Thanks, Warren, and good afternoon everyone. We're pleased to report another strong quarter, with record revenues, up 24% versus a year ago, driven by broad based demand for smartphones and strong semiconductor volumes.

In recognition of our strong financial position and the continued growth in our business, we recently announced a 40% increase in our dividend and a new $5 billion share repurchase authorization.

In QCT, we continue to drive technology and product leadership. We saw the first product announcements by our customers on our new Qualcomm Snapdragon 600 and 800 processors. We launched our new Qualcomm RF360 front-end solution, and we extended our support of the industry's widest range of operating systems to include Mozilla's web-based Firefox OS and innovations such as Facebook Home. Qualcomm is now ranked by revenues as the third-largest semiconductor provider in the world, up from sixth last year and ninth the year before, according to IHS.

Turning to QTL, total reported device sales came in towards the high end of our prior guidance range, reflecting continued global adoption of smartphone, particularly in emerging regions. This marks another record quarter of total reported device sales and QTL revenues.

We also continue to growth rate of our licensee base, and now have over 230 CDMA licensees and more than 50 single mode OFDMA licensees. Looking forward, we believe our long term growth drivers remain intact and are increasing our calendar year 2013 3G/4G device forecast in line with this view.

Smartphone adoption continues at a rapid pace. Gartner estimates that approximately 700 million smartphones were sold in calendar 2012, up 44% year over year. Further, they estimate that in 2017 more than 1.7 billion smartphones will be sold, representing an approximate 20% compound annual growth rate versus a 2012 base.

Smartphones have become more than just a technology product, empowering people to connect and interact with the world like never before. And we're working to deliver continuous improvements to this user experience through our investments in industry leading innovations in smartphone technologies, including the CPU, the GPU, multimedia subsystem sensors, displays, connectivity, and of course last but not least the modem.

Emerging regions are experiencing the fastest growth for 3G as 3G networks mature and the breadth of affordable smartphones expands. Wireless Intelligence reports that at the end of the first calendar quarter of 2013, 3G connections including CDMA 1X, in emerging regions, increased 34% year over year to approximately 1.1 billion.

According to analysts, 3G connections are now more than three times the number of fixed internet connections in emerging regions, making mobile the leading and in some cases the only platform for computing and internet access. Let's take China as an example. Wireless Intelligence reports that there are now more than 1.1 billion wireless connections, of which only approximately one-third are 3G, including 1X. There is a large remaining opportunity as consumers migrate from 2G to 3G and 3G/4G multimode.

SINO MR reports that more than six times the number of sub-1000 RMB smartphone models were launched in 2012 versus 2011. By the way, RMB1000 is approximately $160. All three carriers in China reported increased data traffic and revenue, with China Telecom reporting a 47% year over year increase in data revenue for 2012.

And beyond the phone, it's important to remember that we're pursing multiple incremental growth opportunities including mobile computing and what we refer to as the internet of everything.

We're still in the early stages of mobile computing, but we believe the fundamental benefits of always-on, always-connected and sleek form factors will create a more compelling user experience than traditional computing devices. We're encouraged to see a diverse set of vendors experiment with different form factors and multiple operating systems as they look to address the evolving computing environment.

Further, as it relates to the internet of everything, we're leveraging our core technologies to support a range of applications for a diverse set of vertical industries such as automotive, smart energy, security, healthcare, and the connected home.

As an example of momentum in that space, General Motors recently announced an intent to put LTE connectivity into its entire fleet of 2015 Buicks, Cadillacs, Chevrolets, and GMCs, and that's following similar announcements from BMW and Audi.

We're investing in a variety of solutions to help meet the rapidly increasing data traffic demands that these opportunities are creating. We refer to this as the 1000X Data Challenge. We're making good progress with technologies such as carrier aggregation, LTE broadcast, and new small cell deployment models.

Further, advances in 3G network technologies such as HSPA+ and new overlay LTE networks are being deployed at significant rates, and according to GSA, there are now over 160 commercial LTE networks globally.

China Mobile announced plans to expand its LTE TDD trial network to include 200,000 base stations by the end of 2013, and Snapdragon and Gobi enabled LTE TDD devices are starting to achieve China Mobile's network certification.

As you obviously know, George Davis has joined Qualcomm as our chief financial officer, and I'd like to welcome him to his first Qualcomm earnings call. We're off to a great start, and I'm looking forward to working with George in the months and years to come.

So to conclude, we've just completed another strong quarter at Qualcomm, and we're pleased to be increasing our fiscal 2013 guidance. We're continuing to execute against our strategic priorities, and look forward to addressing the growing set of opportunities ahead. Thank you, and I'll now turn the call over to Steve Mollenkopf .

Steven Mollenkopf

Thank you Paul, and good afternoon, everyone. Our QCT business had another excellent quarter, with revenues and earnings before tax increasing 28% and 14% year over year respectively. We shipped 173 million MSM chipsets, up 14% year over year, and at the high end of our prior guidance range, reflecting strong demand across our portfolio, including our Qualcomm reference design solutions.

Looking forward, we are expecting another record year for QCT, growing revenue and earnings before tax on a strong double digit basis year over year. This growth is in excess of the rate of growth of estimated industry 3G/4G device unit shipments and the year over year percentage increase of our expected operating expenses.

