in the transaction and (ii) our obligations to absorb losses and rights to receive returns from the Non-Arriver businesses. Accordingly, the assets and liabilities of the Non-Arriver businesses have been consolidated and presented as held for sale on our condensed consolidated balance sheet, and the operating results have been presented as discontinued operations (through the date of disposition).

Our accounting purchase price was approximately \$4.3 billion, substantially all of which relates to our share of cash consideration at close for the outstanding common shares of Veoneer and the Magna termination fee and excludes Veoneer's convertible senior notes that are reflected as an assumed liability.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values was as follows (in millions):

Cash	\$	30
Current held for sale assets, net of costs to sell (1)		626
Completed technology-based intangible assets		349
In-process research and development (IPR&D)		298
Goodwill		2,793
Noncurrent held for sale assets (1)		1,186
Other assets		326
Total assets		5,608
Current held for sale liabilities (1)		(677)
Convertible senior notes		(352)
Noncurrent held for sale liabilities (1)		(128)
Other liabilities		(200)
Total liabilities		(1,357)
Net assets acquired	\$	4,251

(1) Held for sale assets and liabilities relate to the Non-Arriver businesses and were measured at fair value less costs to sell (including SSW Partners' estimated return with respect to the sale proceeds of the Non-Arriver businesses), which was estimated using a market approach based on significant inputs that were not observable. The Non-Arriver businesses' assets are not available to be used to settle our obligations, and the Non-Arriver businesses' creditors do not have recourse to us. SSW Partners' funding of the purchase price for Veoneer was recorded as a component of held for sale liabilities. The underlying classes of assets and liabilities held for sale have not been presented because such amounts are not material.

Goodwill related to this transaction was allocated to our QCT segment, \$471 million of which is expected to be deductible for tax purposes. Goodwill is primarily attributable to assembled workforce and certain synergies expected to arise after the acquisition. Completed technology-based intangible assets will be amortized on a straight-line basis over the weighted-average useful life of nine years. IPR&D relates to a single project that is expected to be completed in fiscal 2025. Upon completion, we expect the IPR&D to be amortized over its useful life of seven years. We valued the completed technology and IPR&D using an income approach based on significant unobservable inputs. Pro forma results of operations have not been presented because the effects of this acquisition were not material to our consolidated results of operations.

On June 1, 2023, SSW Partners completed the sale of the Active Safety business to Magna for net cash proceeds of \$1.5 billion. As a result of the sale, we recognized a gain in discontinued operations of \$183 million (net of income tax expense) in the third quarter of fiscal 2023.

We expect that SSW Partners will complete the sale of the Restraint Control Systems business within calendar 2023, subject to any required regulatory approvals and other closing conditions being met. The Restraint Control Systems business continues to be presented as discontinued operations on a one quarter reporting lag.

QUALCOMM Incorporated
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The cash flows provided (used) by the Non-Arriver businesses are reflected as discontinued operations and are classified as operating, investing (which includes cash proceeds from the sale of the Active Safety business) and financing activities in the consolidated statements of cash flows.

Note 9. Fair Value Measurements and Marketable Securities

The following table presents our fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 25, 2023 (in millions):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash equivalents	\$ 4,179	\$ 634	\$ —	\$ 4,813
Marketable securities:				
Corporate bonds and notes	—	2,396	—	2,396
Mortgage- and asset-backed securities	—	80	—	80
Equity securities	52	—	—	52
U.S. Treasury securities and government-related securities	—	16	—	16
Total marketable securities	52	2,492	—	2,544
Derivative instruments	—	50	—	50
Other investments	761	—	29	790
Total assets measured at fair value	<u>\$ 4,992</u>	<u>\$ 3,176</u>	<u>\$ 29</u>	<u>\$ 8,197</u>
Liabilities				
Derivative instruments	\$ —	\$ 259	\$ —	\$ 259
Other liabilities	760	—	—	760
Total liabilities measured at fair value	<u>\$ 760</u>	<u>\$ 259</u>	<u>\$ —</u>	<u>\$ 1,019</u>

At June 25, 2023 and September 25, 2022, our marketable securities were all classified as current and were primarily comprised of available-for-sale debt securities (substantially all of which were corporate bonds and notes).

The contractual maturities of available-for-sale debt securities were as follows (in millions):

	<u>June 25, 2023</u>
Years to Maturity	
Less than one year	\$ 1,266
One to five years	1,146
No single maturity date	80
Total	<u>\$ 2,492</u>

Debt securities with no single maturity date included mortgage- and asset-backed securities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in "Part I, Item 1" of this Quarterly Report and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal year ended September 25, 2022 contained in our 2022 Annual Report on Form 10-K.

This Quarterly Report (including but not limited to this section titled Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "would" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report. Additionally, statements concerning future matters such as our future business, prospects, results of operations or financial condition; research and development or technology investments; new or enhanced products, services or technologies; emerging industries or business models; design wins or product launches; industry, market or technology trends, dynamics or transitions; our expectations regarding future demand or supply conditions or macroeconomic factors; strategic investments or acquisitions, and the anticipated timing or benefits thereof; cost reduction initiatives, associated restructuring charges and the anticipated timing thereof; legal or regulatory matters; U.S./China trade or national security tensions; vertical integration by our customers; competition; annual effective tax rates; and other statements regarding matters that are not historical are also forward-looking statements.

Although forward-looking statements in this Quarterly Report reflect our good faith judgment, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this Quarterly Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Third Quarter Fiscal 2023 Overview

Revenues for the third quarter of fiscal 2023 were \$8.5 billion, a decrease of 23% compared to the year ago quarter, with net income of \$1.8 billion, a decrease of 52% compared to the year ago quarter. Key items from the third quarter of fiscal 2023 included:

- Revenues were negatively impacted by the weakness in the macroeconomic environment (which negatively impacted consumer demand for smartphones and other devices that incorporate our products and technologies) and our customers drawing down on their inventory (which remained at elevated levels).
- QCT revenues decreased by 24% in the third quarter of fiscal 2023 compared to the year ago quarter primarily due to lower handset and IoT revenues.
- QTL revenues decreased by 19% in the third quarter of fiscal 2023 compared to the year ago quarter.

Our Business and Operating Segments

We develop and commercialize foundational technologies and products used in mobile devices and other wireless products. We derive revenues principally from sales of integrated circuit products and licensing our intellectual property, including patents and other rights.

We are organized on the basis of products and services and have three reportable segments. We conduct business primarily through our QCT (Qualcomm CDMA Technologies) semiconductor business and our QTL (Qualcomm Technology Licensing) licensing business. Our QSI (Qualcomm Strategic Initiatives) reportable segment makes strategic investments. We also have nonreportable segments, including QGOV (Qualcomm Government Technologies) and our cloud AI inference processing initiative.

Our reportable segments are operated by QUALCOMM Incorporated and its direct and indirect subsidiaries. QTL is operated by QUALCOMM Incorporated, which owns the vast majority of our patent portfolio. Substantially all of our products and services businesses, including QCT, and substantially all of our engineering and research and development functions, are operated by Qualcomm Technologies, Inc. (QTI), a wholly-owned subsidiary of QUALCOMM Incorporated,

and QTI's 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.

Seasonality. Many of our products and much of our intellectual property are incorporated into consumer wireless devices, which are subject to seasonality and other fluctuations in demand. Our revenues have historically fluctuated based on consumer demand for devices, as well as on the timing of customer/licensee device launches and/or innovation cycles (such as the transition to the next generation of wireless technologies). This has resulted in fluctuations in QCT revenues in advance of and during device launches incorporating our products and in QTL revenues when licensees' sales occur. These trends may or may not continue in the future.

Results of Operations

Revenues (in millions)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Equipment and services	\$ 7,108	\$ 9,266	\$ (2,158)	\$ 22,737	\$ 27,365	\$ (4,628)
Licensing	1,343	1,670	(327)	4,452	5,440	(988)
	<u>\$ 8,451</u>	<u>\$ 10,936</u>	<u>\$ (2,485)</u>	<u>\$ 27,189</u>	<u>\$ 32,805</u>	<u>\$ (5,616)</u>

Third quarter 2023 vs. 2022

The decrease in revenues in the third quarter of fiscal 2023 was primarily due to:

- \$2.2 billion in lower equipment and services revenues from our QCT segment
- \$289 million in lower licensing revenues from our QTL segment

First nine months 2023 vs. 2022

The decrease in revenues in the first nine months of fiscal 2023 was primarily due to:

- \$4.6 billion in lower equipment and services revenues from our QCT segment
- \$873 million in lower licensing revenues from our QTL segment

Costs and Expenses (in millions, except percentages)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Cost of revenues	\$ 3,792	\$ 4,816	\$ (1,024)	\$ 11,989	\$ 13,767	\$ (1,778)
Gross margin	55%	56%		56%	58%	

Third quarter and first nine months 2023 vs. 2022

Gross margin percentage decreased in the third quarter and first nine months of fiscal 2023 primarily due to a decrease in QCT gross margin.

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Research and development	\$ 2,222	\$ 2,052	\$ 170	\$ 6,683	\$ 6,016	\$ 667
% of revenues	26%	19%		25%	18%	

Third quarter 2023 vs. 2022

The increase in research and development expenses in the third quarter of fiscal 2023 was primarily due to:

- + \$80 million increase in share-based compensation expense
- + \$71 million increase in expenses driven by revaluation of our deferred compensation plan obligation on higher relative stock market performance

First nine months 2023 vs. 2022

The increase in research and development expenses in the first nine months of fiscal 2023 was primarily due to:

- + \$296 million increase in share-based compensation expense
- + \$256 million increase driven by higher costs related to the development of wireless and integrated circuit technologies (including 5G and application processor technologies), primarily driven by an increase in employee-related expenses (which included lower employee cash incentive program costs)
- + \$114 million increase in expenses driven by revaluation of our deferred compensation plan obligation on higher relative stock market performance

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Selling, general and administrative	\$ 618	\$ 655	\$ (37)	\$ 1,854	\$ 1,887	\$ (33)
% of revenues	7%	6%		7%	6%	

Third quarter 2023 vs. 2022

The decrease in selling, general and administrative expenses in the third quarter of fiscal 2023 was primarily due to:

- \$60 million decrease in acquisition-related expenses, primarily related to the Veoneer transaction which closed in the third quarter of fiscal 2022
- \$38 million decrease in employee-related expenses (which included lower employee cash incentive program costs)
- + \$55 million increase in expenses driven by revaluation of our deferred compensation plan obligation on higher relative stock market performance

First nine months 2023 vs. 2022

The decrease in selling, general and administrative expenses in the first nine months of fiscal 2023 was primarily due to:

- \$83 million decrease in employee-related expenses (which included lower employee cash incentive program costs)
- \$71 million decrease in acquisition-related expenses, primarily related to the Veoneer transaction which closed in the third quarter of fiscal 2022
- + \$87 million increase in expenses driven by revaluation of our deferred compensation plan obligation on higher relative stock market performance

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Other (income) expense	\$ (4)	\$ (1,059)	\$ 1,055	\$ 285	\$ (1,059)	\$ 1,344

Third quarter and first nine months 2023 vs. 2022

Other expense in the first nine months of fiscal 2023 consisted of restructuring and restructuring-related charges, substantially all of which related to severance costs, resulting from certain cost reduction initiatives committed to in fiscal 2023.

Additional information regarding our restructuring charges is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 2. Composition of Certain Financial Statement Items - Other Income, Costs and Expenses.”

Other income in the third quarter and first nine months of fiscal 2022 consisted of a \$1.1 billion benefit resulting from the 2018 EC fine reversal.

Interest Expense and Investment and Other Income (Expense), Net (in millions)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Interest expense	\$ 172	\$ 70	\$ 102	\$ 521	\$ 345	\$ 176
Investment and other income (expense), net						
Interest and dividend income	\$ 79	\$ 22	\$ 57	\$ 193	\$ 59	\$ 134
Net losses on marketable securities	(23)	(104)	81	(3)	(327)	324
Net gains on other investments	17	25	(8)	17	97	(80)
Net gains (losses) on deferred compensation plan assets	48	(80)	128	95	(110)	205
Impairment losses on other investments	(19)	(20)	1	(120)	(41)	(79)
Other	4	(6)	10	(16)	1	(17)
	<u>\$ 106</u>	<u>\$ (163)</u>	<u>\$ 269</u>	<u>\$ 166</u>	<u>\$ (321)</u>	<u>\$ 487</u>

Interest expense for the three and nine months ended June 26, 2022 included a \$62 million reversal of accrued interest previously recorded related to the annulled 2018 EC fine.

Net losses on marketable securities for the three and nine months ended June 26, 2022 was primarily driven by the change in fair value of certain of our QSI marketable equity investments in early or growth stage companies.

Income Tax Expense (in millions, except percentages)

The following table summarizes the primary factors that caused our income tax provision to differ from the expected income tax provision at the U.S. federal statutory rate:

	Three Months Ended		Nine Months Ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Expected income tax provision at federal statutory tax rate	\$ 369	\$ 890	\$ 1,265	\$ 2,421
Benefit from foreign-derived intangible income (FDII) deduction, excluding the impact of capitalizing research and development expenditures	(129)	(222)	(338)	(566)
Benefit from FDII deduction related to capitalizing research and development expenditures	(58)	—	(310)	—
Benefit related to the research and development tax credit	(61)	(49)	(183)	(153)
Benefit from fiscal 2021 and 2022 FDII deductions related to a change in sourcing of research and development expenditures	(126)	—	(126)	—
Foreign currency losses (gains) related to foreign withholding tax receivable	11	87	(103)	135
Nontaxable reversal of 2018 EC fine	—	(166)	—	(166)
Shortfall (excess) tax benefit associated with share-based awards	19	(39)	(2)	(254)
Other	(3)	8	110	48
Income tax expense	\$ 22	\$ 509	\$ 313	\$ 1,465
Effective tax rate	1%	12%	5%	13%

We estimate our annual effective income tax rate to be 6% for fiscal 2023, which is lower than the U.S. federal statutory rate. Additional information regarding our annual effective income tax rate and income tax expense (including discussion related to the impact of the new requirement to capitalize research and development expenditures for federal income tax purposes) is provided in this Quarterly Report in “Notes to Condensed Consolidated Statements, Note 3. Income Taxes.”

