Thank you, Brent, and good afternoon, everyone. Today's call will include prepared remarks by Steve Mollenkopf, Derek Aberle, and George Davis. In addition, Cristiano Amon, Murthy Renduchintala, and Don Rosenberg will join the question-and-answer session. An Internet presentation and audio broadcast accompanying this call and you can access them by visiting our Web site at www.qualcomm.com.

During this conference call, we will use non-GAAP financial measures as defined in Regulation G, and you can find the related reconciliations to GAAP on our website. I'd also like to direct you to our 10-Q and earnings release, which were filed and furnished respectively with the SEC today and are available on our website.

During this conference call, we will make forward-looking statements regarding future events or the future business or results of the company. Actual events or results could differ materially from those projected in the forward-looking statements. Please refer to our SEC filings, including our most recent 10-Q, which contain important factors that could cause actual results to differ materially from the forward-looking statements.

And now to comments from Qualcomm's Chief Executive Officer, Steve Mollenkopf.

Steve Mollenkopf

Thank you, Warren, and good afternoon, everyone. We just completed a solid quarter with record performance in QTL, as the global adoption of our broad set of technologies drove all-time high 3G/4G device shipments by our licensees. In addition, we had several major accomplishments, including the resolution of the NDRC investigation, our announcement of a $15 billion stock buyback authorization, and a 14% increase in the dividend.

We are pleased that the NDRC investigation has been concluded and believe that our licensing business is now better positioned to participate in China's broad adoption of 3G/4G technology. The impact of the resolution and the recent agreement with a large licensee in China announced on the January call are starting to positively impact the QTL business. Derek will discuss this in more detail in a few moments.

While we are ahead of our expectations in the first half of the fiscal year, we are guiding the second half lower due to a number of factors in QCT. First, the extent of the impact of OEM concentration at the premium tier and the impact of share loss in the Galaxy S6 and Note.

Second, the altered launch plans of the OEMs in the premium tier with some OEMs delaying launches and then OEM rationalizing their portfolio by deemphasizing designs using our legacy parts. We are not seeing a change design share or the competitive environment, but rather a change in timing of some 810 designs.

And finally, QCT continues to face competitive pressures in China. The China contribution to earnings is roughly flat to the previous outlook with more strength at the premium tier offsetting some expected share loss in the low tier in the fourth quarter. As I will explain later, we expect this near-term trend to improve as we launch new parts and China enters modem transition later in this calendar year.

Based on our current customer engagements and our future product roadmap, we do not believe these product cycle issues reflect the long-term change in QCT's competitive positioning. However, we do believe the impact of the current product cycle will extend into next fiscal year.

Clearly, we are not pleased with our reduced outlook. Accordingly, we have initiated a comprehensive review of our cost structure in QCT and throughout the company. The goals of this review are to align our cost structure with the changing marketplace and improve efficiency. We have begun a comprehensive assessment of costs and opportunities for greater efficiency company-wide with the help of an outside expert and will be reporting on those initiatives on the Q3 earnings call.

With respect to the roadmap, we remain confident that our differentiated Snapdragon processor and modem leadership positions us well across multiple price tiers and customer segments entering the next product cycle. In the premium tier, we are very pleased with the design traction on the Snapdragon 810 with over 60 designs having won the key premium design slots with the exception of Samsung.

Since our last earnings call, LG has begun shipping the innovative G Flex2, Sony has announced the incredibly thin Xperia Z4 phone and tablet, and Xiaomi has announced the Mi Note 4 with category 9 carrier aggregation. Recently teardowns and press reports correctly highlight the advantages delivered by our integrated approach.

We are also encouraged by the customer interest in our new Snapdragon 820, which is on track to ship in the second half of this calendar year and is built on the latest FinFET node. The Snapdragon 820 represents a new design point for our SoC architecture and will be the first to include our new custom 64-bit CPU microarchitecture.

