

# EXHIBIT 12

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TECH

# Qualcomm Faces \$853 Million Fine From South Korea Over Alleged Antitrust Violations

Regulator says U.S. company breached antitrust law by limiting competing chip makers' access to its patents

By [Eun-Young Jeong](#) [Follow](#)

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Qualcomm's offices in San Diego, California. The company dismissed KFTC's charges, saying that it hasn't hindered other chip suppliers from their ability to sell. BLOOMBERG NEWS

SEOUL—A South Korean regulator said it would fine [Qualcomm](#) Inc. **QCOM 1.29% ▲** about \$853 million for alleged antitrust violations, the highest such penalty handed to an individual company here, as the U.S. chip maker faces global scrutiny over its patent-licensing business.

After a three-year investigation, the Korea Fair Trade Commission said on Wednesday that Qualcomm breached antitrust law by limiting competing chip makers' access to its patents. The company also forced mobile-phone manufacturers into unfair license agreements by refusing to supply crucial phone chips to those that disagreed with its terms, the regulator said.

The chip supplier used its market position as a leveraging tool in its negotiations with mobile-phone makers to force them to accept unfair conditions, said Shin Young-son, the commission's secretary-general.

San Diego-based Qualcomm said it would contest the decision, rejecting the suggestion that it had hindered other chip suppliers' ability to sell. It said its licensing practices have existed in Korea and world-wide for decades, and that the regulator hadn't questioned them in the past. The practice of licensing at the device level is an industrywide norm, said Don Rosenberg, the firm's general counsel.

"It's a false reality they've created of what this industry looks like, what its history has been, what our role has been," Mr. Rosenberg said.

Qualcomm's business is largely divided into its chip-making unit and patent-licensing unit. The company garnered more than \$23 billion in revenue in its 2016 fiscal year, of which 34% stemmed from its patent-licensing business.

Qualcomm charges handset makers up to a 5% royalty based on the wholesale price of their devices. The company doesn't typically issue licenses for its wireless technology to other chip makers. Less than 3% of its licensing revenue came from royalties from Korean handset makers in its 2016 fiscal year ended Sept. 25, it said.

South Korea's [Samsung Electronics](#) Co. and [LG Electronics](#) Inc., which both use the U.S. company's processor chips in their smartphones, declined to comment Wednesday.

In its decision, the South Korean regulator said Qualcomm's royalty model is unfair for handset makers because it requires them to purchase comprehensive wireless-technology licenses, including ones they don't use. Moreover, it requires handset makers to provide their patents to Qualcomm free of charge, the commission said, calling on the company to change its business model.

It isn't the first time Qualcomm has run foul of regulators in Asia.

Last year, Qualcomm agreed to a [settlement with Chinese antitrust authorities that included a \\$975 million fine](#) and required the company to alter its business practices. Chinese regulators, however, [didn't challenge Qualcomm's model of charging royalties](#) to handset makers.

And in 2009, the South Korean commission fined Qualcomm 273.1 billion won (\$225.6 million) for exploiting its dominant patent position by charging lower royalties for

handset makers that purchased Qualcomm chips, discouraging them from buying chips from rivals. The company appealed that ruling; a final decision is pending.

Wednesday's ruling won't take effect until the commission issues a formal written order, which can take several weeks or months. Qualcomm can initiate its appeal process to Seoul's High Court once that happens, but is required to pay the fine within 60 days once the order is issued. The fine could be adjusted or refunded later depending on the outcome of the appeal.

If fully implemented, the commission's ruling would likely dent Qualcomm's profits in the long run, said Lee Seung-woo, an analyst with IBK Securities in Seoul.

Stacy Rasgon, an analyst with Sanford C. Bernstein, said any requirement that Qualcomm change its licensing practices could affect its approach to business in other countries. "The worry is not the fine—Qualcomm has deep pockets. The worry is about potential changes to the business model, if any," he said.

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