Discontinued Operations (in millions)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Discontinued operations, net of income taxes	\$ 68	\$ —	\$ 68	\$ 32	\$ —	\$ 32

Discontinued operations in the third quarter and first nine months of fiscal 2023 primarily related to a \$183 million gain (net of income tax expense) recognized upon the sale of the Active Safety business, partially offset by net losses from the Non-Arriver businesses. Information regarding the Non-Arriver businesses, including the Active Safety business, is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 8. Acquisitions and Divestitures.”

Segment Results

The following should be read in conjunction with our financial results for the third quarter of fiscal 2023 for each reportable segment included in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 7. Segment Information.”

QCT Segment (in millions, except percentages)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Revenues						
Handsets	\$ 5,255	\$ 7,047	\$ (1,792)	\$ 17,114	\$ 21,385	\$ (4,271)
Automotive	434	385	49	1,337	1,044	293
IoT (internet of things)	1,485	1,946	(461)	4,557	5,344	(787)
Total revenues (1)	<u>\$ 7,174</u>	<u>\$ 9,378</u>	<u>\$ (2,204)</u>	<u>\$ 23,008</u>	<u>\$ 27,773</u>	<u>\$ (4,765)</u>
EBT (2)	<u>\$ 1,744</u>	<u>\$ 2,996</u>	<u>\$ (1,252)</u>	<u>\$ 6,035</u>	<u>\$ 9,450</u>	<u>\$ (3,415)</u>
EBT as a % of revenues	24%	32%	-8 points	26%	34%	-8 points

(1) Beginning in the first quarter of fiscal 2023, QCT RFFE (radio frequency front-end) revenues, which were previously presented as a separate revenue stream, are now included within our Handset, Automotive and internet of things (IoT) revenue streams, as applicable, based on the industry and application in which the related RFFE products are sold. Prior period information has been recast to reflect this change. Descriptions of our three QCT revenue streams can be found in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 2. Composition of Certain Financial Statement Items.”

(2) Earnings before income taxes.

Substantially all of QCT’s revenues consist of equipment and services revenues, which were \$7.1 billion and \$9.2 billion in the third quarter of fiscal 2023 and 2022, respectively and \$22.6 billion and \$27.3 billion in the first nine months of fiscal 2023 and 2022, respectively. QCT handsets, automotive and IoT revenues mostly relate to sales of our Snapdragon platforms (which include processors and modems), stand-alone Mobile Data Modems, radio frequency transceiver, power management and wireless connectivity integrated chipsets as well as sales of 4G, 5G sub 6 and 5G millimeter wave RFFE products.

Third quarter 2023 vs. 2022

The decrease in QCT revenues in the third quarter of fiscal 2023 was primarily due to:

- lower handsets revenues, primarily driven by \$1.9 billion in lower chipset shipments to certain major OEMs (primarily driven by the negative effects of the macroeconomic environment weakness and customers drawing down on their elevated inventory levels), partially offset by \$303 million in higher revenues per chipset primarily driven by favorable mix and increases in average selling prices
- lower IoT revenues, primarily driven by a decrease in demand across consumer, edge networking and industrial products (primarily driven by the negative effects of the macroeconomic environment weakness and elevated customer inventory levels)

QCT EBT as a percentage of revenues decreased in the third quarter of fiscal 2023 primarily due to:

- lower revenues
- lower gross margin percentage, primarily driven by increased product costs, partially offset by lower product reserve charges

First nine months 2023 vs. 2022

The decrease in QCT revenues in the first nine months of fiscal 2023 was primarily due to:

- lower handsets revenues, primarily driven by \$4.9 billion in lower chipset shipments to certain major OEMs (primarily driven by the negative effects of the macroeconomic environment weakness and customers drawing down on their elevated inventory levels), partially offset by \$1.1 billion in higher revenues per chipset primarily driven by favorable mix and increases in average selling prices
- lower IoT revenues, primarily driven by a decrease in demand across consumer and edge networking products (primarily driven by the negative effects of the macroeconomic environment weakness and elevated customer inventory levels)

- + higher automotive revenues, primarily driven by an increase in demand for digital cockpit products

QCT EBT as a percentage of revenues decreased in the first nine months of fiscal 2023 primarily due to:

- lower revenues
- lower gross margin percentage, primarily driven by increased product costs, partially offset by increases in average selling prices
- higher operating expenses, primarily driven by higher research and development expenses

QTL Segment (in millions, except percentages)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Licensing revenues	\$ 1,230	\$ 1,519	\$ (289)	\$ 4,044	\$ 4,917	\$ (873)
EBT	811	1,080	(269)	2,799	3,640	(841)
EBT as a % of revenues	66%	71%	-5 points	69%	74%	-5 points

Third quarter 2023 vs. 2022

The decrease in QTL licensing revenues in the third quarter of fiscal 2023 was primarily due to:

- \$161 million decrease in volume of estimated sales of 3G/4G/5G-based multimode products, primarily driven by the macroeconomic environment weakness
- \$68 million decrease in revenues from the ending of the recognition of certain upfront license fee consideration in the first quarter of fiscal 2023 from our long-term license agreement with Nokia

QTL EBT as a percentage of revenues decreased in the third quarter of fiscal 2023 primarily due to lower revenues.

First nine months 2023 vs. 2022

The decrease in QTL licensing revenues in the first nine months of fiscal 2023 was primarily due to:

- \$665 million decrease in volume of estimated sales of 3G/4G/5G-based multimode products, primarily driven by the macroeconomic environment weakness
- \$136 million decrease in revenues from the ending of the recognition of certain upfront license fee consideration in the first quarter of fiscal 2023 from our long-term license agreement with Nokia

QTL EBT as a percentage of revenues decreased in the first nine months of fiscal 2023 primarily due to lower revenues.

QSI Segment (in millions)

	Three Months Ended			Nine Months Ended		
	June 25, 2023	June 26, 2022	Change	June 25, 2023	June 26, 2022	Change
Equipment and services revenues	\$ 9	\$ 8	\$ 1	\$ 22	\$ 22	\$ —
Loss before income taxes	(21)	(101)	80	(83)	(248)	165

Third quarter 2023 vs. 2022

The decrease in QSI loss before income taxes in the third quarter of fiscal 2023 was primarily due to a \$72 million decrease in net losses on investments, which was primarily driven by the change in fair value of certain of our marketable equity investments in early or growth stage companies.

First nine months 2023 vs. 2022

The decrease in QSI loss before income taxes in the first nine months of fiscal 2023 was primarily due to a \$248 million decrease in net losses on investments, which was primarily driven by the change in fair value of certain of our marketable equity investments in early or growth stage companies, partially offset by a \$54 million increase in impairment losses on certain investments.

Looking Forward

In the coming years, we expect consumer demand for 3G/4G/5G multimode and 5G products and services to continue to ramp around the world as we continue to transition from 3G/4G multimode and 4G products and services. We believe that 5G combined with high-performance, low-power processing and on-device intelligence will continue to drive adoption of certain technologies that are already commonly used in smartphones by industries and applications beyond mobile handsets, such as automotive and IoT. We believe it is important that we remain a leader in 5G technology development, standardization,

intellectual property creation and licensing, and a leading developer and supplier of 5G integrated circuit products in order to sustain and grow our business long-term.

As we look forward to the next several quarters:

- We expect the current macroeconomic environment challenges to continue (which will negatively impact demand for smartphones and other devices that incorporate our products and technologies) and that our customers will continue to draw down on their inventory (which remains at elevated levels), and that both of these dynamics will continue to have a negative impact on our revenues, results of operations and cash flows compared to the prior year, and will impact our historical QCT seasonal trends. These dynamics have also contributed to our elevated inventory levels and contribute to the inherent uncertainties in estimating future customer demand, which may increase excess or obsolete inventory or reserve charges if we overestimate such demand, negatively impacting our results of operations and cash flows.
- We expect to continue to see product cost increases from certain of our key semiconductor wafer suppliers compared to the prior year.
- We expect commercial 5G network deployments and device launches will continue.
- We expect continued intense competition, particularly in China, including from increasing vertical integration by certain of our customers.
- Given the continued uncertainty in the macroeconomic and demand environment, we expect to take additional restructuring actions to enable continued investments in key growth and diversification opportunities. While we are in the process of developing our plans, we currently expect these actions to consist largely of workforce reductions, and in connection with any such actions we would expect to incur significant additional restructuring charges, a substantial portion of which we expect to incur in the fourth quarter of fiscal 2023. We currently anticipate these additional actions to be substantially completed in the first half of fiscal 2024.
- Current U.S./China trade relations and/or national security protection policies may negatively impact our business, growth prospects and results of operations. See “Risk Factors” in this Quarterly Report, including the Risk Factor titled “*A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions.*”

In addition to the foregoing business and market-based matters, we continue to devote resources to working with and educating participants in the wireless industry and governments as to the benefits of our licensing programs and our extensive technology investments in promoting a highly competitive and innovative wireless industry. However, we expect that certain companies may be dissatisfied with the need to pay reasonable royalties for the use of our technologies and not welcome the success of our licensing programs in enabling new, highly cost-effective competitors to their products. Accordingly, such companies and/or governments or regulators may continue to challenge our business model in various forums throughout the world.

Further discussion of risks related to our business is provided in the section titled “Risk Factors” included in this Quarterly Report.

Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash, cash equivalents and marketable securities, cash generated from operations and cash provided by our debt programs. The following tables present selected financial information related to our liquidity at June 25, 2023 and September 25, 2022 and for the first nine months of fiscal 2023 and 2022 (in millions):

	June 25, 2023	September 25, 2022	Change
Cash and cash equivalents (1)	\$ 6,087	\$ 2,773	\$ 3,314
Marketable securities	2,544	3,609	(1,065)
Cash, cash equivalents and marketable securities	<u>\$ 8,631</u>	<u>\$ 6,382</u>	<u>\$ 2,249</u>

(1) Excludes \$90 million and \$326 million of cash and cash equivalents classified as held for sale (included in other current assets) at June 25, 2023 and September 25, 2022, respectively.

	Nine Months Ended		
	June 25, 2023	June 26, 2022	Change
Net cash provided by operating activities	\$ 7,209	\$ 7,650	\$ (441)
Net cash provided (used) by investing activities	1,380	(5,514)	6,894
Net cash used by financing activities	(5,546)	(6,004)	458

Cash, cash equivalents and marketable securities. The net increase in cash, cash equivalents and marketable securities was primarily due to net cash provided by operating activities, the issuance of \$1.9 billion of unsecured fixed-rate notes (additional information regarding our issuance of debt is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 5. Debt”), \$1.5 billion in net cash proceeds from the sale of the Active Safety business (additional information regarding the sale of the Active Safety business is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 8. Acquisitions and Divestitures”) and \$233 million in proceeds from the issuance of common stock (primarily under our Employee Stock Purchase Plan), partially offset by \$2.6 billion in payments to repurchase 21 million shares of our common stock, \$2.6 billion in cash dividends paid, \$1.4 billion repayments of notes that matured in January 2023, \$1.2 billion in capital expenditures, \$499 million in payments of tax withholdings related to the vesting of share-based awards and \$498 million in net repayments of commercial paper.

Net changes in our operating assets and liabilities negatively impacted our operating cash flows primarily due to lower operating liabilities and higher inventory resulting primarily from lower customer demand and the impact of timing of related payments. We expect to continue to see elevated inventory levels in the near term. These negative impacts were partially offset by a decrease in accounts receivable primarily as a result of lower revenues and a decrease in other assets primarily driven by utilization of prior advanced supply agreement payments and certain settlement payments received associated with our forward starting interest rate swaps.

Capital Return Program. Our stock repurchase program is subject to periodic evaluations to determine when and if repurchases are in the best interests of our stockholders, and we may accelerate, suspend, delay or discontinue repurchases at any time.

We currently 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, among other factors. Additional information regarding our capital returns is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 4. Capital Stock.”

Debt. During the second quarter of fiscal 2023, we amended our Revolving Credit Facility, which provides for unsecured revolving facility loans, swing line loans and letters of credit in an aggregate amount of up to \$4.3 billion (compared to \$4.5 billion prior to the amendment), which expires on December 8, 2025. At June 25, 2023, no amounts were outstanding under the Revolving Credit Facility. Additional information regarding our outstanding debt is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 5. Debt.”

Income Taxes. Beginning in fiscal 2023, for federal income tax purposes, we are required to capitalize and amortize domestic research and development expenditures over five years and foreign research and development expenditures over fifteen years (such expenditures were previously deducted as incurred). Our cash flows from operations will be adversely affected due to significantly higher cash tax payments. We estimate the additional cash tax impact related to fiscal 2023 to be approximately \$1.1 billion. Due to an announcement by the IRS, our remaining current year U.S. federal income tax-payment deadlines have been postponed until October 2023. Additional information regarding our income taxes is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 3. Income Taxes.”

Additional Capital Requirements. Expected working and other capital requirements are described in our 2022 Annual Report on Form 10-K in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” At June 25, 2023, other than for the changes disclosed in the “Notes to Condensed Consolidated Financial Statements”, “Looking Forward” and “Liquidity and Capital Resources” in this Quarterly Report, there have been no other material changes to our expected working and other capital requirements described in our 2022 Annual Report on Form 10-K.

Further, regulatory authorities in certain jurisdictions have investigated our business practices and instituted proceedings against us and they or other regulatory authorities may do so in the future. Additionally, certain of our direct and indirect customers and licensees have pursued, and they or others may in the future pursue, litigation, arbitration or other strategies against us related to our business. Unfavorable resolutions of one or more of these matters have had and could in the future have a material adverse effect on our business, revenues, results of operations, financial condition and cash flows. See “Notes

to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies” and “Risk Factors” in this Quarterly Report.

We believe, based on our current business plan and the facts and factors known by us, our cash, cash equivalents and marketable securities, our expected cash flow generated from operations and our expected financing activities will satisfy our working and other capital requirements for at least the next 12 months and thereafter for the foreseeable future. See “Risk Factors” in this Quarterly Report.

