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UPDATE 4-Jana Partners pressing Qualcomm to spin off chip business



* Jana says chip unit "essentially worthless" at current valuation

* Hedge Fund says it has had "constructive dialogue" with Qualcomm (Adds details, analyst comment)

By Supriya Kurane and Svea Herbst-Bayliss

April 13 (Reuters) - Hedge fund Jana Partners said on Monday that Qualcomm Inc's chip business was "essentially worthless" at current valuations and pressed the company to spin it off from its patent-licensing business to "restore investor confidence."

Jana also wants Qualcomm to cut costs, accelerate a share buyback, improve disclosures and refresh its board, the New York-based firm said in a quarterly letter to investors.

"We believe that the board and management recognize the need to address its historical underperformance and improve investor perceptions of the company," Jana said.

While the buyback is a good step, Qualcomm needs to do more, including considering strategic deals, Jana said.

Jana, which has investments totaling about \$11 billion, said it owned about 4.4 million Qualcomm shares after investing about \$2 billion in the company. (1.usa.gov/1H05TD5)

Responding to Jana's comments, Qualcomm said it was committed to "maintaining an active dialogue with all stockholders."

The company, which has a market value of \$114 billion, reiterated plans to buy back \$15 billion in shares, with \$10 billion earmarked for the next 12 months.

Qualcomm's chip business is facing intense competition in a crowded smartphone-chip market.

Earlier this year, longtime customer Samsung Electronics Co opted to use an internally developed processor for its new Galaxy S6 smartphone rather than Qualcomm's latest Snapdragon mobile chip.

Qualcomm's chips business has also been facing regulatory scrutiny in China. The company agreed to pay a fine of \$975 million in February, ending a 14-month Chinese government investigation into anti-competitive practices.

"Qualcomm has been accused of bundling, that is giving you a kickback on the chip if you pay them for royalties or vice versa, which is not considered a good way to do business in most countries," Charter Equity Research analyst Edward Snyder said.

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Qualcomm's shares were marginally down at \$68.99 in afternoon trading.

Jana said at Qualcomm's current stock price, the chipset business was essentially worthless and could be valued better by partial or full separation of the businesses.

The Wall Street Journal first reported that Jana was putting pressure on Qualcomm to break up. (on.wsj.com/1EsowPH)

Most of Qualcomm's revenue comes from selling chips that enable phones to communicate with carrier networks, but most of its profit comes from licensing patents for its CDMA cellphone technology. (Additional reporting by Kshitiz Goliya and Lehar Maan in Bengaluru; Editing by Gopakumar Warriar, Anupama Dwivedi and Ted Kerr)



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