Further, the year is unfolding better than we initially expected, and we are successfully increasing our share and our share of content in devices. This strategy is delivering strong revenue and per-unit dollar margin growth year over year, albeit with downward pressure on the QCT gross margin on a percentage basis, as expected.

In total, we are pleased to be raising the company guidance, in large part due to the strength of our chip business. Flagship devices announced this quarter that contain our chipsets include the Samsung Galaxy S IV, the HTC One, the LG Optimus G Pro, the Blackberry Z10, and the Sony Xperia Z smartphone and tablet.

Our strategy of pursuing a diversified customer base, including all the major OEMs and across all major operating systems, uniquely positions us within the industry. We also continue to grow devices targeted at mass market pricing in emerging regions. Our Qualcomm reference design program continues to build momentum with OEMs now shipping handsets based on our MSM 8x25Q Quad Core chipset and a developing pipeline for our LTE chipsets, which will support the anticipated rollout of LTE in China.

In total, there are now more than 850 Snapdragon enabled devices launched or announced, including approximately 200 devices based on our Qualcomm reference designs. The pipeline of future Snapdragon enabled devices also continues to grow, and there are more than 475 additional Snapdragon enabled designs in development. Devices based on the Snapdragon 600 chipsets are launching now, and we expect commercial devices based on the Snapdragon 800 chipset to launch on schedule in the middle of this year.

Carrier requirements that support the demand for growing network capacity will increase the complexity and requirements for modem and connectivity technology and represent a sizable opportunity that aligns with our key strengths. Our family of 3G/4G multimode chipsets leads the competition in mode and band support as well as the integration of the latest wifi 802.11 AC.

We are already on our third generation of LTE modems, and with the MDM 9X25 and Snapdragon 800 chipsets, while others are still working on their first generation. This quarter we announced our new Qualcomm RF360 product, which addresses the next challenge with global LTE: OEMs SKU proliferation coming from RF complexity and LTE brand fragmentation.

We continue to execute on the strategy which we outlined for you in the past. We innovate across multiple technology vectors, CPU, graphics, modem, and connectivity, optimize the design point for the unique requirements of mobile, integrate these technologies into a tiered chipset roadmap, and deliver these chipsets at scale across multiple customers and OSs.

These technology investments enable superior performance, lower power consumption, faster time to market, and continually raise the bar for competition. The success of this strategy is reflected in our growing share and the many OEM flagship devices already announced based on the Snapdragon 600 chipset and the increasing device pipeline of more than 200 Snapdragon 600 and 800 chipset enabled devices. We believe it continues to position us well in the smartphone space, but also in the growing opportunities of mobile computing, the internet of everything, and the connected home.

That concludes my remarks. I will now turn the call over to George Davis.

George Davis

Thank you, Steve, and good afternoon everyone. I am delighted to have joined the Qualcomm team, and look forward to working closely with the investor and analyst community in my new role. We are pleased to be reporting strong financial results today, and to be increasing our financial outlook for fiscal 2013.

Fiscal second quarter revenues were a record $6.1 billion, up 24% year over year and 2% sequentially. Non-GAAP operating income of $2.2 billion was up 18% year over year, and non-GAAP earnings per share of $1.17 was up 16% year over year. Sequentially, non-GAAP earnings per share were down $0.09, reflecting seasonally lower QCT shipments and higher operating expenses, partially offset by 17% revenue growth in QTL.

As a reminder, this quarter reflects two very different seasonal periods for our main business segments. For QCT, our March quarter is a period of seasonally lower demand following the retail intensive December quarter.

Because QTL records royalty on subscriber device sales on a quarter lag, our fiscal second quarter results for QTL reflect the strong demand period of the December quarter. QTL reported strong growth in 3G/4G device shipments by its licensees, driven particularly by smartphones in both developed and emerging regions.

Total reported device sales rose to a record $61.1 billion, up 15% sequentially and 18% year over year. Devices shipped by our licensees in the December quarter were estimated at 279 to 283 million units, with an estimated average selling price of $214 to $220.

QCT shipped 173 million MSM chips, at the high end of our prior guidance range, driven by strong demand across our portfolio, including QRD chipsets for emerging accounts. Revenue per MSM was relatively flat sequentially and QCT operating margin was in line with expectations at approximately 17%.

Non-GAAP combined R&D and SG&A expenses grew 14% sequentially, exceeding the high end of expectations due to increased patent, legal, and employee related expenses in the quarter. Operating cash flow was strong at $2.2 billion, up 17% year over year and 36% of revenues. During the quarter, we returned $431 million of cash dividends to stockholders.

Let me now spend a few minutes on our outlook for the fiscal year and our fiscal third quarter. We are raising our guidance for fiscal 2013. We now estimate our fiscal 2013 revenues will be approximately $24 billion to $25 billion, up 28% year over year at the midpoint and up $600 million from our previous guidance.

We estimate our fiscal 2013 non-GAAP earnings per share will be between $4.40 and $4.55, up approximately 21% year over year at the midpoint, and up $0.13 relative to the midpoint of our previous guidance. Our fiscal 2013 operating margin percentage estimates for QCT and QTL are unchanged.

We expect combined non-GAAP R&D and SG&A expenses for fiscal 2013 to grow approximately 21% to 23% year over year. This is a modest increase over our prior estimate, primarily due to increased patent and legal expenses and variable employee costs.