Risk Factors

You should consider each of the following factors in evaluating our business and our prospects, any of which could negatively impact our business, results of operations, cash flows and financial condition, and require significant management time and attention. Further, the risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also negatively impact our business, results of operations, cash flows and financial condition, and require significant management time and attention. In such cases, the trading price of our common stock could decline. You should also consider the other information set forth in this Quarterly Report in evaluating our business and our prospects, including but not limited to our financial statements and the related notes, and “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” References to “and,” “or” and “and/or” should be read to include the others, as appropriate.

RISKS RELATED TO OUR OPERATING BUSINESSES

We derive a significant portion of our revenues from a small number of customers and licensees, and particularly from their sale of premium tier devices. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuates, our business and results of operations could be negatively affected.

We derive a significant portion of our revenues from a small number of customers and licensees, and particularly from their sale of premium tier devices, and we expect this trend to continue in the foreseeable future. Our industry is experiencing and may continue to experience concentration of device share among a few companies, particularly at the premium tier, contributing to this trend. Certain Chinese OEMs continue to grow their device share in China and are increasing their device share in regions outside of China, and we derive a significant portion of our revenues from a small number of these OEMs as well. See also “Notes to Condensed Consolidated Financial Statements, Note 2. Composition of Certain Financial Statement Items - Concentrations.”

In addition, a number of our largest integrated circuit customers have developed, are developing or may develop their own integrated circuit products, or may choose our competitors’ integrated circuit products, which they have in the past utilized, currently utilize and may in the future utilize in some or all of their devices, rather than our products, which could significantly reduce the revenues we derive from these customers. See also the Risk Factor titled “*Our business, particularly our semiconductor business, may suffer as a result of our customers vertically integrating (i.e., developing their own integrated circuit products).*”

Further, political actions, including trade and/or national security protection policies, or other actions by governments, particularly the U.S. and Chinese governments, have in the past, currently are and could in the future limit or prevent us from transacting business with certain of our customers, limit, prevent or discourage those customers from transacting business with us, or make it more expensive to do so, any of which could also significantly reduce the revenues we derive from these customers. See also the Risk Factor titled “*A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions.*”

In addition, we spend a significant amount of engineering and development time, funds and resources in understanding our key customers’ feedback and/or specifications and attempt to incorporate such input into our product launches and technologies. These efforts may not require or result in purchase commitments from such customers or we may have lower purchases from such customers than expected, and consequently, we may not achieve the anticipated revenues from these efforts, or these efforts may result in non-recoverable costs.

The loss of any one of our significant customers, a reduction in the purchases of our products by any of these customers or the cancellation of significant purchases by any of these customers, whether due to the use of their own integrated circuit products or our competitors’ integrated circuit products, government restrictions, a decline in global, regional or local economic conditions, a decline in consumer demand, elevated inventory levels at our customers or otherwise, would reduce our revenues and could harm our ability to achieve or sustain expected results of operations. A delay of significant purchases, even if only temporary, would reduce our revenues in the period of the delay. Any such reduction in revenues would also impact our cash resources available for other purposes, such as research and development.

Further, the concentration of device share among a few companies, and the corresponding purchasing power of these companies, may result in lower prices for our products which, if not accompanied by a sufficient increase in the volume of purchases of our products, could have an adverse effect on our revenues and margins. In addition, the timing and size of purchases by our significant customers may be impacted by the timing of such customers' new or next generation product introductions, over which we have no control, and the timing and success of such introductions may cause our revenues and results of operations to fluctuate.

Apple purchases our MDM (or thin modem) products, which do not include our integrated application processor technology, and which have lower revenue and margin contributions than our combined modem and application processor products. Consequently, to the extent Apple takes device share from our customers who purchase our integrated modem and application processor products, our revenues and margins may be negatively impacted.

Our industry has also experienced slowing growth in the premium-tier device segment due to, among other factors, a maturing premium-tier smartphone industry in which demand is increasingly driven by new product launches and innovation cycles. A reduction in sales of premium-tier devices, a reduction in sales of our premium-tier integrated circuit products (which have a higher revenue and margin contribution than our lower-tier integrated circuit products), or a shift in share away from OEMs that utilize our premium-tier products, would reduce our revenues and margins and may harm our ability to achieve or sustain expected financial results. Any such reduction in revenues would also impact our cash resources available for other purposes, such as research and development.

Further, while our product and revenue diversification strategies have resulted in an increasing portion of our revenues coming from outside of mobile handsets, e.g., from industries such as automotive and IoT, certain product categories within those industries may in themselves be subject to high levels of customer concentration.

Although we have more than 300 licensees, we derive a significant portion of our licensing revenues from a limited number of licensees, which includes a number of Chinese OEMs. In the event that one or more of our significant licensees fail to meet their reporting and payment obligations, or we are unable to renew or modify one or more of their license agreements under similar terms as their existing agreements, our revenues, results of operations and cash flows would be adversely impacted. Moreover, the future growth and success of our core licensing business will depend in part on the ability of our licensees to develop, introduce and deliver high-volume products that achieve and sustain customer acceptance. We do not have control over the product development, sales efforts or pricing of products by our licensees, and our licensees might not be successful. Reductions in sales of our licensees' products, or reductions in the average selling prices of such products without a sufficient increase in the volumes sold, would generally have an adverse effect on our licensing revenues.

Our business, particularly our semiconductor business, may suffer as a result of our customers vertically integrating (i.e., developing their own integrated circuit products).

Certain of our largest integrated circuit customers (for example, Samsung) develop their own integrated circuit products, which they have in the past utilized, and currently utilize, in certain of their devices and may in the future utilize in some or all of their devices, rather than our products (and they have and may continue to sell their integrated circuit products to third parties, discretely or together with certain of their other products, in competition with us).

Apple has utilized modem products of one of our competitors in some of its devices rather than our products, and solely utilized one of our competitors' products in several of its prior device launches. In December 2019, Apple acquired Intel's modem assets and is developing its own modem products using those assets. Accordingly, we expect Apple to use its own modem products, rather than our products, in some or all of its future devices.

Similarly, we derive a significant portion of our revenues from Chinese OEMs. Certain of our customers in China have developed, and others may in the future develop, their own integrated circuit products and use such integrated circuit products in their devices rather than our integrated circuit products, including due to pressure from or policies of the Chinese government (whose *Made in China 2025* campaign targets 70% semiconductor self-sufficiency by 2025), concerns over losing access to our integrated circuit products as a result of actual, threatened or potential U.S. or Chinese government actions or policies, including trade protection or national security policies, or other reasons. See also the Risk Factor titled "*A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions.*"

In addition, periodic supply/capacity constraints within the semiconductor industry may further incentivize our integrated circuit customers to vertically integrate in an effort to secure additional control over their supply chains.

If some or all of our largest customers and/or the largest smartphone OEMs utilize their own integrated circuit products in some or all of their devices rather than our products, our business, revenues, results of operations, cash flows and financial position could be materially adversely impacted. See also the Risk Factor titled "*We derive a significant portion of our*

revenues from a small number of customers and licensees, and particularly from their sale of premium tier devices. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuates, our business and results of operations could be negatively affected.”

A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions.

We derive a significant portion of our revenues from Chinese OEMs, and from non-Chinese OEMs that utilize our integrated circuit products in their devices and sell those devices into China, which has the largest number of smartphone users in the world. We also source certain critical integrated circuit products from suppliers in China.

Due to various factors, including pressure, encouragement or incentives from, or policies of, the Chinese government (including its *Made in China 2025* campaign), concerns over losing access to our integrated circuit products as a result of actual, threatened or potential U.S. or Chinese government actions or policies, including trade protection or national security policies, or other reasons, some of our Chinese integrated circuit customers have developed, and others may in the future develop, their own integrated circuit products and use such integrated circuit products in their devices, or use our competitors' integrated circuit products in their devices, rather than our products, which could materially harm our business, revenues, results of operations, cash flows and financial position. See also the Risk Factor titled “*Our business, particularly our semiconductor business, may suffer as a result of our customers vertically integrating (i.e., developing their own integrated circuit products).*”

Political actions, including trade protection and national security policies of the U.S. and Chinese governments, such as tariffs, bans or placing companies on restricted entity lists, have in the past, currently are and could in the future limit or prevent us from transacting business with certain of our Chinese customers or suppliers, limit, prevent or discourage certain of our Chinese customers or suppliers from transacting business with us, or make it more expensive to do so. Given our revenue concentration in China, if, due to actual, threatened or potential U.S. or Chinese government actions or policies: we were further limited in, or prohibited from, selling our integrated circuit products to Chinese OEMs; our non-Chinese OEM customers were limited in, or prohibited from, selling devices that incorporate our integrated circuit products into China; Chinese OEMs develop and use their own integrated circuit products or use our competitors' integrated circuit products in some or all of their devices rather than our integrated circuit products; Chinese tariffs on our integrated circuit products or on devices which incorporate our integrated circuit products made purchasing such products or devices more expensive to Chinese OEMs or Chinese consumers; or our Chinese licensees delay or cease making payments of license fees they owe us, our business, revenues, results of operations, cash flows and financial position could be materially harmed. For example, we currently have export licenses from the U.S. Department of Commerce that allow us to sell 4G and other integrated circuit products, including WiFi products, but excluding 5G products, to Huawei. Recent news reports have indicated that the Department of Commerce is considering not granting any new licenses for sales to Huawei and potentially revoking existing licenses. Further, because we do not have a license to sell 5G products to Huawei, if and when Huawei transitions to 5G devices, we expect them to use their own or a competitor's integrated circuit products, rather than our products, in such devices. If we are unable to sell products to Huawei, either due to the inability to obtain new export licenses upon the expiration of our current licenses, because our current licenses are revoked, or in connection with Huawei's transition to 5G devices, our revenues, results of operations and cash flows could be significantly negatively affected. Similarly, if, due to U.S. or Chinese government actions or policies, we were limited in or prohibited from obtaining critical integrated circuit products from our suppliers in China, our business, revenues, results of operations, cash flows and financial position could be materially harmed. See also the Risk Factors titled “*We derive a significant portion of our revenues from a small number of customers and licensees, and particularly from their sale of premium tier devices. If revenues derived from these customers or licensees decrease or the timing of such revenues fluctuates, our business and results of operations could be negatively affected*” and “*Our business, particularly our semiconductor business, may suffer as a result of our customers vertically integrating (i.e., developing their own integrated circuit products).*”

Finally, government policies in China that regulate the amount and timing of funds that may flow out of the country have impacted and may continue to impact the timing of our receipt of, and/or ability to receive, payments from our customers and licensees in China, which may negatively impact our cash flows.

RISKS RELATED TO NEW INITIATIVES

Our growth depends in part on our ability to extend our technologies and products into new and expanded product areas, and industries and applications beyond mobile handsets. Our research, development and other investments in these new and expanded product areas, industries and applications, and related technologies and products, as well as in our existing technologies and products, and new technologies, may not generate operating income or contribute to future results of operations that meet our expectations.

While we continue to invest significant resources toward advancements primarily in support of 5G-based technologies, we also invest in new and expanded product areas, and industries and applications beyond mobile handsets, by utilizing our existing technical and business expertise and through acquisitions or other strategic transactions.

In particular, our future growth depends in part on new and expanded product areas, and industries and applications beyond mobile handsets, such as automotive and IoT; our ability to develop leading and cost-effective technologies and products for these new and expanded product areas, industries and applications; and third parties incorporating our technologies and products into devices used in these product areas, industries and applications. Accordingly, we intend to continue to make substantial investments in these new and expanded product areas, industries and applications, and in developing new products and technologies for these product areas, industries and applications. Our growth also depends significantly on our ability to develop and patent 5G technologies, and to develop and commercialize products using 5G technologies.

However, our research, development and other investments in these new and expanded product areas, industries and applications, and corresponding technologies and products, as well as in our existing technologies and products and new technologies in mobile handsets, may not succeed because, among other reasons: we may not be issued patents on the technologies we develop; the technologies we develop may not be incorporated into relevant standards; new and expanded product areas, industries and applications beyond mobile handsets, and consumer demand therein, may not develop or grow as anticipated; we may be unable to attract or retain employees with the necessary skills in such new and expanded product areas, industries and applications; our strategies or the strategies of our customers, licensees or partners may not be successful; alternate technologies or products may be better or may reduce the advantages we anticipate from our investments; competitors' technologies or products may be more cost effective, have more capabilities or fewer limitations or be brought to market faster than our new technologies or products; we may not be able to develop, or our competitors may have more established and/or stronger, customer, vendor, distributor or other channel relationships; and competitors may have longer operating histories in industries and applications that are new to us. We may also underestimate the costs of, or overestimate the future revenues or margins that could result from, these investments, and these investments may not, or may take many years to, generate material returns.

Further, the automotive industry is subject to long design-in time frames, long product life cycles and a high degree of regulatory and safety requirements, necessitating suppliers to the industry to comply with stringent qualification processes, very low defect rates and high reliability standards, all of which results in significant barriers to entry and increased costs.

If our products fail to perform to specifications, compete with the product quality of our competitors or meet quality and/or regulatory standards of a particular industry or application (including product safety and information security standards, which may differ by region, geography and industry, and which are particularly stringent in the automotive industry), we may be unable to successfully expand our business in that industry or application, and our growth could be limited.

In addition, in order to successfully extend our technologies and products into new and expanded product areas, and industries and applications beyond mobile handsets, we may need to transition to new business models and transform aspects of our organization, and we may not be successful in doing so.

If we are not successful in extending our technologies and products into new and expanded product areas, and industries and applications beyond mobile handsets, if our new technologies and products are not successful, or if we are not successful in the time frames we anticipate, we may incur significant costs and asset impairments, our business and revenues may not grow or grow as anticipated, our revenues and margins may be negatively impacted, our stock price may decline and our reputation may be harmed.

We may engage in acquisitions and other strategic transactions or make investments, or be unable to consummate planned strategic acquisitions, which could adversely affect our results of operations or fail to enhance stockholder value.