Since our last call and in response to the competitive environment in China, we have also enhanced the Snapdragon 615, which will be commercial this year. In addition, we expect a modem transition in China later this year and we are seeing signals to the OEMs from the operators consistent with this view. Our Snapdragon 425 with industry leading uplink carrier aggregation and a new low-cost RF front-end is well positioned for this opportunity and is on track to be in devices later this calendar year, well ahead of our competition.

Turning to the longer-term outlook, the smartphone opportunity remains a strong positive for Qualcomm and we forecast continued healthy global demand in the near-term and over the next several years. IDC estimates that over 8.5 billion smartphones will be sold from 2015 through 2019. We also continue to gain traction in adjacent areas where our mobile technologies and capabilities can deliver next generation solutions. Areas such as automotive, the Internet of Things, mobile computing, and networking, these areas are expected to represent large new opportunities for Qualcomm with over 5 billion new non-phone connected device shipments expected in calendar year 2018.

Further, shipments in these areas are contributing over 10% of QCT's fiscal year 2015 estimated revenue. In automotive, for instance, we have over 40 connected car programs with 15 plus OEMs and we recently announced two new modems, the Snapdragon X12 and X12 that augment our portfolio to support connectivity across all tiers of the automotive industry.

Our scale and position in mobile makes us well positioned to capitalize on these opportunities. In summary, we are well positioned to address the significant opportunities ahead given the strength in our core businesses and traction in new growth opportunities. We are focused on completing our implementation of the rectification plan in China, concluding new license agreements in China and improving compliance. We're also investing in the future generations of the modem and connectivity, including 4G enhancements such as LTE-U and 5G, as well as future evolutions of Wi-Fi and the convergence of Wi-Fi and Cellular. We are confident in our QCT roadmap for the reasons I just explained, but intend to take a comprehensive look at our cost structure in-light of the changing industry dynamics and structure.

I would now like to turn the call over to Qualcomm's President Derek Aberle.

Derek Aberle

Thank you Steve and good afternoon everyone. As Steve noted, we delivered a solid quarter achieving record non-GAAP operating income. QCT operating performance was in-line with expectations as favourable operating expense offset slightly weaker mix. QTL performance was ahead of expectations with revenues, earnings before tax, and total reported device sales all setting records driven by strong 3G, 4G device shipments, improved compliance in China and a catch up amount for prior period sales from the licensee with which we recently resolved the dispute.

Fiscal Q2 revenue for QTL was up approximately 17% year-over-year even without this catch up amount and in the face of foreign exchange headwinds, QTL would have delivered a record quarter across these same metrics. As you are aware, we recently announced a resolution with China's National Development and Reform Commission regarding the investigation of us under the China antimonopoly law. As part of this resolution, we agreed to implement a rectification plan that modifies certain of our business practices with respect to the licensing of our 3G and 4G essential Chinese patterns for branded devices sold for use in China.

Since that time we have been implementing the plan and offered the revised license terms for our current 3G and 4G essential Chinese patterns to both our current licensees and to a number of unlicensed OEMs and manufacturers. Following the offers we have met with a large number of licensees both in and outside of China to discuss the revised terms. Although we are still relatively early in the process, we are making good progress to date as over 35 licensees have accepted the revised terms so far, including with respect to 3-mode devices sold in China.

The rate at which licensees are accepting the new terms and signing new license agreements has been accelerating throughout the process. We now have 125 licensees in total with licences covering 3-mode devices with more than 85 in China, including Huawei and ZTE. We are making progress on the underreporting issues in China as well. We estimate that approximately 200 million units were sold during calendar 2014, but not reported to us by our licensees in line with our prior guidance.

To put this in greater context, we have also increased our estimates for the calendar 2014 global 3G 4G market by approximately 20 million units versus our prior guidance and now believe that a larger percentage of the units shipped in 2014 where 3-mode devices where we had a low collection rate during the year. In other words, the percentage of calendar 2014 units that were reported to us came in higher than previously expected. As we continue to implement our compliance and audit plans, as well as conclude new 3-mode license agreements we believe that this collection percentage will continue to increase and we are seeing early evidence of that in the March quarter sales.