Let me spend a moment on calendar year 3G/4G device estimates and fiscal year device ASPs. As a baseline, we have updated our estimate of 3G/4G devices shipped in calendar year 2012 upward to a range of 928 million to 945 million devices. This represents an increase of approximately 18% year over year at the midpoint. This is somewhat higher than our prior estimate, led by emerging region demand and provides a strong base for the growth we expect in calendar 2013.

For calendar year 2013 3G/4G device shipments we now estimate between 1.015 million and 1.085 billion devices will be shipped by our licensees, driven by strong global smartphone demand. At the midpoints of our calendar 2013 guidance and the revised calendar 2012 range, we estimate 3G/4G device growth will be 12% year over year.

We estimate that the average selling price of 3G/4G devices for fiscal 2013 will be between $216 and $224, consistent with the midpoint of our prior forecast. We estimate our non-GAAP annual tax rate to be approximately 17-18% for fiscal 2013, consistent with our prior expectations.

Now, turning to the third quarter of fiscal 2013, we estimate revenues will be in the range of approximately $5.8 billion to $6.3 billion, up approximately 31% year over year at the midpoint. We estimate non-GAAP earnings per share for the third fiscal quarter to be between $0.97 and $1.05, up approximately 19% year over year at the midpoint.

We anticipate that fiscal third quarter non-GAAP combined R&D and SG&A expenses will increase sequentially approximately 2-4%. In QTL, we estimate that our subscriber licensees will report total reported device sales of approximately $51 billion to $56 billion in the June quarter, for shipments made in the March quarter. At the midpoint of that range, we expect total reported device sales to be up approximately 12% year over year and down approximately 12% sequentially, reflecting post-holiday seasonality.

In QCT, we expect to ship between 163 million and 173 million MSM chipsets during the June quarter. We expect a stronger mix of chipsets targeted for high tier smartphones to drive revenue per MSM higher, resulting in sequential QCT revenue growth of more than 5%, despite the reduction in expected volumes. We expect QCT operating margin percentage to be relatively flat quarter over quarter at approximately 17%.

That concludes my comments. I will now turn the call back to Warren.

Warren Kneeshaw

Thank you, George. Operator, we are ready for questions.

Question-and-Answer Session

Operator

[Operator instructions.] Mike Walkley, from Canaccord Genuity, please go ahead with your question.

T. Michael Walkley - Canaccord Genuity

I was wondering if you could discuss the ASP trends for the total device market. It seems there was a lack of high end product introductions during the March quarter, but there's a lot of high end flagship devices ramping into the market during the June quarter. Could we expect QTL ASPs maybe to increase exiting the fiscal year relative to your guidance? And am I calculating it right that your guidance also implies an uptick in ASPs for the June quarter?

Derek Aberle

I'll take that one. I think we saw a little bit of a downward trend in ASPs in Q2, although that was in line with what we expected. As we look back historically the last couple of years, we've seen actually ASPs kind of trend down in Q2. But then they've tended to trend up in Q3 and Q4. And so as we look out at the back half of the year, we are expecting kind of a rebound in ASPs as compared to the Q2 ASP, and that's including offsetting effect from FX. So I do think both in the March and the June quarter, we should see some improvement in the ASP compared to Q2.

Warren Kneeshaw

As a reminder, our range for the full year is still, we've narrowed it a little bit, but it still has a midpoint at 220.

T. Michael Walkley - Canaccord Genuity

And then Derek, just on the FX, was there any impact to FX in the short term, or any impact from the yen in particular. And then just longer term, with the stronger mix from low end markets, do you see the ASP trends as still kind of single digit annual decline is a good way to think about it?

George Davis

I'll cover the near term impact and maybe Derek you can cover your views on the longer term impact. Actually, we did experience some impact from the yen in the second quarter, and really for the full year. But in both Q2 and Q3, the net effect has been minimal in Q2 in particular, because of the favorable impact from other currencies. So for the full year, we see FX being about $1 impact on ASPs. So not much of an impact and virtually no impact in Q2.

Derek Aberle

So back on the longer term trends, I think really the trend set we've been seeing and that we highlighted back at the analyst day in November. Two quarters in are really holding, and we see them remaining intact. In particular, in the emerging regions, the ASPs have continued to increase and in fact when we talked about sort of the tiers, the interesting thing is although the volume is continuing to grow there, the percentage of the units coming from the mid and high tier has kind of been holding. And so I think both of those trends are consistent with what we expected at the beginning of the year and will continue. But as you said, over the long term as more volume shifts to emerging regions, in terms of our internal plans, we've got baked in assumptions that there will be single digit declines in ASPs over the longer term.

Operator

Tim Long, from BMO Capital Markets, please go ahead with your question.

Tim Long - BMO Capital Markets

I just wanted to go a little further into the detail on the QCT gross margin. Steve, you mentioned it down as expected. I just want to put that together with a few things. First, last quarter Bill had mentioned a positive contribution to gross margin from QCT, so I think it went up two or three points, doing the math, looking like it went down about six points or so this quarter, into March. So it seems like a little bit of a reversal there, and you're saying as expected. I'm curious what that means.

And what do we think about from the market drivers for this change in gross margin, meaning is it QRD and media tech competition? Is it new LTE devices from competitors finally starting to hit the market? And at some point, do we start to see a floor in this gross margin number for QCT?