We engage in acquisitions and other strategic transactions, including joint ventures, and make investments, which we believe are important to the future of our business, with the goal of maximizing stockholder value. We routinely acquire businesses and other assets, including patents, technology and other intangible assets, enter into joint ventures or other strategic transactions, and purchase minority equity interests in or make loans to companies, including those that may be private and early-stage. Our strategic activities are generally focused on opening or expanding opportunities for our products and technologies and supporting the design and introduction of new products (or enhancing existing products) for mobile handsets, and for industries and applications beyond mobile handsets. Many of our strategic activities entail a high degree of risk and require the use of significant amounts of capital, and investments may not become liquid for several years after the date of the investment, if at all. Our strategic activities may not be successful, generate financial returns or result in increased adoption or continued use of our technologies or products. We may underestimate the costs or overestimate the benefits, including product, revenue, cost and other synergies and growth opportunities that we expect to realize, and we may not

achieve those benefits. In some cases, we may be required to consolidate or record our share of the earnings or losses of companies in which we have acquired ownership or variable interests. In addition, we have in the past recorded, and may in the future record, impairment or other charges related to our strategic activities. Any losses or impairment charges that we incur related to strategic activities will have a negative impact on our results of operations and financial condition, and we may continue to incur new or additional losses related to strategic assets or investments that we have not fully impaired or exited.

Achieving the anticipated benefits of business acquisitions depends in part upon our ability to integrate the businesses in an efficient and effective manner and achieve anticipated synergies, and we may not be successful in these efforts. Such integration is complex and time consuming and involves significant challenges, including, among others: retaining key employees; successfully integrating new employees, facilities, technology, products, processes, operations (including supply and manufacturing operations), sales and distribution channels, business models and business systems; retaining customers and suppliers of the businesses; consolidating research and development operations; minimizing the diversion of management's attention from ongoing business matters; consolidating corporate and administrative infrastructures; and managing the increased scale, complexity and globalization of our business, operations and employee base. We may not derive any commercial value from associated technologies or products or from future technologies or products based on these technologies, and we may be subject to liabilities that are not covered by indemnification protection that we may obtain, and we may become subject to litigation. Additionally, we may not be successful in entering or expanding into new sales or distribution channels, business or operational models, geographic regions, industries and applications served by or adjacent to the associated businesses or in addressing potential new opportunities that may arise out of our strategic acquisitions.

If we do not achieve the anticipated benefits of business acquisitions or other strategic activities, our business and results of operations may be adversely affected, and we may not enhance stockholder value by engaging in these transactions.

Many of our acquisitions and other strategic investments require approval by the United States and/or foreign government agencies. Certain agencies in the past have, and may in the future, deny the transaction or fail to approve in a timely manner, resulting in us not realizing the anticipated benefits of the proposed transaction. Future acquisitions or other strategic investments may be more difficult, complex or expensive to the extent that our reputation for our ability to consummate acquisitions has been or is in the future harmed. Further, if U.S./China relations remain strained, our ability to consummate any transaction that would require approval from the relevant regulatory agency(ies) in China may be severely impacted. In addition, acquisitions that we have completed could subsequently be reviewed and/or challenged by government agencies, which could result in fines, penalties or other liability, or requirements to divest all or a portion of an acquired business.

RISKS RELATED TO SUPPLY AND MANUFACTURING

We depend on a limited number of third-party suppliers for the procurement, manufacture, assembly and testing of our products manufactured in a fables production model. If we fail to execute supply strategies that provide supply assurance, technology leadership and reasonable margins, our business and results of operations may be harmed. We are also subject to order and shipment uncertainties that could negatively impact our results of operations.

We primarily utilize a fables production model, which means that we do not own or operate foundries for the production of silicon wafers from which our integrated circuits are made. Other than the facilities we own that manufacture certain of our RFFE modules and RF (radio frequency) filter products, we rely on third-party suppliers to perform the manufacturing and assembly, and most of the testing, of our integrated circuits. Our suppliers are also responsible for the procurement of most of the raw materials used in the production of our integrated circuits. There are a limited number of such third-party suppliers, and even fewer who are capable of manufacturing at the leading process technology nodes, or who are willing to operate at older process technology nodes necessary for certain of our integrated circuit products. The semiconductor manufacturing foundries that supply our products are primarily located in Asia, as are the primary warehouses where we store finished goods for fulfillment of customer orders.

The following issues related to our third-party suppliers could have an adverse effect on our ability to meet customer demand and negatively impact our revenues, business operations, profitability and cash flows:

- our suppliers' failure or inability to react to shifts in product demand, including situations where demand for integrated circuits exceeds suppliers' capacity to meet that demand;
- a failure or inability by our suppliers to procure raw materials or allocate adequate raw materials for our products, or an increase in prices for raw materials or components;
- an inability to procure or utilize raw materials, components or products from our suppliers due to government prohibitions or restrictions on transactions with certain countries and/or companies, and alternative suppliers, raw

material sources or raw materials are not available or not available in acceptable time frames or upon acceptable terms;

- a failure by our suppliers to allocate adequate manufacturing, assembly or test capacity for our products;
- our suppliers' failure or inability to develop or maintain, or a delay in developing or building out, manufacturing capacity for leading process technologies, including transitions to smaller geometry process technologies;
- the loss of a supplier or the failure or inability of a supplier to meet performance, quality or yield specifications or delivery schedules;
- additional expense or production delays as a result of qualifying a new supplier and commencing volume production or testing in the event of a loss of, or a decision to add or change, a supplier;
- natural disasters, the effects of climate change, acts of war or other geopolitical conflicts impacting the regions in which our suppliers and their manufacturing foundries or assembly, test or other facilities are located;
- health crises, including epidemics or pandemics, such as the COVID-19 pandemic, and government and business responses thereto, which impact our suppliers, including as a result of quarantines or closures;
- cyber-attacks on our suppliers' information technology (IT) systems, including those related to their manufacturing foundries or assembly, test or other facilities;
- trade or national security protection policies, particularly U.S. or Chinese government policies, that limit or prevent us from transacting business with suppliers of critical integrated circuit products, or that limit or prevent such suppliers from transacting business with us or from procuring materials, machinery or technology necessary to manufacture goods for us; and
- any other reduction, interruption, delay or limitation in our product supply sources.

We rely on sole- or limited-source suppliers for certain products, which may exacerbate the risks identified above, and subject us to other significant risks, including poor product performance and reduced control over delivery schedules, manufacturing capability and yields, quality assurance, quantity and costs. While we have established and may in the future establish alternate suppliers for certain products, these suppliers may require significant amounts of time and levels of support to bring such products to production, both of which may increase for complex or leading process technologies. As a result, we may invest a significant amount of effort and resources and incur higher costs to support and maintain such alternate suppliers. Further, the elimination or limitation of a foundry supplier's ability to manufacture components or products for us due to trade or national security protection policies could increase our vulnerability to sole- or limited-source arrangements and limit or prevent us from procuring critical components or products from those suppliers. Future consolidation of foundry suppliers could also increase our vulnerability to sole- or limited-source arrangements and reduce our suppliers' willingness to negotiate pricing, which could negatively impact our ability to achieve cost reductions, increase our manufacturing costs and limit the amount of capacity available to us. Our arrangements with our suppliers may obligate us to incur costs to manufacture, assemble and test our products that do not decrease at the same rate as decreases in pricing to our customers. Our ability, and that of our suppliers, to develop or maintain leading process technologies, including transitions to smaller geometry process technologies (which adds risk to manufacturing yields and reliability), and to effectively compete with the manufacturing processes and performance of our competitors, could impact our ability to introduce new products and meet customer demand, could increase our costs (possibly decreasing our margins) and could subject us to the risk of excess inventories. Any of the above could negatively impact our business, results of operations and cash flows.

Although we have long-term contracts with our suppliers, some of these contracts do not provide for long-term capacity commitments. To the extent we do not have firm commitments from our suppliers over a specific time period or for any specific quantity, our suppliers may allocate, and in the past have allocated, capacity to the manufacture, assembly and testing of products for their other customers (including our competitors) while reducing or limiting capacity to manufacture, assemble or test our products, and such capacity may be limited based on our suppliers' ability and willingness to invest in the capital required to manufacture in the leading process technologies. Our suppliers or potential alternate suppliers may also manufacture their own integrated circuits that compete with our products. Such suppliers have in the past allocated and may again allocate raw materials and manufacturing capacity to their own products and reduce or limit the production of our products. To the extent we do obtain long-term capacity commitments, we may incur additional costs related to those commitments or make non-refundable payments for capacity commitments that are not used. Further, certain of our suppliers have in the past attempted, and may in the future attempt, to unilaterally reduce their capacity commitments to us. Accordingly, capacity for our products may not be available when we need it. Finally, we may not receive reasonable pricing,

manufacturing or delivery terms from our suppliers, and our ability to obtain favorable terms may be diminished during times of high demand and/or limited manufacturing capacity for integrated circuit products.

We cannot guarantee that the actions of our suppliers will not cause disruptions in our operations that could harm our ability to meet our delivery obligations to our customers or increase our cost of sales. To the extent we are unable to obtain adequate supply to meet our delivery obligations, we may be obligated to make payments to our customers for such shortfalls. Recently, the global semiconductor industry experienced demand for integrated circuits that exceeded the industry's capacity to meet that demand. Our ability to meet increased demand for our products has been and may in the future be limited due to the inability to obtain the additional manufacturing, assembly and test capacity necessary to fully meet such demand. If we are unable to fully meet customer demand, this could result in lost sales opportunities, reduced revenue growth and harm to our customer relationships. These issues may be exacerbated if customers overstate their expected demand requirements in order to procure additional supply, which could negatively impact our ability to forecast and to allocate supply appropriately among our customers. The above issues may also be exacerbated with respect to our platform solutions, which already entail a great deal of complexity due to differing lead-times, technologies and suppliers for each integrated circuit product included in such solutions. Additionally, our suppliers have in the past and may in the future increase their prices during periods of capacity constraints, or for other reasons, thus increasing our costs.

While capacity constraints have largely abated, we continue to see price increases from certain of our key semiconductor manufacturing suppliers which, without corresponding increases in the prices of our products, would negatively impact our margins.

We place orders with our suppliers using our and our customers' forecasts of demand for our products, which are based on a number of assumptions and estimates. As we move to smaller geometry process technologies, the manufacturing lead-time increases. As a result, the orders we place with our suppliers are generally only partially covered by commitments from our customers. If we, or our customers, overestimate demand, or if demand is impacted by factors outside of our or our customers' control, and such demand is not covered by a binding commitment from our customers, we may experience increased excess or obsolete inventory or reserve charges, which would negatively impact our results of operations. Further, to the extent our customers procure supply of our integrated circuit products beyond their current needs (i.e., build up inventory of our integrated circuit products), whether due to concerns over supply, overestimating demand and/or a decline in macroeconomic conditions, or otherwise, they may not purchase expected quantities of our products in subsequent quarters, which may negatively impact our revenues, results of operations and cash flows in such quarters.

See also the Risk Factor below titled "*There are numerous risks associated with the operation and control of our manufacturing facilities, including a higher portion of fixed costs relative to a fabless model; environmental compliance and liability; impacts related to climate change; exposure to natural disasters, health crises, geopolitical conflicts and cyber-attacks; timely supply of equipment and materials; and various manufacturing issues*" as similar risks, as well as additional risks, may be applicable to our third-party suppliers' manufacturing facilities, which could result in disruptions to our business or additional costs to us, and negatively impact our results of operations.

There are numerous risks associated with the operation and control of our manufacturing facilities, including a higher portion of fixed costs relative to a fabless model; environmental compliance and liability; impacts related to climate change; exposure to natural disasters, health crises, geopolitical conflicts and cyber-attacks; timely supply of equipment and materials; and various manufacturing issues.

We operate various facilities that manufacture certain of our RFFE modules and RF filter products. Our manufacturing facilities are characterized by a higher portion of fixed costs relative to a fabless model. We may be faced with a decline in the utilization rates of our manufacturing facilities due to decreases in demand for our products, including in less favorable industry or macroeconomic environments, or due to our failure to win and/or retain designs with OEMs. As a result, from time to time our manufacturing facilities operate at lower capacity levels, while the fixed costs associated with such facilities continue to be incurred, resulting in lower gross profit. Due to the factors above, we are currently experiencing, and expect to continue to experience in the near term, such underutilization of capacity at our manufacturing facilities.

We are subject to many complex environmental, health and safety laws, regulations and rules in each jurisdiction in which we operate our manufacturing (and research and development) facilities. The regulatory landscape in these areas continues to evolve, and we anticipate additional laws, regulations and rules in the future. In particular, new, or changes in, environmental and climate change laws, regulations or rules, including relating to greenhouse gas emissions, could lead to new or additional investments in production processes and could increase environmental compliance expenditures. In addition, certain environmental laws impose strict, and in certain circumstances joint and several, liability on current or previous owners or operators of real property, or parties who arranged for hazardous substances to be sent to disposal or treatment facilities, for the cost of investigation, removal or remediation of hazardous substances. As a result, we may incur

clean-up costs in connection with any such removal or remediation efforts, as well as other third-party claims in connection with contaminated sites. In addition, we could be held liable for consequences arising out of human exposure to hazardous substances or other environmental damage. If we, or companies or facilities we acquire or have acquired, in the past failed or in the future fail to comply with any such laws and regulations, then we could incur regulatory penalties, fines and legal liabilities; suspension of production; significant compliance requirements; alteration of our manufacturing, assembly or test processes; restriction on our ability to modify or expand our facilities; damage to our reputation; and restrictions on our operations or sales. We are also required to obtain and maintain environmental permits from governmental authorities for certain of our operations. We cannot make assurances that we will at all times be in compliance with such laws, regulations, rules and permits. See also the risk factor titled *“Our business may suffer due to the impact of, or our failure to comply with, the various existing, new or amended laws, regulations, policies or standards to which we are subject.”*

Climate change concerns and the potential resulting environmental impact may result in new environmental, health and safety laws and regulations that may affect us, our suppliers and our customers. Such laws or regulations could cause us to incur additional direct costs for compliance, including costs associated with changes to manufacturing processes or the procurement of raw materials used in manufacturing processes, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that are passed on to us. These costs may adversely impact our results of operations and financial condition. In addition, climate change could cause certain natural disasters, such as drought, wildfires, storms, flooding or rising sea levels, to occur more frequently or with greater intensity, which could pose physical risks to our manufacturing facilities or our suppliers’ facilities, could disrupt the availability of water necessary for the operation of such facilities, and could increase or decrease temperatures resulting in increased operating costs and/or business disruption.