While we are making good progress we do expect this process to extend beyond this fiscal year. It is also possible that in some cases it may require litigation and/or actions to compel certain licensees to honour the contracts and for unlicensed companies to execute new licences. We are prepared to pursue that path if it becomes necessary. We are raising our fiscal year outlook for QTL based on favourable total reported device sales in the second fiscal quarter, in addition to higher forecasted total reported device sales for the second half of the fiscal year. Total reported device sales for the second fiscal quarter came in above the high-end of our guidance range, a portion of which was driven by higher than expected catch up amounts.

Our outlook for the second half of the fiscal year reflects updated favourable reported device sales trend, improved compliance in China, and expected continued progress on concluding license agreements in China, offset by foreign exchange headwinds. We now expect QTL revenues to grow approximately 8% at the midpoint year-over-year. This includes the favourable effect of some catch up payments for prior sales offset by the negative effect of foreign exchange, without including these two effects we estimate that QTL revenues would grow by more than 8% in fiscal 2015, as we believe the negative foreign exchange impact is larger than the catch up benefit.

Turning to our view of global 3G, 4G device demand we continue to see very healthy growth and have increased our calendar 2014 global 3G, 4G device shipment estimate to approximately 1.37 billion units, up approximately 27% year-over-year. As a reminder, this includes those devices we expect to be reported to us, as well as our estimates of unreported and unlicensed device sales, but excludes TD-SCDMA devices that do not implement LTE.

We saw strength in both developed and emerging regions during 2014 and finished the year with favourable replacement rate trends in developed regions, as well as LTE volume strength, particularly in China. We expect these growth trends to continue throughout calendar 2015. We now expect global 3G, 4G device shipments to be 1.25 billion units to 1.6 billion units in calendar 2015, up approximately 11% to 17% with our buyers continuing to be towards the high end of that range.

It’s worth noting that we are still in the very early days of LTE adoption. According to GSMA intelligence only 8% of global connections are LTE. In February, China granted nationwide FTD-LTE licenses to both China Telecom and China Unicom, each of the Chinese operators has announced significant investments in LTE network build-outs and has set aggressive targets for subscriber additions this year. For calendar year 2014, we are increasing our estimate of reported 3G, 4G devices to between 1.17 4 billion units and 1.19 billion units.

Turning to estimated 3G, 4G device ASPs, the ASP of devices reported to QTL during the second quarter of fiscal 2015 was approximately $196 at the mid-point. Absent the effect of prior period catch up units the reported ASP would have been approximately $211 at the mid-point up $14 sequentially, driven by stronger ASPs in both emerging and developed regions, reflecting a favourable mix of higher tier handsets.

We are now forecasting global 3G, 4G device DSPs to the decline approximately 11% to 12% year-over-year in fiscal 2015, an improvement to our previous estimate of 12% to 13%, despite an increase in negative foreign exchange effects. The improvement is primarily due to a favourable mix of higher tier handsets and stronger pricing in the low to mid-tiers of LTE devices in China. We now expect global 3G, 4G total device sales in fiscal 2015 to be up approximately 8% to 11% over fiscal 2014, despite foreign exchange headwinds, driven by both stronger units and ASP, particularly in emerging regions.

Turning to the regulatory issues, we have been notified that the Korean fair trade commission is conducting a new investigation of the company. We believe this new investigation relates primarily to our licensing business and we are cooperating with the agency. To conclude, QTL is making good progress on our efforts in China, while experiencing strength in underlying demand where we continue to see strong global 3G, 4G device sales and stronger global ASP trends.

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

George Davis

Thank you Derek and good afternoon everyone. Fiscal second-quarter revenues were $6.9 billion, up 8% year-over-year and non-GAAP earnings per share were $1.40, up 7% year-over-year at the high end of for prior guidance range. In QCT, MSM shipments were $233 million in-line with expectation with revenue of $4.4 billion. Implied revenue for MSM was approximately $19, down slightly quarter-over-quarter, reflecting a lower mix of premium tier shipments than previously expected.

QCT operating margin was 17% in-line with our prior expectations. In QTL, total reported device sales for our licensees were a record $75.8 billion, up 14% year-over-year and at the high end of our guidance range, including the impact of our higher than expected catch up report. Non-GAAP combined R&D and SG&A expenses increased 2% sequentially, driven primarily by seasonal increases in payroll taxes.