Steven Mollenkopf

In Q2, from Q1, a couple of things happened. One, if you get the normal calendar year price reset, which hits in this quarter, we also had a bit of a weaker mix from the perspective of more units coming in from emerging markets versus developed markets. The December quarter tends to be pretty heavy in terms of buildup in the developed world. So you probably saw a little regional mix move away from the developed world.

We also mentioned on the last call that we also think about how we do our pricing strategy, which I think comprehends not just short term but also long term views of the competitive landscape. One thing that I should mention, we really are not seeing significant competitive threat in the LTE area, as you mentioned. I think it's just more of a mix issue and some of the calendar items that you've probably seen over the past few years as well.

Tim Long - BMO Capital Markets

Forgive me, but I thought the ASP looked pretty much flat December to March. So the mix couldn't have been that bad.

Steven Mollenkopf

You probably saw a little bit less mix from the high end, and a little bit more from the emerging market area versus the quarter before.

George Davis

I would just add when we look at Q2, even though the volumes of MSMs were up relative to our expectations, the mix issue did have an impact of kind of neutralizing the benefit of those higher volumes and so the outperformance in Q2 was more of a QTL story.

Operator

Simona Jankowski from Goldman Sachs, please go ahead with your question.

Simona Jankowski - Goldman Sachs

I just had a question on the chipset side, and then one on the royalty side. Starting with chipsets, can you just kind of go over the puts and takes on the volumes expected in the June quarter, considering there are some significant major launches that you're participating in the June quarter. I would have thought you'd see some better sequential performance there than what you're guiding for.

Steven Mollenkopf

I try not to get into the mix of different customers. The one thing that I would say is that throughout the year we're probably a little bit diversified from big changes in the customer base, and we are seeing kind of a customer mix change move around. You see that in our numbers and probably in our mix a little bit. But I don't think that quarter has traditionally been the strongest quarter relative to some of the other ones that we've had. I don't know if there's anything ominous in there that you should be able to pick up or think about picking up.

Simona Jankowski - Goldman Sachs

So you're not assuming it's any kind of inventory correction or anything like that?

Steven Mollenkopf

No, if anything, I think you probably see a little bit of an increase in our inventories, which probably you should think of as confidence in shipping some of the higher end chipsets into the market.

Simona Jankowski - Goldman Sachs

Then on the royalty side, a question there. So your ASPs declined about 4% sequentially and that's despite the fact that in the December quarter volumes in North America and other mature markets were actually quite strong. And I would have thought that with that being the higher ASP region, that would have helped the mix for QTL.

And then conversely, we're now seeing, and it was also reported by AT&T and Verizon and others that North America volumes have really come down quite significantly in the March quarter, which is being offset by substantial growth in emerging markets around the lunar new year and so forth. And that would have suggested to me that the mix actually would get better and benefit your ASPs in the royalty segment in the March quarter for you to report in June. So could you just kind of dig a little bit more into why that logic is not playing out?

Derek Aberle

As I was trying to explain before, we have seen actually more volatility, I would say, in the quarterly ASPs with more iconic high end devices and the timing of the launches. What we've seen is actually the ASPs moving around quite a bit. Like if you look last year we were slightly down in Q2 but then ASPs jumped up by like $15 in Q3. So we are seeing more volatility.

I think the December quarter is obviously a very competitive dynamic. A lot of things going on in pricing. And it's a quarter where we have less volume coming from some of the higher ASP regions like Japan. But as I said, as we look out and we have a certain amount of information already from our licensees and then based on publicly available data, we do expect ASPs to increase in Q3. And then as you suggested, there are a number of new higher end products launching that should have a positive impact on the Q4 ASP as well.

Operator

Brian Modoff, from Deutsche Bank, please go ahead with your question.

Brian Modoff - Deutsche Bank

A couple of questions. One on the QCT margins. Kind of guiding again at 17% in the quarter. Can you kind of walk through a little bit of that? I know obviously volumes aren't as good, but you've had some of your expenses you typically incur in Q1 done. Or are there incremental expenses, take outs, etc.?

And then can you also talk about, you mentioned it a couple of times, higher legal expenses? Can you talk about has there been a shift in litigation, or is there something that's occurring that's outside of perhaps that smaller case in Florida that you're dealing with?

And then last question, just around S800. You were talking about launch midyear. How is the design traction on that going? And how do you see that affecting your overall mix in ASP in QCT?

George Davis

The QCT margins, we said for the full year, as you may recall, that we saw 18.5% to 20.5% margins for QCT throughout the year. We are seeing spending increase into the last half of the year so 17% at Q3 is still going to be consistent with that outlook. And in fact, we recommitted to the margin outlook.

So I don't think we really changed our view at all. I do think we're certainly seeing strength in ASPs for QCT in the second half of the year. That will help. But we're also seeing some ramping in spending.

Steven Mollenkopf

A little bit on the 800 status. It's actually doing well if you look at the uptick in the second half. And the second half does look quite a bit better than what we would have thought in the January timeframe. A lot of that is this higher mix product that we've been investing in for some time. And I think you're going to see good growth year over year and I think some accretion to the business as a result of those higher end products coming in. And I think that's really responsible for some of the guidance movement.

George Davis

And just back to your second question, on legal expenses and other items. That really was to explain the delta from our forecast of up 10-12-14, to the 14% growth that we saw in Q2. Litigation and patent are both up in the quarter. Some on settlements, some of the patents.