We have manufacturing facilities in Asia and Europe, and the primary warehouses where we store finished goods are located in Asia. If tsunamis, flooding, earthquakes, volcanic eruptions, drought or other natural disasters, effects of climate change, acts of war or other geopolitical conflicts were to damage, destroy or disrupt any of these facilities, it could disrupt our operations, cease or delay production and shipments of inventory and result in costly repairs, replacements or other costs and lost business. In addition, natural disasters, effects of climate change, acts of war or other geopolitical conflicts may result in disruptions in transportation, distribution channels and supply chains and significant increases in the prices of raw materials. Further, health crises, including epidemics or pandemics, such as the COVID-19 pandemic, and government and business responses thereto, could affect our manufacturing facilities, including by resulting in quarantines and/or closures, which could result in disruptions to and potential closures of our manufacturing operations. Our manufacturing operations could also be disrupted by cyber-attacks on our IT systems, as described in the Risk Factor below titled *“Our business and operations could suffer in the event of security breaches of our IT systems, or other misappropriation of our technology, intellectual property or other proprietary or confidential information.”*

Our manufacturing operations depend on securing raw materials, equipment and other supplies in adequate quality and quantity in a timely manner from multiple suppliers, and in some cases, we rely on a limited number of suppliers, including in some cases sole suppliers, particularly in Asia. There may be cases where supplies of raw materials, equipment and other products are interrupted or limited by natural disaster, geopolitical conflict, accident or some other event affecting a supplier or source of raw materials; supply is suspended due to quality or other issues; there is a shortage of supply due to a rapid increase in demand; and/or we or our suppliers are prohibited from utilizing certain raw materials, or products or components that incorporate such raw materials, due to government restrictions related to the countries from which such raw materials originate, and acceptable alternative suppliers, raw materials or raw materials sources are not available or not available in acceptable time frames or upon acceptable terms, among others, which could impact production and prevent us from supplying our products to our customers. If the supply-demand balance is disrupted, it may considerably increase costs of manufacturing due to increased prices we pay for raw materials. From time to time, suppliers may extend lead times, limit amounts supplied to us or increase prices due to capacity constraints or other factors. Additionally, supply and costs of raw materials, equipment and other products may be negatively impacted by trade and/or national security protection policies, such as tariffs, or actions by governments that limit or prevent us from transacting business with certain countries or companies or that limit or prevent certain companies from transacting business with us, or trade tensions, particularly with countries in Asia. Further, it may be difficult or impossible to substitute one piece of equipment for another or replace one type of material with another. A failure by our suppliers to deliver our requirements could result in disruptions to our manufacturing operations.

Our manufacturing processes are highly complex, require advanced and costly equipment and must be continuously modified to improve yields and performance. Difficulties in the production process can reduce yields or interrupt production, and as a result, we may not be able to deliver our products or do so in a timely, cost-effective or competitive manner. Further, to remain competitive and meet customer demand, we may be required to improve our facilities and process technologies and

carry out extensive research and development, each of which may require investment of significant amounts of capital and may have a material adverse effect on our results of operations, cash flows and financial condition.

From time to time, we begin to purchase equipment to meet expected customer demand in advance of any purchase orders or long-term purchase commitments. Further, we typically begin manufacturing our products using our or our customers' forecasts of demand for our products, which are based on a number of assumptions and estimates and may not be covered by long-term purchase commitments. As a result, we may incur increased inventory and manufacturing costs and/or record impairment charges to the extent anticipated sales ultimately do not materialize or are lower than expected. If we or our customers overestimate demand, or if demand is impacted by factors outside of our or our customers' control, and such demand is not covered by a binding commitment from our customers, we may experience higher inventory carrying and operating costs and/or increased excess or obsolete inventory or reserve charges, which would negatively impact our results of operations.

RISKS RELATED TO CYBERSECURITY OR MISAPPROPRIATION OF OUR CRITICAL INFORMATION

Our business and operations could suffer in the event of security breaches of our IT systems, or other misappropriation of our technology, intellectual property or other proprietary or confidential information.

Third parties regularly attempt to gain unauthorized access to our IT systems, and many such attacks are increasingly more sophisticated. These attacks, which might be related to industrial, corporate or other espionage, criminal hackers or state-sponsored intrusions, include trying to covertly introduce malware to our computers and networks, including those in our manufacturing operations, exploiting vulnerabilities in hardware, software or other IT infrastructure and impersonating authorized users, among others. We are also subject to ransom-style cyber-attacks, which could expose our confidential or proprietary information, request payment of money and/or impact our IT systems and cause widespread disruption to our business, including our manufacturing operations. Third parties that store and/or process our confidential information, or that provide products, software or services used in our IT infrastructure (including applications), may be subject to similar attacks, which could also result in malware being introduced into our IT infrastructure, e.g., through the third parties' software and/or software updates. Such attacks could result in the misappropriation, theft, misuse, disclosure, loss or destruction of the technology, intellectual property, or the proprietary, confidential or personal information, of us or our employees, customers, licensees, suppliers or other third parties, as well as damage to or disruptions in our IT systems. We believe that we have a robust cybersecurity program that is aligned to international cybersecurity frameworks, and that we leverage industry best practices across people, processes and technologies in an attempt to mitigate cybersecurity threats. However, we cannot anticipate, detect, repel or implement fully effective preventative measures against all cybersecurity threats, particularly because the techniques used are increasingly sophisticated and constantly evolving. As part of our cybersecurity program, we seek to identify and remediate vulnerabilities in our IT systems and software (including third party software used in our IT systems) that could be exploited by hackers or other malicious actors. However, we may not be aware of all such vulnerabilities, and we may fail to identify and/or remediate such vulnerabilities before they are exploited. Attempts to gain unauthorized access to our IT systems or other attacks have in the past, in certain instances and to certain degrees, been successful (but have not caused significant harm), and may in the future be successful, and in some cases, we might be unaware of an incident or its magnitude and effects.

In addition, employees and former employees, in particular former employees who become employees of our competitors, customers, licensees or other third parties, including state actors, have in the past and may in the future misappropriate, wrongfully use, publish or provide to our competitors, customers, licensees or other third parties, including state actors, our technology, intellectual property or other proprietary or confidential information. This risk is exacerbated as competitors for talent, particularly engineering talent, increasingly attempt to hire our employees. See also the Risk Factor titled "*We may not be able to attract and retain qualified employees, and recent changes to our hybrid work model may not be successful.*" Similarly, we provide access to certain of our technology, intellectual property and other proprietary or confidential information to our direct and indirect customers and licensees and certain of our consultants, who have in the past and may in the future wrongfully use such technology, intellectual property or information, or wrongfully disclose such technology, intellectual property or information to third parties, including our competitors or state actors. We also provide access to certain of our technology, intellectual property and other proprietary or confidential information to certain of our joint venture partners, including those affiliated with state actors and including in foreign jurisdictions where ownership restrictions may require us to take a minority ownership interest in the joint venture. Such joint venture partners may wrongfully use such technology, intellectual property or information, or wrongfully disclose such technology, intellectual property or information to third parties, including our competitors or state actors. Our technology, intellectual property and other proprietary or confidential information that we have provided to customers, licensees or other business partners could also be wrongfully obtained by third parties through cyber-attacks on such customers', licensees' or other business partners' IT systems.

The misappropriation, theft, misuse, disclosure, loss or destruction of the technology, intellectual property, or the proprietary, confidential or personal information, of us or our employees, customers, licensees, suppliers or other third parties, could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives, cause us to lose business, damage our reputation, subject us to legal or regulatory proceedings, cause us to incur other loss or liability and otherwise adversely affect our business. We expect to continue to devote significant resources to the security of our IT systems, and our technology, intellectual property and proprietary and confidential information.

Further, certain countries in which we operate have implemented, and other countries or regions may implement, cybersecurity laws that require our overall IT security environment to meet certain standards and/or be certified. Such laws may be complex, ambiguous and subject to interpretation, which may create uncertainty regarding compliance. As a result, our efforts to comply with such laws may be expensive and may fail, which could adversely affect our business, results of operations and cash flows. In addition, our contracts with certain of our customers require us to obtain cybersecurity certifications for our IT systems. Failure to obtain or maintain the necessary cybersecurity certifications could result in loss of future revenues, damage to our customer relationships and reputation, and a shift of business to our competitors.

RISKS RELATED TO HUMAN CAPITAL MANAGEMENT

We may not be able to attract and retain qualified employees, and recent changes to our hybrid work model may not be successful.

Our future success depends upon the continued service of our executive officers and other key management and technical personnel, and on our ability to continue to identify, attract, retain and motivate them. Implementing our business strategy requires specialized engineering and other talent, as our revenues are highly dependent on technological and product innovations. In addition, in order to extend our business into certain new and expanded product areas and industries and applications beyond mobile handsets, we need to attract, retain and motivate engineering and other technical personnel with specialized skills in these areas, and these skills are in high demand among our competitors. The market for employees in our industry is extremely competitive, and competitors for talent, particularly engineering talent, increasingly attempt to hire, and to varying degrees have been successful in hiring, our employees or employment candidates, including by establishing or expanding local offices near our headquarters in San Diego, California. Further, the increased availability of remote working arrangements has expanded the pool of companies that can compete for our employees and employment candidates. A number of such competitors for talent are significantly larger than us and/or offer compensation in excess of what we offer or other benefits that we do not offer. Further, existing immigration laws make it more difficult for us to recruit and retain highly skilled foreign national graduates of universities in the United States, making the pool of available talent even smaller. If we are unable to attract and retain qualified employees, our business may be harmed.

The COVID-19 pandemic caused us to modify our workforce practices, including having the vast majority of our employees work from home. Upon the reopening of our offices, we initially operated under a hybrid work model, meaning that the majority of our employees had the flexibility to work remotely at least some of the time. We recently implemented changes to our hybrid work model that require the majority of our employees to spend the majority of their working time in the office. This requirement for greater in-office attendance may not meet the needs or expectations of our employees and could negatively impact our ability to attract and retain employees, particularly if it is perceived as less favorable compared to other companies' remote work policies. If we fail to retain key employees or maintain employee productivity as a result of the shift to more on-site work, our business could be adversely impacted.

RISKS SPECIFIC TO OUR LICENSING BUSINESS

The continued and future success of our licensing programs requires us to continue to evolve our patent portfolio and to renew or renegotiate license agreements that are expiring.

We own a very strong portfolio of issued and pending patents related to 3G, 4G, 5G and other technologies. It is critical that we continue to evolve our patent portfolio, particularly in 5G. If we do not maintain a strong portfolio that is applicable to current and future standards, products and services, our future licensing revenues could be negatively impacted.

Our patent license agreements in effect that generate a significant portion of our licensing revenues are effective for a specified term. To receive royalties after the expiration date of the specified term, we will need to extend or modify such license agreements or enter into new license agreements with such licensees. We might not be able to extend or modify license agreements, or enter into new license agreements, in the future without negatively affecting the material terms and conditions of our license agreements with such licensees, and such modifications or new agreements may negatively impact our revenues. In some circumstances, we may extend, modify or enter into new license agreements as a result of arbitration or litigation, and terms imposed by arbitrators or courts may be less favorable to us than existing terms, and may impact the

financial or other terms of license agreements not subject to the litigation or arbitration. If there is a delay in extending, modifying or entering into a new license agreement with a licensee, there would be a delay in our ability to recognize revenues related to that licensee's product sales. Further, if we are unable to reach agreement on such modifications or new agreements, it could result in patent infringement litigation with such licensees.

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

From time to time, companies initiate various strategies to attempt to negotiate, renegotiate, reduce and/or eliminate their need to pay royalties to us for the use of our intellectual property. These strategies have included: (i) litigation, often alleging infringement of patents held by such companies, patent misuse, patent exhaustion, patent invalidity or unenforceability of our patents or licenses, alleging that we do not license our patents on fair, reasonable and nondiscriminatory (FRAND) terms, or alleging some form of unfair competition or competition law violation; (ii) taking positions contrary to our understanding (and/or the plain language) of their contracts with us; (iii) appeals to governmental authorities; (iv) collective action, including working with wireless operators, standards bodies, other like-minded companies and organizations, on both formal and informal bases, to adopt intellectual property policies and practices that could have the effect of limiting returns on intellectual property innovations; (v) lobbying governmental regulators and elected officials for the purpose of seeking the reduction of royalty rates or the base on which royalties are calculated, seeking to impose some form of compulsory licensing or weakening a patent holder's ability to enforce its rights or obtain a fair return for such rights; and (vi) attempts by licensees to shift their royalty obligation to their suppliers in order to make royalty collection more difficult or reduce the amount of royalties collected.

In addition, certain licensees have disputed, underreported, underpaid, not reported or not paid royalties owed to us under their license agreements or reported to us in a manner that is not in compliance with their contractual obligations, and certain companies have yet to enter into or have delayed entering into or renewing license agreements with us for their use of our intellectual property, and they or others may engage in such behavior in the future. The fact that one or more licensees dispute, underreport, underpay, do not report or do not pay royalties owed to us may encourage other licensees to take similar actions or not renew their existing license agreements, and may encourage other licensees or unlicensed companies to delay entering into, or to not enter into, new license agreements. Further, to the extent such licensees and companies increase their device share, the negative impact of their underreporting, underpayment, non-payment or non-reporting on our business, revenues, results of operations, cash flows and financial condition will be exacerbated.

We have been in the past and are currently subject to various litigation and/or governmental investigations and proceedings. Certain of these matters are described in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." We may become subject to other litigation or governmental investigations or proceedings in the future. Additionally, certain of our direct and indirect customers and licensees have pursued, and others may in the future pursue, litigation or arbitration against us related to our business. Unfavorable resolutions of one or more of these matters have had and could in the future have a material adverse effect on our business, revenues, results of operations, cash flows and financial condition. See also the Risk Factors below titled "*Changes in our patent licensing practices, whether due to governmental investigations, legal challenges or otherwise, could adversely impact our business and results of operations*" and "*Our business may suffer as a result of adverse rulings in governmental investigations or proceedings or other legal proceedings.*"

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

Further, some third parties have proposed significant changes to existing intellectual property policies for implementation by SDOs and other industry organizations with the goal of significantly devaluing standard-essential patents. For example, some have put forth proposals which would require a maximum aggregate intellectual property royalty rate for the use of all standard-essential patents owned by all of the member companies to be applied to the selling price of any product implementing the relevant standard. They have further proposed that such maximum aggregate royalty rate be apportioned to each member company with standard-essential patents based upon the number of standard-essential patents held by such company. Others have proposed that injunctions should not be an available remedy for infringement of standard-essential patents and have made proposals that could severely limit damage awards and other remedies by courts for

patent infringement (e.g., by limiting the base upon which the royalty rate may be applied). A number of these strategies are purportedly based on interpretations of the policies of certain SDOs concerning the licensing of patents that are or may be essential to industry standards and on our (or other companies') alleged failure to abide by these policies.