We continue our aggressive capital return program, returning approximately $2.6 billion to stockholders in the quarter, including $689 million of dividends paid and $1.9 billion in stock repurchases.

And as you will recall, in March we announced a major increase in our capital return program, including an increase in our stock repurchase authorization to $15 billion and our plans for a $10 billion buyback in the next 12 months, which is incremental to our ongoing return of a minimum of 75% of free cash flow.

Fiscal second quarter cash flow from operations was negative at approximately $650 million this quarter reflecting a long-term capacity prepayment of approximately $950 million made by QCT as part of our supply chain cost reduction initiatives and the payment of the approximately $975 million NDRC fine.

We ended the quarter with cash and marketable securities of $29.6 billion. Our non-GAAP tax rate during the quarter was 20% above expectations due to business mix. We now expect our non-GAAP tax rate to be approximately 19% for fiscal 2015.

Looking ahead, as we already indicated, we are reducing our financial forecast for fiscal 2015 primarily due to lower excepted and profitability in the premium tier for the QCT business. We now estimate fiscal 2015 revenues overall to be in the range of approximately $25 billion to $27 billion, down approximately 2% year-over-year at the midpoint. The increased impact of the product cycle issues in QCT is affecting our revenue and margin outlook for the chip business. We now expect QCT revenue for the fiscal year to be down approximately 6% year-over-year with operating margin for fiscal 2015 between 14% and 17%.

We expect combined non-GAAP R&D and SG&A expense to be up 1% to 3% year-over-year. This represents a reduction of 2% overall relative to our prior guidance, however, this outlook does not factor in potential reductions to be identified as part of the cost assessment that Steve discussed.

On the QTL, as Derek indicated, we are raising our fiscal 2015 revenue outlook to approximately 8% growth year-over-year reflecting higher total reported device sales as well as the larger than forecasted catch up royalties reported this past quarter. We continue to expect QTL operating margins will be within our prior 85% to 86% guidance range.

We expect fiscal 2015 non-GAAP earnings per share to be in the range of $4.60 to $5, down approximately 9% year-over-year at the midpoint relative to fiscal 2015 and down $0.15 at the midpoint from our prior guidance.

Turning to our fiscal third quarter, we estimate revenues to be in the range of approximately $5.4 billion to $6.2 billion, down approximately 15% year-over-year and 16% sequentially at the midpoint. The sequential changes reflect both the chip revenue challenges and the normal seasonal effects of QTL coming of its seasonal peak quarter.

We estimate non-GAAP earnings per share in our fiscal third quarter to be in the range of $0.85 to $1 dollar per share, down approximately 36% year-over-year at the midpoint. We expect fiscal third quarter non-GAAP combined R&D and SG&A expenses will be up 6% to 8% sequentially, primarily driven by QCT product roadmap spend that back half loaded, certain supply chain initiatives, as well as cost related to marketing and legal.

In QTL, we estimate total reported device sales of $61 billion to $67 billion will be reported by our licensees in the June quarter for shipments they made in the March quarter, up approximately 10% year-over-year at the midpoint, but lower sequentially as compared to the seasonally higher holiday quarter shipments in Q2.

We estimate that the QTL reported device ASP will be modestly up versus the second fiscal quarter, which included higher-than-expected lower price catch up units. We expect QTL's operating margin percentage to be between 83% and 85%, lower sequentially due to seasonal factors, OEM mix, as well as increases in marketing and legal expenses. We expect that the implied royalty rate as we calculate it will be lower quarter-over-quarter, reflecting licensee mix, as well as the impact of the new licensing terms in China.

In QCT, we anticipate MSM shipments of approximately 210 million to 230 million units during the June quarter, down approximately 6% sequentially and down approximately 2% year-over-year at the midpoint. We expect revenue per MSM to be down 8% to 9% sequentially due to unfavorable mix in the premium tier and price competition in the mid tier.