Obviously there was the adoption of the first to file rule and so there was a lot of accelerated spending on patent filings in the quarter as well. So it's more of an increase. Obviously the big increases year over year and also on an absolute basis, the increase in spending is still coming out of the core business.

Operator

Kulbinder Garcha, from Credit Suisse, please go ahead with your question.

Kulbinder Garcha - Credit Suisse

A couple of questions. I just want to revisit the QCT margin question again. And maybe more for the full year, for Steve. With the growth that you're seeing and the market share that you're gaining, and the mix improvement we're seeing in LTE, I'm just surprised that there's not more leverage in that business, especially this year of all years. And even in the near term you're seeing a higher mix of higher end chips going into the next quarter, but margins aren't going up. So is something just competitive that you're trying to do, are you're thinking to try and block sockets for long term? Can you speak about why there isn't more leverage just period this year?

And then for Derek, one of the debates that we've had of the [unintelligible] is about your vertical license, the significant 3G market, smartphone market, that's developing out of the media tech world, if you like. Is the increase to this year's addressable market number you're seeing now any function of your confidence in your ability to license phones there, or is it mainly demand driven?

George Davis

Let me just give some perspective on the full year on the margin. Because I think it's hard to see it for a couple of reasons. Number one, the margin performance for QCT [unintelligible] loaded in the second half of the year and so you'll see more of that impact in Q3 and Q4, and we already talked about the fact that even on falling volume you're going to see revenue and operating margin up and our expectation in Q3.

But if you just step back and look year over year, QCT revenue will be up more than 35% year over year. Operating margin we think will be up more than 40% and again, it's driving the opex growth of the company year over year, but it's still at a lower percentage than its revenue growth rate. So we are seeing some leverage in the margin.

Derek Aberle

Really the short answer is it's end demand driven. As I've explained in the past, we're continuing to grow our licensee base in China, and our license agreements require payment of royalties irrespective of whose chip is included in the device. And I think I've taken folks through a few times the robust process we have in place of monitoring the market in China and really trying to drive compliance with our agreements. So no change there. Really a demand driven story.

Operator

Ehud Gelblum, from Morgan Stanley, please go ahead with your question.

Ehud Gelblum - Morgan Stanley

I'm going to revisit a couple of the issues that we went over already. I may have missed some things. I apologize if I'm rehashing some concepts. But on the QCT gross margin, around 17+%, it's where you had guided it last quarter. Can you give us a sense as to how much of that decline from last quarter's 26% was gross margin related and how much was opex?

And to the extent there was any gross margin decline in the business, how does that make sense to help us get our arms around it given that the shipment ASP was flat? So maybe there was no gross margin decline and it was all opex. Just want to understand that. And going back to the previous question, if it is all opex, why wouldn't that improve as you get through the year? But just to understand that mix.

And then on the QCT ASP, itself, I think you had mentioned that it was flat because of the mix, offsetting the higher end chips that we know you shipped last quarter? There were also a bunch of lower end ones that kind of kept it in step. I think in the last conference call Bill had mentioned that he expected it to be up.

So I guess what I'm asking is vis-à-vis your expectations, what geographically happened? Was the U.S. not as strong as you had expected it to be versus your expectations, and China just stronger? And if that's the case, are you gaining more share in China that you thought you were going to?

George Davis

On the gross margin and opex, we don't guide that at the segment level. But I will say they're in line with Steve's comments about the mix of business. There was some both gross margin and opex impact to get to that 17% number.

Ehud Gelblum - Morgan Stanley

I'm not asking for guidance, but can you just us a reflection from last quarter if the ASPs of the chips were actually the same, how would gross margin have gotten impacted?

George Davis

It's a dilutive effect of the additional volumes.

Ehud Gelblum - Morgan Stanley

So additional volumes is bad for gross margin?

George Davis

Those additional volumes were bad for gross margin.

Ehud Gelblum - Morgan Stanley

Okay, so your lower end chips have lower gross margins than your higher end ones do?

Steven Mollenkopf

Yes, that's correct. In fact, I think what you saw between what we would have guided at the beginning of the quarter and the end of the quarter is probably a little bit stronger units and more units coming out of the developing regions versus the developed regions. And so I think that those things do move around. We've talked about it ebbing and flowing between developed world and emerging world, and this is one that is probably a little heavy on the emerging world side.

Ehud Gelblum - Morgan Stanley

Okay, and then finally, do you expect that when you model going forward and you're looking especially at the royalty side as well as the chip side, with China going very soon, heading to LTE and ramping on the 3G side, I would have expected more higher end than lower end coming out of China. But is that relative to what is going on? Are you seeing a stagnation, perhaps in the developed world as China gets going? Is that kind of the story we're looking at going forward?

Steven Mollenkopf

I'll give my view on it, which I don't think you're seeing anything in terms of stagnation. You're probably a little early in the ramp of LTE TDD and you're still seeing, I think, significant transitions from 2G to 3G, which we're seeing in the low end chipsets. The developed world tends to be [peaky], meaning that it's dominated in many cases by flagship models and concentrated volumes in particular quarters. I don't know if Derek or anyone else has any other view.

Operator

Rod Hall from JPMorgan, please go ahead with your question.