Some SDOs, courts and governmental agencies have adopted, and may in the future adopt, some or all of these interpretations or proposals in a manner adverse to our interests, including in litigation to which we may not be a party. Further, SDOs in certain countries may attempt to modify widely accepted standards and claim the resulting standard as their own. In addition, governments may enact policies concerning standard-essential patents, such as the European Commission's recently proposed regulations which would create a new regulatory scheme for standard-essential patents, that may have various consequences, some of which may be detrimental, such as by devaluing standard-essential patents or disrupting worldwide technology standards. Other jurisdictions may adopt similar regulatory schemes, which could also have such effects.

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

Changes in our patent licensing practices, whether due to governmental investigations, legal challenges or otherwise, could adversely impact our business and results of operations.

As described in the Risk Factor below titled "*Our business may suffer as a result of adverse rulings in governmental investigations or proceedings or other legal proceedings,*" we have been in the past, currently are and may in the future be subject to various governmental investigations and/or legal proceedings challenging our patent licensing practices. Certain of these matters are described in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies." We believe that one intent of certain of these governmental investigations and legal proceedings has been to reduce the amount of royalties that licensees are required to pay to us for their use of our intellectual property.

If we were required to reduce the royalty rates in our patent license agreements, our revenues, earnings and cash flows would be negatively impacted absent a sufficient increase in the volume of sales of devices upon which royalties are paid. Similarly, if we were required to reduce the base on which our royalties are calculated (e.g., license at the chipset level rather than at the device level), our revenues, earnings and cash flows would be negatively impacted unless there was a sufficient increase in the volume of sales of devices upon which royalties are paid or we were able to increase our royalty rates to offset the decrease in revenues resulting from such lower royalty base (assuming the absolute royalty dollars were below any relevant royalty caps).

If we were required to grant patent licenses to chipset manufacturers or other component suppliers (which could lead to implementing a more complex, multi-level licensing structure in which we license certain portions of our patent portfolio to chipset manufacturers or other component suppliers and other portions to OEMs), we would incur additional transaction costs, which may be significant, and we could incur delays in recognizing revenues until license negotiations were completed. In addition, our licensing revenues and earnings would be negatively impacted if we were not able to obtain, in the aggregate, equivalent revenues under such a multi-level licensing structure.

If we were required to sell chipsets to OEMs that do not have a license to our patents, our licensing programs could be negatively impacted by patent exhaustion claims raised by such unlicensed OEMs (i.e., claims that our sale of chipsets to such OEMs forecloses us from asserting any patents substantially embodied by the chipsets against such OEMs). Such sales could provide OEMs with a defense in the event we asserted our patents against them to obtain licensing revenue for those patents. Moreover, such a requirement could negatively impact our ability to maintain our licensing program for products that do not use our chipsets. This could have a material adverse effect on our licensing programs and our results of operations, cash flows and financial condition.

To the extent that we were required to implement any of these licensing and/or business practices, including by modifying or renegotiating our existing license agreements or pursuing other commercial arrangements, we would incur additional transaction costs, which may be significant, we could incur delays in recognizing revenues until license

negotiations were completed, and our business, revenues, results of operations, cash flows and financial condition could be harmed. The impact of any such changes to our licensing practices could vary widely and by jurisdiction, depending on the specific outcomes and the geographic scope of such outcomes. In addition, if we were required to make modifications to our licensing practices in one jurisdiction, licensees or governmental agencies in other jurisdictions may attempt to obtain similar outcomes for themselves or for such other jurisdictions, as applicable, which could result in increased legal costs and further harm to our business, revenues, results of operations, cash flows and financial condition.

RISKS RELATED TO REGULATORY AND LEGAL CHALLENGES

Our business may suffer as a result of adverse rulings in governmental investigations or proceedings or other legal proceedings.

We have been in the past and currently are subject to various governmental investigations and/or legal proceedings. Certain of these matters are described in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies.” Key allegations or findings in those matters include or have in the past included, among others: that we violate FRAND licensing commitments by refusing to grant licenses to chipset manufacturers; that our royalty rates are too high; that the base on which our royalties are calculated should be something less than the wholesale (i.e., licensee’s) selling price of the applicable device (minus certain permitted deductions); that we unlawfully require customers to execute a patent license before we sell them cellular modem chipsets; that we have entered into exclusive agreements with chipset customers that foreclose competition; that we leverage our position in baseband chipsets in the RFFE space; and that we violate antitrust laws and engage in anticompetitive conduct and unfair methods of competition. We may become subject to other litigation or governmental investigations or proceedings in the future.

Unfavorable resolutions of one or more of these matters have had and could in the future have a material adverse effect on our business, revenues, results of operations, cash flows and financial condition. Depending on the matter, various remedies that could result from an unfavorable resolution include, among others: the loss of our ability to enforce one or more of our patents; injunctions; monetary damages, fines or other orders to pay money; the issuance of orders to cease certain conduct or modify our business practices, such as requiring us to reduce our royalty rates, reduce the base on which our royalties are calculated, grant patent licenses to chipset manufacturers or other component suppliers, sell chipsets to unlicensed OEMs or modify or renegotiate some or all of our existing license agreements; and determinations that some or all of our license agreements are invalid or unenforceable. In addition, a governmental body in a particular country or region may successfully assert and impose remedies with effects that extend beyond the borders of that country or region. If some or all of our license agreements are declared invalid or unenforceable and/or we are required to renegotiate these license agreements, we may not receive, or may not be able to recognize, some or any licensing or royalty revenues under the impacted license agreements unless and until we enter into new license agreements; and even licensees whose license agreements are not impacted may demand to renegotiate their agreements or invoke the dispute resolution provision in their agreements, and we may not be able to recognize some or any revenues under such agreements. The renegotiation of license agreements could result in terms that are less favorable to us than existing terms, or lead to arbitration or litigation to resolve the licensing terms, which could also be less favorable to us than existing terms, and each of which could take months or years. Licensees may underreport, underpay, not report or not pay royalties owed to us pending the conclusion of such negotiations, arbitration or litigation. In addition, we may be sued for alleged overpayments of past royalties paid to us, including private antitrust actions seeking treble damages under U.S. antitrust laws. The occurrence of any of the above could have a material adverse effect on our business, revenues, results of operations, cash flows and financial condition, and our stock price could decline, possibly significantly, in which case we may have to significantly cut costs and other uses of cash, including in research and development, significantly impairing our ability to maintain product and technology leadership and invest in next generation technologies. Further, depending on the breadth and severity of the circumstances above, we may have to reduce, suspend or eliminate our capital return programs, and our ability to timely pay our indebtedness may be impacted.

These challenges have required, and may in the future require, the investment of significant management time and attention and have resulted, and may in the future result, in significant legal costs.

RISKS RELATED TO INDUSTRY DYNAMICS AND COMPETITION

Our revenues depend on our customers’ and licensees’ sales of products and services based on CDMA, OFDMA and other communications technologies, including 5G, and customer demand for our products based on these technologies.

We develop, patent and commercialize technology and products based on CDMA, OFDMA and other communications technologies, which are primarily wireless. We depend on our customers and licensees to develop devices and services based on these technologies to drive consumer demand for new 3G/4G/5G multimode and single-mode devices, and to establish the selling prices for such devices. Further, the timing of our shipments of our products is dependent on the timing of our

customers' and licensees' deployments of new devices and services based on these technologies. Increasingly, we also depend on operators of wireless networks, our customers and licensees and other third parties to incorporate these technologies into new device types and into industries and applications beyond mobile handsets, such as automotive and IoT, among others. Commercial deployments of 5G networks and devices have begun and are expected to continue for the foreseeable future. However, the timing and scale of certain such deployments were delayed due to the COVID-19 pandemic, and future deployments may similarly be delayed for reasons that are beyond our control.

Our revenues and growth in revenues could be negatively impacted, our business may be harmed and our substantial investments in these technologies may not provide us an adequate return, if: our customers' and licensees' revenues and sales of products, particularly premium-tier products, and services using these technologies, and average selling prices of such products, decline due to, for example, the maturity of smartphone penetration in developed regions, including China; we do not continue to maintain our intellectual property and technical leadership in 5G, including in ongoing 5G standardization efforts; we are unable to drive the adoption of our products into networks and devices, including devices beyond mobile handsets; or consumers' rates of replacement of smartphones and other devices decline.

Our industry is subject to intense competition in an environment of rapid technological change. Our success depends in part on our ability to adapt to such change and compete effectively; and such change and competition could result in decreased demand for our products and technologies or declining average selling prices for our products or those of our customers or licensees.

Our products and technologies face significant competition. Competition may intensify as our current competitors expand their product offerings, improve their products or reduce the prices of their products as part of a strategy to maintain existing business and customers or attract new business and customers, as new opportunities develop, and as new competitors enter the industry. Competition in wireless communications is affected by various factors that include, among others: OEM concentrations; vertical integration; competition in certain geographic regions; government intervention or support of national industries or competitors; the ability to maintain product differentiation in light of evolving industry standards and speed of technological change (including the transition to smaller geometry process technologies and the demand for always on, always connected capabilities); access to capacity in the supply chain; and value-added features that drive selling prices and consumer demand for new 3G/4G/5G multimode and single-mode devices.

We anticipate that additional competitors will introduce products as a result of growth opportunities in wireless communications, the trend toward global expansion by foreign and domestic competitors, and technological and public policy changes. Additionally, the semiconductor industry has experienced and may continue to experience consolidation, which could result in significant changes to the competitive landscape. For example, if any key supplier of technologies and intellectual property to the semiconductor industry was sold to one of our competitors, it could negatively affect our ability to procure or license such technologies and intellectual property in the future, at all or upon acceptable terms, which could have wide-ranging impacts on our business and operations.

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

- differentiate our integrated circuit products with innovative technologies across multiple products and features (e.g., modem, RFFE including millimeter wave (mmWave), graphics and other processors, camera and connectivity) and with smaller geometry process technologies that drive both performance and lower power consumption;
- develop and offer integrated circuit products at competitive cost and price points and to effectively cover all geographic regions and all device tiers;
- continue to be a leader in mobile, and drive the adoption of our technologies and integrated circuit products into the most popular device models and across a broad spectrum of devices in mobile, such as smartphones, tablets, laptops and other mobile computing devices;
- increase or accelerate adoption of our technologies and products in industries and applications outside of mobile handsets, including automotive and IoT;
- maintain or accelerate demand for our integrated circuit products at the premium device tier, while also driving the adoption of our products into high, mid- and low-tier devices across all regions;
- remain a leader in 5G technology development, standardization, intellectual property creation and licensing, and develop, commercialize and remain a leading supplier of 5G integrated circuit products, including RFFE products;
- maintain access to sufficient capacity in the supply chain relative to our competitors to meet customer demand;

- create standalone value and contribute to the success of our existing businesses through acquisitions, joint ventures and other strategic transactions, and by developing customer, licensee, vendor, distributor and other channel relationships in new industries and applications;
- identify potential acquisition targets that will grow or sustain our business or address strategic needs, reach agreement on terms acceptable to us, close the transactions and effectively integrate these new businesses, products, technologies and employees;
- provide leading products and technologies to OEMs, high level operating systems (HLOS) providers, operators, cloud providers and other industry participants as competitors, new industry entrants and other factors continue to affect the industry landscape;
- be a preferred partner and sustain preferred relationships providing integrated circuit products that support multiple operating system and infrastructure platforms to industry participants that effectively commercialize new devices using these platforms; and
- continue to develop brand recognition to effectively compete against better known companies in computing and other consumer driven segments and to deepen our presence in significant emerging regions and China.

We compete with many different semiconductor companies, ranging from multinational companies with integrated research and development, manufacturing, sales and marketing organizations across a broad spectrum of product lines, to companies that are focused on a single application, industry or standard product, including those that produce products for mobile handsets, automotive or IoT, among others. Most of these competitors compete with us with respect to some, but not all, of our businesses or product lines. Companies that design integrated circuits based on CDMA, OFDMA, Wi-Fi or their derivatives are generally competitors or potential competitors. Examples (some of which are strategic partners of ours in other areas) include Apple, Broadcom, MediaTek, Nvidia, NXP Semiconductors, Qorvo, Samsung, Skyworks, Texas Instruments and UNISOC. Some of these current and potential competitors may have advantages over us that include, among others: motivation by our customers in certain circumstances to use our competitors' integrated circuit products, to utilize their own internally-developed integrated circuit products and/or sell such products to others, or to utilize alternative technologies; lower cost structures or a willingness and ability to accept lower prices or lower margins for their products, particularly in China; foreign government support of other technologies, competitors or OEMs that sell devices that do not contain our integrated circuit products; better known brand names; ownership and control of manufacturing facilities and greater expertise in manufacturing processes; the development and sale of infrastructure equipment for wireless networks, which may enable such competitors to better optimize their integrated circuit products for performance on those networks; more extensive relationships with local distribution companies and OEMs in certain geographic regions (such as China); more experience in industries and applications beyond mobile handsets (such as automotive and IoT); and a more established presence in certain regions.