Rod Hall – JPMorgan

I just want to ask one question, Steve, on the ASPs. I know there's been a bunch. But you talked about ASP volatility increasing, which has obviously been the case. And we know that that's due to a bunch of other different things going on in the mix, upgrades from feature phones to smartphones, etc. What I noticed is your range of guidance on the ASP, it's not changed that much. It hasn't widened up that much since a year ago, even though the volatility seems like it is increasing. So can you talk about whether you think the current range of guidance is appropriate given its increased volatility?

And also, maybe talk a little bit about things like tablets, how they affect that? Just how predictable do you think that ASP is at this point. And then the other thing that I wanted to ask you guys, this RF360 chip, you know, pretty interesting product. Can you give us an update on where we are with designs and shipments on products, just what the timeline is looking like on that? Has it changed at all since you guys announced the product?

Steven Mollenkopf

I'm assuming you're referring to the licensing business guidance versus the chip guidance, is that correct?

Rod Hall - JPMorgan

I'm sorry, Steve. Yeah, I am referring to that.

Derek Aberle

Let me take a crack at that. We'll see if anybody else wants to chime in. Obviously trying to estimate ASPs is a difficult process, although we get probably more information than most to help us in that process. I think you know our feeling is that the range that we have set out is an appropriate range, and when we think about the fiscal year ASP we usually start out at the beginning of the year, like some of our other guidance, with a wider range, and then as we go through the year and get closer to the end of the year, we'll tend to narrow it up a little bit because we feel like some of the year's already under the belt, so we have less to forecast.

But again, I think we feel like we have a robust process in place and we're doing a pretty good job. For instance, this quarter we had a relatively significant drop in ASP quarter over quarter. Yet it was in line with what we expected and consistent with the full year 220 midpoint that we had last quarter, and we still see that as consistent with the guidance for the year. So I'm pretty comfortable with the process that we have in place.

Rod Hall - JPMorgan

And [unintelligible] is increasing, Derek?

Derek Aberle

I think quarterly volatility has been increasing, partially for the reason Steve mentioned, which is as we get more of these iconic devices launching, and they're launching at sort of peaky times throughout the year. It has the effect of moving the ASP around more than it did in the past.

Steven Mollenkopf

And then on RF360, we're pretty pleased with it. It's something that you should see in the second half of this year. I would say, as I said before, expect us to sort of walk before we run in this product area. This is a new product area for us. And I think we probably have a lot to learn in terms of ramping a bunch of customers very rapidly. And of course we have very large volumes now, so we'll probably take that one slow in terms of how we ramp it. But we're pleased with how it's going so far.

Operator

Stacy Rasgon, from Sanford Bernstein, please go ahead with your question.

Stacy Rasgon - Sanford C. Bernstein

I had a question on the opex. The annual guide going forward from this point, you took it up about $160 million on a pro forma basis versus where you were last quarter. It sounded from your description that a lot of it is not R&D. It's legal and some of this other stuff. Can you give us some sort of an idea of how much of a split of this opex increase is actually coming from the SG&A and legal side versus the R&D? And can we consider and think about those increases on the legal front and patents and everything else as more one-time, or are those recurring?

Don Rosenberg

On the legal side, as George said earlier, one of those is a settlement, which is not material, but the settlement is one-time. And as George accurately described before, as you know, with the new America Invents Act, which was the modification to our patent laws, there was a first to file modification put in. And some companies took advantage of making sure that they filed a lot of applications in a timely way due to certain timing issues associated with that. We did a very good job, as always, of filing patents so that we could get the kind of protection we want, and that was a one-time event in order to meet those deadlines.

Stacy Rasgon - Sanford Bernstein

And how much was that? I'm trying to get some feeling for how much of this increase is, I guess, an increase in core investment in the company versus comp increases versus one-time charges.

George Davis

In terms of the increase, you still have a meaningful piece of that that is in the core business. And maybe it's easier just to step back and look at the full year over year. Still, when you think about a 21-23% increase year over year, about 95% of that, not to be too specific, in that area, is really related to spending increases in QCT and QTL. So this is really about investment in the core business.

Stacy Rasgon - Sanford Bernstein

And I guess given the amount of revenue upside you're showing, you're really not showing the kind of EPS leverage that one would expect, or at least we would expect, from the kind of revenue [upset] they're showing in the [opex]. This is probably $0.07 or $0.08 of that EPS that's going away.

So again, I'm just trying to get some feeling for how much of this is recurring, and how much actually is going forward from here that they can actually drive further growth beyond the 35% or 40% we're seeing this year, trying to look in terms of what it can drive into next year and beyond.

George Davis

The nonrecurring piece would not be a material impact on the year over year.

Operator

James Faucette from Pacific Crest Securities, please go ahead with your question.

James Faucette - Pacific Crest Securities

I wanted to go back to the question on licensing in China. There had been mention of faster growth in the market there and some of the other emerging markets. But I'm wondering if we can get a sense from you Derek as far as where we feel like the coverage is on collecting royalties from producers in that region in particular. And I'm just trying to get a sense for potential upside in growth as you improve the coverage there and add more licensees.

The second question is for Steve. As we look over the medium to long term, I think we've talked a lot about how there's some mix that has impacted margins, but yet the ASP has been relatively stable. How should we think about the ASP development on the chipsets over the long run, particularly as you start to roll in some RF component, etc.? Can we remain stable, or should we expect those chipset ASPs to decline at about the same rate that the handset ASPs are anticipated to?

Derek Aberle

On China licensing, I think I can probably break it into two parts. I think generally we feel very good, as I said, that we're continuing to add licensees to the base and grow the number of licensees in China. I feel very good about the compliance efforts we have there. So I think we are confident we're collecting reasonably well on the sales there.

The one exception that's pretty well understood, I think, is we have had some struggles with local Chinese companies necessarily paying all the royalties they owe on TDS CDMA units. And although we have a large number of company [unintelligible] for TDS CDMA given the political sensitivities there, that continues to be an issue for us.

And we've got a number of strategies in place to try to address it, but at the TDS CDMA volumes grow at China Mobile, there will be a gap, to some extent, between what we're collecting on and maybe some of the numbers you're seeing come out of China, unless and until we're able to resolve the situation.

Having said that, I think there are some trends that should help reduce the size of the issue. One of them is we do believe that the higher end of the portfolio is going to have a combination of UMTS and LTE or at least UMTS for global roaming in other regions. So as to products that include those technologies in addition to TDS CDMA, we don't anticipate having the same issues that we're experiencing on TDS CDMA.

So again, this has shifted over time, I think, where the volumes are quite a bit smaller historically, and the mix of the supply base in China has also shifted over time to probably favor more of the local Chinese companies that have been a bit of a struggle. But we're going to continue to work hard to see what we can do to solve it.

Steven Mollenkopf

On your question about growing content and what's the trajectory look like, if you step back and look at the business, what I think you're seeing is kind of as the historical mix in our business has been very modem-centric, and it's had a particular gross margin associated with it.

As we go into getting more and more content on the phone, which is first coming in the form of application processor, and adding in that functionality, what you're seeing is, I think, a growth in the raw dollars and the gross margin per MSM, but a reduction in the traditional gross margin percentage.

Now, we're still seeing significant growth as a result, and clearly it's been an accretive thing for the company as you look back. But I think that's what you're seeing, and I think that's what people are trying to figure out. And as a particular quarter has a mix between modem and application processor or different geographies such as the last quarter, you tend to see that move around a little bit. And that's probably what you're seeing.

Now, our view is this is actually a very good business for us. We're able to produce a business that grows faster than the market and now that it's at scale, it's growing faster than our rate of growth of the operating expenses. So we think that's a very good business.

It also, I think, provides the springboard to go into some additional markets such as the tablet market, which we really have not participated in in a great way, primarily because the OS that we put our biggest bet on has yet to sort of develop. But we think it will.

So we look at this as a build scale in the smartphone space, and use that to go into some adjacent markets as well. We also think to be successful you have to have the scale. So that's what you're really seeing in the business, a bit of an investment period, but we're still introducing growth during that investment period.

Operator

Tal Liani from Bank of America, please go ahead with your question.

Tal Liani - Bank of America

Just one clarification and a question. TDS CDMA, you don't get paid on single mode, but what about TD LTE? Has this been decided already? Or do you still argue with the locals? Second question is to understand the transition to the next node. First, what are your plans when it comes to the next node, whether it's 29 or 16 nano? How do you manage the transition, both on capacity and margin? And do you expect the same margin declines when you transition similar to what you had with 28 nano?

Derek Aberle

On the follow up on China, just to clarify, I think we have agreements in place with a number of companies and it's really just trying to work some of the issues and trying to get compliance. We're also getting still paid some royalties from companies outside of China. So I think that's a little bit of a dynamic. Can't quite say we're not getting anything on TDS CDMA, and that's shifting over time.

Our current expectation is we've got more than 50 companies licensed now for LTE, including both TDD and FTD modes of LTE. And a significant number of those companies are Chinese companies, including ZTE. So currently our expectation is that we will not have the same type of challenges around LTE that we've experienced in China on TDS CDMA. And on top of that, we do think many of the devices at China Mobile at least in the near term that include LTE will also include [unintelligible] and for that reason would also be a trigger for royalty payments under our agreements.

Steven Mollenkopf

On the node transitions, you're going to see us, consistent with earlier comments and our opex profile, really try to move through the nodes as rapidly as we can. Our view is that that puts us in the best position to drive technology and to really set the design point more than folks who can't do that.

Now, I don't know if I would make a conclusion that a new node or the 28 nanometer node in particular was associated with the lower gross margin. It's probably more the mix of products versus anything else. Today, I think the general view is that the 28 nanometer node is likely to be the node that exists for a long time, and will probably sort of the mass market node for some time. We kind of felt that we got on that earlier than anybody else.

That being said, you've probably heard some timing in the market about when companies will go to 20 nanometer, and our product roadmap is consistent with that timing. We're going to be moving rapidly through nodes, and across different nodes, at the same time, as we've done in the past. So our general strategy is to make sure that at the low end we might use the most cost-effective node, and at the high end, performance tier, we're going to use the leading edge.

Operator

Mark Sue from RBC Capital Markets, please go ahead with your question.

Mark Sue - RBC Capital Markets

Derek, just a clarification. Much, much longer term, if we go into the world of single mode LTE, just get your thoughts on the impact on the royalties. And also, on tablets, is that something that we revisit in terms of the royalty rates as they stand today? Anything that you can proactively do to take it out including the attachment rates there?