In addition, certain of our largest integrated circuit customers have in the past utilized, currently utilize and may in the future utilize our competitors' integrated circuit products in some or all of their devices, rather than our products. Further, certain of those customers have developed, are developing or may develop their own integrated circuit products (effectively making them competitors), which they have in the past utilized, currently utilize and may in the future utilize in some or all of their devices, rather than our products. See also the Risk Factor titled *“Our business, particularly our semiconductor business, may suffer as a result of our customers vertically integrating (i.e., developing their own integrated circuit products).”*

Further, political actions, including trade and/or national security protection policies, or other actions by governments, particularly the U.S. and Chinese governments, have in the past, currently are and could in the future limit or prevent us from transacting business with certain of our customers or suppliers; limit, prevent or discourage certain of our customers or suppliers from transacting business with us; or make it more expensive to do so. This could advantage our competitors by enabling them with increased sales, economies of scale, operating income and/or cash flows, and/or enabling critical technology transfer, allowing them to increase their investments in technology development, research and development, and commercialization of products. See also the Risk Factor titled *“A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions.”*

Competition in any or all product tiers may result in the loss of business or customers, which would negatively impact our business, revenues, results of operations, cash flows and financial condition. Such competition may also reduce average selling prices for our chipset products or the products of our customers and licensees. Certain of these dynamics are particularly pronounced in emerging regions and China where competitors may have lower cost structures or may have a willingness and ability to accept lower prices or lower margins on their products. Reductions in the average selling prices of our chipset products, without a corresponding increase in volumes, would negatively impact our revenues, and without

corresponding decreases in average unit costs, would negatively impact our margins. In addition, reductions in the average selling prices of our licensees' products, unless offset by an increase in volumes, would generally decrease total royalties payable to us, negatively impacting our licensing revenues.

RISKS RELATED TO PRODUCT DEFECTS OR SECURITY VULNERABILITIES

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

Our products are complex and may contain defects, errors or security vulnerabilities, or experience failures or unsatisfactory performance, due to any number of issues, including issues in materials, design, fabrication, packaging and/or use within a system. Development of products in new domains of technology, and the migration to integrated circuit technologies with smaller geometric feature sizes, increases complexity and adds risk to manufacturing yields and reliability, and increases the likelihood of product defects, errors or security vulnerabilities. Defects, errors, security vulnerabilities or other unintended functionality could also be introduced into our products by cyber-attacks or other actions by malicious actors, either directly or through third-party products or software used in our products or IT infrastructure (including applications). Further, because of the complexity of our products, defects, errors or security vulnerabilities might only be detected when the products are in use. Risks associated with product or technology defects, errors or security vulnerabilities are exacerbated by the fact that our customers typically integrate our products into consumer and other devices.

The use of devices containing our products to interact with untrusted systems or otherwise access untrusted content creates a risk of exposing the system hardware and software in those devices to malicious attacks. Further, security vulnerabilities in our products or the technologies we use could expose our customers, or end users of our customers' products, to hackers or other unscrupulous third parties who develop and deploy malware that could attack our products or our customers' products or IT infrastructure. Such attacks could result in the disruption of our customers' businesses or the misappropriation, theft, misuse, disclosure, loss or destruction of the technology or intellectual property, or the proprietary, confidential or personal information, of our customers, their employees or the end users of our customers' devices. While we continue to focus on this issue and take measures to safeguard our products from cybersecurity threats, device capabilities continue to evolve, enabling more elaborate functionality and applications, and increasing the risk of security failures, and techniques used to perpetrate cybersecurity attacks are increasingly sophisticated and constantly evolving. See also the Risk Factor titled "*Our business and operations could suffer in the event of security breaches of our IT systems, or other misappropriation of our technology, intellectual property or other proprietary or confidential information.*"

Our products may be responsible for critical functions in our customers' products and networks. Failure of our products to perform to specifications, meet certain regulatory or industry standards (including product safety and information security standards, which may differ by region, geography and industry, and which are particularly stringent in the automotive industry), or other product defects, errors or security vulnerabilities, could lead to substantial damage to the products we sell to our customers, the devices into which our products are integrated and the end users of such devices, and potentially to our customers' IT infrastructure. Such defects, errors or security vulnerabilities could give rise to significant costs, including costs related to developing solutions, recalling products, repairing or replacing defective products, writing down defective inventory or indemnification obligations under our agreements, and could result in the loss of sales and divert the attention of our engineering personnel from our product development efforts. In addition, defects, errors or security vulnerabilities in our products could result in failure to achieve market acceptance, a loss of design wins, a shifting of business to our competitors, and litigation or regulatory action against us, and could harm our reputation, our relationships with customers and partners and our ability to attract new customers, as well as the perceptions of our brand. Other potential adverse impacts of product defects, errors or security vulnerabilities include shipment delays, write-offs of property, plant and equipment and intangible assets, and losses on unfavorable purchase commitments. In addition, defects, errors or security vulnerabilities in the products of our customers or licensees could cause a delay or decrease in demand for the products into which our products are integrated, and thus for our products.

In addition, the occurrence of defects, errors or security vulnerabilities may give rise to product liability claims, particularly if such defects, errors or security vulnerabilities in our products or the technology we use, or the products into which they are integrated, result in personal injury or death, and could result in significant costs, expenses and losses. If a product liability claim is brought against us, the cost of defending the claim could be significant, and could divert the attention of our technical and management personnel and harm our business, even if we are successful. We may be named in product liability claims even if there is no evidence that our products caused the damage in question, and even though we may have indemnity from our customers, and such claims could result in significant costs and expenses. We may also be required to indemnify and/or defend our customers from product liability claims relating to our products. Further, our business liability insurance may be inadequate, may not cover the claims, and future coverage may be unavailable on acceptable terms, which could adversely impact our financial results. The above is exacerbated by the fact that our products

may be used, and perform critical functions, in various high-risk applications such as: automobiles, including ADAS/AD functions; cameras and artificial intelligence, including home and enterprise security; home automation, including smoke and noxious gas detectors; medical condition monitoring; location and asset tracking and management, including wearables for child safety and elderly health; robotics, including public safety drones and autonomous municipality vehicles; and XR for treatment of phobias or PTSD, early detection of disorders or special needs, among others.

Accordingly, defects, errors or security vulnerabilities in our products or the technologies we use could have an adverse impact on us, on our customers and the end users of our customers' products. If any of these risks materialize, there could be a material adverse effect on our business, results of operations and financial condition.

RISKS RELATED TO INTELLECTUAL PROPERTY

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

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements, international treaties and other methods, to protect our intellectual property, including our patent portfolio. Policing unauthorized use of our products, technologies and intellectual property is difficult and time consuming. The steps we have taken have not always prevented, and we cannot be certain the steps we take in the future will prevent, the misappropriation or unauthorized use of our products, technologies or intellectual property, particularly in foreign countries where the laws may not protect our rights as fully or as readily as U.S. laws or where the enforcement of such laws may be lacking or ineffective. See also the Risk Factor titled *"Our business and operations could suffer in the event of security breaches of our IT systems, or other misappropriation of our technology, intellectual property or other proprietary or confidential information."*

Some industry participants who have a vested interest in devaluing patents in general, or standard-essential patents in particular, have mounted attacks on certain patent systems, increasing the likelihood of changes to established patent laws. We cannot predict with certainty the long-term effects of any potential changes. In the United States, Europe (including the United Kingdom), India, China and elsewhere, there is continued discussion regarding potential patent law changes, and there is current and potential future litigation regarding patents, the outcomes of which could be detrimental to our licensing business. Some proposed changes would apply to only standard-essential patents, and such changes may substantially alter the incentives to participate in standardization or develop standards-compliant products. See also the Risk Factor entitled *"Efforts by some original equipment manufacturers (OEMs) to avoid paying fair and reasonable royalties for the use of our intellectual property may require the investment of substantial management time and financial resources and may result in legal decisions or actions by governments, courts, regulators or agencies, Standards Development Organizations (SDOs) or other industry organizations that harm our business."*

Further, the laws in certain foreign countries in which our patents are or may be licensed, or our products are or may be manufactured or sold, including certain countries in Asia, may not protect our intellectual property rights to the same extent as the laws in the United States. In addition, we cannot be certain that the laws and policies of any country or the practices of any standards bodies, foreign or domestic, with respect to intellectual property enforcement or licensing or the adoption of standards, will not be changed in the future in ways that are detrimental to our licensing programs or to the sale or use of our products or technologies.

We have had and may in the future have difficulty in certain circumstances in protecting or enforcing our intellectual property and contracts, including collecting royalties for use of our patent portfolio due to, among others: refusal by certain licensees to report and pay all or a portion of the royalties they owe to us; policies or political actions of governments, including trade protection and national security policies; challenges to our licensing practices under competition laws; adoption of mandatory licensing provisions by foreign jurisdictions; failure of foreign courts to recognize and enforce judgments of contract breach and damages issued by courts in the United States; and challenges before competition agencies to our licensing business or the pricing and integration of additional features and functionality into our chipset products. See also the Risk Factors titled *"Efforts by some original equipment manufacturers (OEMs) to avoid paying fair and reasonable royalties for the use of our intellectual property may require the investment of substantial management time and financial resources and may result in legal decisions or actions by governments, courts, regulators or agencies, Standards Development Organizations (SDOs) or other industry organizations that harm our business"* and *"Our business may suffer as a result of adverse rulings in governmental investigations or proceedings or other legal proceedings."*

We have engaged in litigation and arbitration in the past and may need to further litigate or arbitrate in the future to enforce our contract and intellectual property rights, protect our trade secrets or determine the validity and scope of

proprietary rights of others. As a result of any such litigation or arbitration, we could lose our ability to enforce one or more patents, portions of our license agreements could be determined to be invalid or unenforceable (which may in turn result in other licensees either not complying with their existing license agreements or initiating litigation or arbitration), license terms (including but not limited to royalty rates for the use of our intellectual property) could be imposed that are less favorable to us than existing terms, and we could incur substantial costs. Any action we take to enforce our contract or intellectual property rights could be costly and could absorb significant management time and attention, which, in turn, could negatively impact our results of operations and cash flows. Further, even a positive resolution to our enforcement efforts may take time to conclude, which may reduce our revenues and cash resources available for other purposes, such as research and development, in the periods prior to conclusion.

Additionally, although our license agreements generally provide us with the right to audit the books and records of licensees, audits can be expensive, time consuming, incomplete and subject to dispute. Further, certain licensees may not comply with the obligation to provide full access to their books and records. To the extent we do not aggressively enforce our rights under our license agreements, licensees may not comply with their existing license agreements, and to the extent we do not aggressively pursue unlicensed companies to enter into license agreements with us for their use of our intellectual property, other unlicensed companies may not enter into license agreements.

See also the Risk Factors titled “*Efforts by some original equipment manufacturers (OEMs) to avoid paying fair and reasonable royalties for the use of our intellectual property may require the investment of substantial management time and financial resources and may result in legal decisions or actions by governments, courts, regulators or agencies, Standards Development Organizations (SDOs) or other industry organizations that harm our business*” and “*Our business and operations could suffer in the event of security breaches of our IT systems, or other misappropriation of our technology, intellectual property or other proprietary or confidential information.*”

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

From time to time, companies have asserted, and may again assert, patent, copyright or other intellectual property claims against us relating to our technologies or products, including those we have acquired from other companies. These claims have resulted and may again result in our involvement in litigation, and we are currently involved in such litigation, including those described in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies.” We may not prevail in such litigation given, among other factors, the complex technical issues and inherent uncertainties in intellectual property litigation. If any of our products were found to infringe another company’s intellectual property, we could be subject to an injunction or be required to redesign our products, or to license such intellectual property or pay damages or other compensation to such other company (any of which could be costly). If we are unable to redesign our products, license such intellectual property used in our products or otherwise distribute our products (e.g., through a licensed supplier), we could be prohibited from making and selling our products. Similarly, our suppliers could be found to infringe another company’s intellectual property, and such suppliers could then be enjoined from providing products or services to us.

In any potential dispute involving us and another company’s patents or other intellectual property, our chipset foundries, semiconductor assembly and test providers and customers could also become the targets of litigation. We are contingently liable under certain product sales, services, license and other agreements to indemnify certain customers, chipset foundries and semiconductor assembly and test service providers against certain types of liability and damages arising from qualifying claims of patent infringement by products sold by us, or by intellectual property provided by us to our chipset foundries and semiconductor assembly and test service providers. Reimbursements under indemnification arrangements could have an adverse effect on our results of operations and cash flows. Furthermore, any such litigation could severely disrupt the supply of our products and the businesses of our chipset customers and their customers, which in turn could harm our relationships with them and could result in a decline in our chipset sales or a reduction in our licensees’ sales, causing a corresponding decline in our chipset or licensing revenues. Any claims, regardless of their merit, could be time consuming to address, result in costly litigation, divert the efforts of our technical and management personnel and/or cause product release or shipment delays, any of which could have an adverse effect on our results of operations and cash flows.

We may continue to be involved in litigation and may have to appear in front of administrative bodies (such as the United States International Trade Commission) to defend against patent assertions against our products by companies, some of whom are attempting to gain competitive advantage or leverage in licensing negotiations. We may not be successful in such proceedings, and if we are not, the range of possible outcomes is very broad and may include, for example, monetary damages or fines or other orders to pay money, royalty payments, injunctions on the sale of certain of our integrated circuit products (or on the sale of our customers’ devices using such products) or the issuance of orders to cease certain conduct or modify our business practices. Further, a governmental body in a particular country or region may assert, and may be successful in imposing, remedies with effects that extend beyond the borders of that country or region. In addition, a negative

outcome in any such proceeding could severely disrupt the business of our customers and their wireless operator customers, which in turn could harm our relationships with them and could result in a decline in our chipset sales or a reduction in our licensees' sales, causing corresponding declines in our chipset or licensing revenues.

Our use of open source software may harm our business.

Certain of our software and our suppliers' software may contain or may be derived from "open source" software, and we have seen, and believe that we will continue to see, customers request that we develop products, including software associated with our integrated circuit products, that incorporate open source software elements and operate in an open source environment, which, under certain open source licenses, may offer accessibility to a portion of our products' source code and may expose our related intellectual property to adverse licensing conditions. Licensing of such software may impose certain obligations on us if we were to distribute derivative works of that software. For example, these obligations may require us to make source code for the derivative works available to our customers in a manner that allows them to make such source code available to their customers, or to license such derivative works under a particular type of license that is different than what we customarily use to license our software. Furthermore, in the course of product development, we may make contributions to third-party open source projects that could subject our intellectual property to adverse licensing conditions. For example, to encourage the growth of a software ecosystem that is interoperable with our products, we may need to contribute certain implementations under the open source licensing terms that govern such projects, which may adversely impact our associated intellectual property. Developing open source products, while adequately protecting the intellectual property upon which our licensing programs depends, may prove burdensome and time-consuming under certain circumstances, thereby placing us at a competitive disadvantage, and we may not adequately protect our intellectual property. Also, our use and our customers' use of open source software may subject our products and our customers' products to governmental and third-party scrutiny and delays in product certification, which could cause customers to view our products as less desirable than our competitors' products.