Derek Aberle

The first question on sort of longer term impacts on single mode LTE, obviously there's been a certain amount of chatter around the industry about the timing of some of the early launches of single mode LTE devices and I think there's some room for debate on that. But we still believe that that, in terms of meaningful volume, is shifted out a ways.

You may recall that we made a public statement several years ago at the time, based on sort of our current patent position, which frankly I think has improved over time, that we expected to charge about 3.25% for single mode LTE, just for the essential patent portfolio. And as you know, we generally license generally our whole portfolio, not just the essential portfolio. So that 3.25% was just for the essential patents.

So while it's possible over time, we can see a bit of a step down in the rate as we transition to more single mode LTE. I think we feel very good about the position that we're in in terms of the agreements we've signed and the potential impact of that. There's obviously other things in the agreements that could have somewhat of an offsetting effect in that as well in terms of the total royalties paid, but we'll have to see how that plays out over time.

But sort of the big picture is we still believe it's out in time a ways, and we feel good that we're establishing a value for the portfolio that everybody should be pretty happy with.

Mark Sue - RBC Capital Markets

And your thoughts on tablets? Anything that would [unintelligible] there?

Derek Aberle

On tablets, I think I mentioned on the last call that the attach rates obviously have been not as high as we had expected. They've been trending down a little bit over time. I do think we're seeing some signs that the trend could be starting to reverse itself going forward. And in particular, as we start seeing more volume in some of the smaller screen form factors, like a 7- or 8-inch, that people will end up carrying with them more often, I think there's more desire to have the ubiquitous coverage of cellular.

Also, I think recently I've seen some more subsidies coming in from the operator channel on the tablet products, which really they haven't been pushing too much in the past. And then of course I think in the last six months or so, we have seen many of the operators around the world make moves on their pricing plans that are more conducive to driving adoption.

So I think some things are coming together, which we hope will start to improve the picture. From a royalty standpoint, at this point we think we've done our part and there’s not really a need for additional changes there to help stimulate the market.

Operator

Ian Ing from Lazard Capital Markets, please go ahead with your question.

Ian Ing - Lazard Capital Markets

In terms of these questions on Q2 margins and some spending increases, is there any product roadmap adjustments driving that? Inter-quarter, we did see [unintelligible] pull in their schedule on 16 nanometer [pin] sets, which is a lower power process, and obviously you might have had some hand in driving that.

Steven Mollenkopf

You saw us come out with the RF360 during the quarter, and we continue to invest heavily both in the modem and in the GPU/CPU on the [unintelligible]. But we think we’re one of the folks driving [pin] set into the mobile space. So that’s pretty consistent with our current plan and our previous statements.

Ian Ing - Lazard Capital Markets

And then Steve, maybe you could highlight for the Snapdragon family how you’re going to differentiate low tier versus high tier. If you look at the low tier, there’s offerings out there from [unintelligible], dual core, quad core, etc. Would it be graphics where you differentiate at the high end? Or some other areas?

Steven Mollenkopf

The low tier is pretty difficult to differentiate in many cases, with the exception of two areas. One is you need to have the customer scale, essentially, to be able to engage with a number of different customers. And what we’ve been building over the last year or two years or so is the ability to engage with a nontraditional customer.

Nontraditional in this sense means a customer that needs a bit more of a complete solution. That means that from the product side, you need to create something like the reference design that we’ve talked about, but you also need to expand, in the region, the sales activity. So for us in China, what you’re seeing is we’re building the sales activity to sell into a customer that is not, let’s say, the traditional multinational customer that we’ve serviced. And it takes a while to build that alternative channel. We also think, over time, that our IP roadmap from the top tier tends to be meaningful in the low tier as well.

And you can see that in customers that try to differentiate from their low tier competitors by producing a high tier phone and trying to offset their brand. You see that, and that tiered roadmap we think is important long term.

The other aspect that’s happening here, we think, over the next several quarters, is as China transitions to multimode 4G, that you get a real turnover in the modem feature set, which we think plays toward our traditional strength. So long winded answer, but essentially I think you have to have customer scale, and you can use, we think, the IP roadmap from the top in order to differentiate long term, but there are a lot of people who are competing on price right now, and that needs to settle out.

Operator

This concludes the question and answer session. Dr. Jacobs, you may proceed with closing remarks.

Paul Jacobs

Thanks everybody for joining us this afternoon. Obviously we’re really pleased with the record revenues. And our growth really is continuing strongly with the increased guidance we put out for the year. If you go back and look at fiscal 10 through fiscal 13, we’ve gone from $11 billion to $15 billion, to $19 billion and then we're guiding midpoint $24.5 billion for this fiscal year.

And that really strong growth is due to our ability to drive the market with new technologies and that's based on our past R&D investments that really capitalize on the opportunities that we see. And we are going to continue doing that. And we'll do that also in a very profitable way. Look forward to the guidance next quarter. In one of the generally seasonally softer quarters we're projecting 31% year over year revenue growth. So we feel pretty good about that.

We're able to do that because we're putting our competitors farther and farther behind, and it's not just the modem, although everybody's quite focused on that. But it's also we're putting them behind on other areas, graphics, microprocessor design. And that is evidenced by the number of design wins we've had, 850 designs launched or announced. 475 more currently in design, as Steve said.

We've got some great products coming from our partners. We have some great products that we're developing. Great technologies to come, and a lot of opportunity ahead. So we expect to be able to continue the kind of growth that we've had. Thanks very much.