GENERAL RISK FACTORS

The COVID-19 pandemic, or a similar health crisis, may impact our business or results of operations in the future.

The COVID-19 pandemic resulted in significant economic uncertainty, significant declines in business and consumer confidence and global demand in the wireless industry (among others) and a global economic slowdown, which negatively affected our financial results over certain periods. Specifically, throughout most of calendar 2020 and into early calendar 2021, the decline in demand for smartphones and other consumer devices sold by our customers or licensees resulted in decreased demand for our integrated circuit products and a decrease in the royalties we earned on the licensing of our intellectual property. Similarly, during calendar 2022, spikes in COVID-19 cases in certain parts of China led the Chinese government to impose lockdowns, which adversely affected consumer demand in the region and may continue to impact demand in the future.

The COVID-19 pandemic also caused us to modify our workforce practices, such as having the vast majority of our employees work from home. Although we have reopened our offices, we could be negatively affected in the future if, among others, a significant number of our employees, or employees who perform critical functions, become ill and/or are quarantined as the result of exposure to COVID-19 or a similar health crisis, or if government policies restrict the ability of those employees to perform their critical functions. See also the Risk Factor titled "*We may not be able to attract and retain qualified employees, and recent changes to our hybrid work model may not be successful.*"

The COVID-19 pandemic, or a similar health crisis that may arise in the future, could impact our business, results of operations and financial condition in the manner described above, and/or through delayed, reduced or cancelled customer orders; disruptions or delays in our supply chain; the inability of our customers or licensees to purchase or pay for our products or technologies; the insolvency of key suppliers, customers or licensees; delays in reporting or payments from our customers or licensees; or failures by other counterparties. The degree to which the COVID-19 pandemic, or a similar health crisis, may impact our future business, results of operations and financial condition will depend on future developments, which are uncertain, including but not limited to the duration of the pandemic or other health crisis; spikes in cases in various geographic regions; the emergence, spread and severity of new virus or disease variants; the availability, adoption and efficacy of vaccines or other medical treatments; and government responses and other actions to limit the spread of the virus or disease or to mitigate resulting negative economic effects. We are similarly unable to predict the extent to which COVID-19 or similar health crisis may impact our customers, licensees, suppliers and other partners and their financial conditions, but adverse effects on these parties could also adversely affect us. To the extent the COVID-19 pandemic or a similar health crisis adversely affects our business, results of operations or financial condition, it may also have the effect of exacerbating the other risks discussed in this "Risk Factors" section.

We operate in the highly cyclical semiconductor industry, which is subject to significant downturns. We are also susceptible to declines in global, regional and local economic conditions generally. Our stock price and financial results are subject to substantial quarterly and annual fluctuations due to these dynamics, among others.

The semiconductor industry is highly cyclical, volatile, subject to downturns and characterized by constant and rapid technological change, price erosion, evolving technical standards, frequent new product introductions, short product life cycles and fluctuations in product supply and demand. Periods of downturns have been characterized by diminished demand for end-user products, high inventory levels, excess or obsolete inventory adjustments or reserves, underutilization of manufacturing capacity, changes in revenue mix and erosion of average selling prices. We expect our business to continue to be subject to such cyclical downturns. During such downturns, our revenues may decline, and our results of operations and financial condition may be adversely impacted. We are currently seeing and expect to continue to see weakness in the macroeconomic environment (negatively impacting consumer demand for smartphones and other devices that incorporate our products and technologies) and elevated inventory levels at our customers (negatively impacting the volume of chipsets they purchase from us until such inventory is depleted). Until these conditions improve, we expect that both of these dynamics will have a negative impact on our revenues, results of operations and cash flows.

A decline in global, regional or local economic conditions, such as we are currently seeing, or a slow-down in economic growth, particularly in geographic regions with high concentrations of wireless voice and data users or high concentrations of our customers or licensees, could also have adverse, wide-ranging effects on our business and financial results, including: a decrease in demand for our products and technologies; a decrease in demand for the products and services of our customers or licensees; the inability of our suppliers to deliver on their supply commitments to us, our inability to supply our products to our customers and/or the inability of our customers or licensees to supply their products to end users; the insolvency of key suppliers, customers or licensees; delays in reporting or payments from our customers or licensees; failures by counterparties; and/or negative effects on wireless device inventories. In addition, our customers' and licensees' ability to purchase or pay for our products and intellectual property and network operators' ability to upgrade their wireless networks could be adversely affected, potentially leading to a reduction, cancellation or delay of orders for our products. Acts of war, terrorism or other geopolitical conflicts may also result in or contribute to declining economic conditions, disruptions to global supply chains and increased volatility in financial markets, among other effects. Further, inflationary pressure may increase our costs, including employee compensation costs, reduce demand for our products or those of our customers or licensees due to increased prices of those products, or result in employee attrition to the extent our compensation does not keep up with inflation, particularly if our competitors' compensation does.

Our stock price and financial results have fluctuated in the past and are likely to fluctuate in the future. Factors that may have a significant impact on the market price of our stock and our financial results include those identified above and throughout this Risk Factors section, as well as: volatility of the stock market in general and technology and semiconductor companies in particular; announcements concerning us, our suppliers, our competitors or our customers or licensees, including any announcement concerning the initiation of, or any developments in, any lawsuit or governmental investigation or proceeding against us; and variations between our actual financial results or guidance and expectations of securities analysts or investors, among others. In the past, securities class action litigation has been brought against companies following periods of volatility in the market price of their securities, among other reasons. We are and may in the future be the target of securities litigation. Securities litigation could result in substantial uninsured costs and divert management's attention and our resources. Certain legal matters, including certain securities litigation brought against us, are described in this Quarterly Report in "Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies."

Our business may suffer due to the impact of, or our failure to comply with, the various existing, new or amended laws, regulations, policies or standards to which we are subject.

Our business and products, and those of our customers and licensees, are subject to various laws, rules and regulations globally, as well as government policies and the specifications of international, national and regional communications standards bodies (collectively, Regulations). These include, among others, Regulations related to: patent licensing practices; antitrust, competition and competitive business practices; the flow of funds out of certain countries (e.g., China); cybersecurity; imports and exports, such as the U.S. Export Administration Regulations administered by the U.S. Department of Commerce; protection of intellectual property; trade and trade protection including tariffs; foreign policy and national security; environmental protection (including climate change), health and safety; supply chain, responsible sourcing, including the use of conflict minerals, and human rights; spectrum availability and license issuance; adoption of standards; taxation; privacy and data protection; labor, employment and human capital; corporate governance; public disclosure; automotive industry safety and quality standards; and business conduct. Compliance with, or changes in the interpretation of, existing Regulations, the adoption of new Regulations, changes in the oversight of our activities by governments or standards bodies, or rulings in court, regulatory, administrative or other proceedings relating to such Regulations, among others, could

have an adverse effect on our business and results of operations. See also the Risk Factors titled “*Our business may suffer as a result of adverse rulings in governmental investigations or proceedings or other legal proceedings,*” “*Changes in our patent licensing practices, whether due to governmental investigations, legal challenges or otherwise, could adversely impact our business and results of operations,*” “*A significant portion of our business is concentrated in China, and the risks of such concentration are exacerbated by U.S./China trade and national security tensions,*” “*There are numerous risks associated with the operation and control of our manufacturing facilities, including a higher portion of fixed costs relative to a fables model; environmental compliance and liability; impacts related to climate change; exposure to natural disasters, health crises, geopolitical conflicts and cyber-attacks; timely supply of equipment and materials; and various manufacturing issues,*” and “*Tax liabilities could adversely affect our results of operations.*”

Regulations are complex and changing (which may create uncertainty regarding compliance), are subject to varying interpretations, and their application in practice may evolve over time. As a result, our efforts to comply with Regulations may fail, particularly if there is ambiguity as to how they should be applied in practice. Failure to comply with any Regulation may adversely affect our business, results of operations and cash flows. New Regulations, or evolving interpretations thereof, may cause us to incur higher costs as we revise current practices, policies or procedures; may divert management time and attention to compliance activities; and may negatively impact our ability to conduct business in certain jurisdictions.

There are risks associated with our debt.

Our outstanding debt and any additional debt we incur may have negative consequences on our business, including, among others: requiring us to use cash to pay the principal of and interest on our debt, thereby reducing the amount of cash available for other purposes; limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, stock repurchases, dividends, general corporate or other purposes; and limiting our flexibility in planning for, or reacting to, changes in our business, industries or the market. Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which is subject to economic and political conditions, industry cycles and financial, business and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations to service our debt, we may be required to, among others: refinance or restructure all or a portion of our debt; reduce or delay planned capital or operating expenditures; reduce, suspend or eliminate our dividend payments and/or our stock repurchase program; or sell selected assets. Such measures might not be sufficient to enable us to service our debt. In addition, any such refinancing, restructuring or sale of assets might not be available on economically favorable terms or at all, and if prevailing interest rates at the time of any such refinancing or restructuring are higher than our current rates, interest expense related to such refinancing or restructuring would increase. Further, if there are adverse changes in the ratings assigned to our debt securities by credit rating agencies, our borrowing costs, our ability to access debt financing in the future and the terms of such debt could be adversely affected.

Tax liabilities could adversely affect our results of operations.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes. We regularly are subject to examination of our tax returns and reports by taxing authorities in the United States federal jurisdiction and various state and foreign jurisdictions, most notably in countries where we earn a routine return and the tax authorities believe substantial value-add activities are performed, as well as countries where we own intellectual property. The final determination of tax audits and any related legal proceedings could materially differ from amounts reflected in our income tax provisions and accruals. In such case, our income tax provision, results of operations and cash flows in the period or periods in which that determination is made could be negatively affected.

Tax rules may change in a manner that adversely affects our future reported results of operations or the way we conduct our business. Most of our income is taxable in the United States with a significant portion qualifying for preferential treatment as FDII (foreign-derived intangible income). Beginning in fiscal 2027, the effective tax rate for FDII increases from 13% to 16%. Further, if U.S. tax rates increase and/or the FDII deduction is eliminated or reduced, both of which have been proposed by the current U.S. presidential administration, our provision for income taxes, results of operations and cash flows would be adversely (potentially materially) affected. Also, if our customers move manufacturing operations to the United States, our FDII deduction may be reduced.

Further changes in the tax laws of foreign jurisdictions could arise as a result of the base erosion and profit shifting (BEPS) project that was undertaken by the Organization for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, recommended changes to numerous long-standing tax principles related to transfer pricing and continues to develop new proposals including allocating greater taxing rights to countries where customers are located and establishing a minimum tax on global income. These changes, if and as adopted by countries, may increase tax uncertainty and may adversely affect our provision for income taxes, results of operations and cash flows.

1 **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

2 Financial market risks related to interest rates, foreign currency exchange rates and equity prices are described in our
3 2022 Annual Report on Form 10-K, along with certain updates described below. At June 25, 2023, there have been no
4 material changes to the financial market risks described at September 25, 2022. While we continue to monitor volatility in the
5 banking sector (as a result of developments related to certain distressed or closed banks in the current year), such
6 developments have not had a significant impact to our business, financial condition, results of operations and financial market
7 risks.

8 **Interest Rate Risk.** At September 25, 2022, we had outstanding forward-starting interest rate swaps with an aggregate
9 notional amount of \$1.6 billion to hedge the variability of forecasted interest payments on anticipated debt issuances. During
10 the first quarter of fiscal 2023, in connection with our debt issuance in November 2022, we terminated these swaps, and the
11 related gains of \$334 million are being recorded as a reduction to interest expense over the hedged portions of the related
12 debt.

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial
reporting, as defined under Rule 13a-15(f) promulgated under the Exchange Act, in the third quarter of fiscal 2023 that have
materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding certain legal proceedings is provided in this Quarterly Report in “Notes to Condensed Consolidated Financial Statements, Note 6. Commitments and Contingencies.”

ITEM 1A. RISK FACTORS

We have provided updated Risk Factors in the section labeled “Risk Factors” in “Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We do not believe those updates have materially changed the type or magnitude of the risks we face in comparison to the disclosure provided in our 2022 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities

Our purchases of our common stock in the third quarter of fiscal 2023 were:

	<u>Total Number of Shares Purchased</u> (In thousands)	<u>Average Price Paid Per Share</u> (1)	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> (In thousands)	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u> (2) (In millions)
March 27, 2023 to April 23, 2023	—	\$ —	—	\$ 5,947
April 24, 2023 to May 21, 2023	1,100	104.73	1,100	5,832
May 22, 2023 to June 25, 2023	2,583	110.32	2,583	5,547
Total	<u>3,683</u>		<u>3,683</u>	

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

(2) On October 12, 2021, we announced a \$10.0 billion stock repurchase program. The stock repurchase program has no expiration date. Shares withheld to satisfy statutory tax withholding requirements related to the vesting of share-based awards are not issued or considered stock repurchases under our stock repurchase program and, therefore, are excluded from the table above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

13 **ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	Filed Herewith
2.1	Agreement and Plan of Merger, dated as of October 4, 2021, by and among QUALCOMM Incorporated, SSW HoldCo LP, SSW Merger Sub Corp and Veoneer, Inc. (1)	8-K	10/4/2021	2.1	
3.1	Amended and Restated Certificate of Incorporation.	8-K	4/20/2018	3.1	
3.2	Amended and Restated Bylaws.	8-K	7/21/2023	3.2	
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Cristiano R. Amon.				X
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Akash Palkhiwala.				X
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Cristiano R. Amon.				X
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for Akash Palkhiwala.				X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	XBRL Taxonomy Extension Schema.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.				X
101.LAB	XBRL Taxonomy Extension Labels Linkbase.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase.				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

14
15 (1) We shall furnish supplementally a copy of any omitted schedule to the Commission upon request.

16
17

SIGNATURES

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

QUALCOMM Incorporated

Dated: August 2, 2023

/s/ Akash Palkhiwala

Akash Palkhiwala

Chief Financial Officer