We expect QCT operating margin for this product cycle to bottom in the fiscal third quarter at approximately 7% to 10% of revenue, reflecting lower volumes, weaker mix, and timing of roadmap spending pushed into the quarter.

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

Warren Kneeshaw

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Tim Long with BMO Capital Markets. Please go ahead with your question.

Tim Long

Thank you. Just a question on the chip side, I guess you mentioned before the GS6, you also mentioned the Note, so just curious is that this upcoming one later this year? And maybe talk a little bit about how we should think about the rest of Samsung's portfolio? And clearly, it's hit the revenue numbers, I'm curious if that's also been something that looks like the gross margin is down again for the division. So if you could just maybe touch on Samsung impact across the model? Thanks.

Steve Mollenkopf

Hi, Tim, it's Steve. So you should think of the current generation of flagship products at Samsung. We anticipate a similar share picture than what you see today on the GS6. I think that's what we're seeing. Now, next design cycle, as I mentioned in my remarks, I think we feel that we have a very competitive roadmap. We are also seeing OEMs and I think the supplies to that OEM, looking at their portfolio and rationalizing, what that really means is putting more concentration on the newer products and less on the legacy products as you would typically see in a particular year and that obviously given our design and share impacts the outlook as well. So, those product cycle issues I think we're seeing being compounded by the fact that the premium tier is very concentrated really in two players right now.

Operator

Your next question comes from the line of Brian Modoff with Deutsche Bank. Please go ahead with your question.

Brian Modoff

Hi, guys. Can you perhaps talk about some of the cost synergies or cost saving that you might see as you go through this kind of evaluation of your cost structure? Are you targeting things like wafer design cycle times? Or can you maybe talk about it and how do you see that potentially helping your operating margins particularly in QCT as move forward? Thanks.

George Davis

Hi, Brian, it's George. I would call it an acceleration of many of the things that we started in 2014, which were fairly comprehensive. We brought down the rate of spending substantially in 2014 exiting the year lower than the run rate we had coming into 2014. We then forecasted to bring it down further in 2015 and we've actually are a couple of points below our original guidance on OpEx as well. But we will be looking pretty comprehensively across the board and certainly that touches everything from how can we be – become more efficient testing projects once again for ROI and things like that. So, as you would expect, it will be comprehensive and we look forward to reporting on it next quarter.

Operator

Your next question comes from the line of Mike Walkley with Canaccord Genuity. Please go ahead with your question.

Mike Walkley

Great, thanks. Just down on the last two questions, on the QCT with operating margins potentially bottoming out below 10% in the third quarter, September quarter, and you talked about it extending into the first half of fiscal 2016. Other than looking at operating cost, how does the gross margin improve given the competitive cost environment? Or to ask it another way what's the timeframe in the thought process to maybe get back to high-teens to 20% operating margins in QCT? Thank you.

George Davis

I think we view it as a bottom because, first, Q3 really is an incredibly concentrated quarter when you look at the premium tier and it has within that meaningful Samsung GS6 impact. We expect to see some improvement with the premium tier launches of other leading OEMs that use our Snapdragon. We also expect cost and efficiency activities to start to moderate some of the market structure impacts over time, but ultimately we are going to continue to invest strongly in the roadmap and we think that's the basis for having a competitive position in the next product cycle that is different than what we are experiencing now.

Steve Mollenkopf

Mike this is Steve, I think also if you look up and down the product line, the current product cycle that we are in at the top tier, we think it turns over with the 820, at the bottom tier you tend to see a modem transition, particularly in China, which is advantageous we think to us. We are also moving rapidly toward advanced notes which we think will actually help us in terms of delivering products to market at better costs. There is a little bit of a trough right now in the cost equation because we are at 20 nanometre. As we move on to further notes we think we get into a better cost perspective and I think we are differentiated also in our ability to do it.

We are also - just to follow up on the cost side, cost structure of the company, we want to make sure that we put ourselves in the position, we are a little bit less sensitive to the these market dynamics and then we can write them out easier as well. One other thing element on that also is that the adjacent markets as they start to contribute more, again I said they were about 10% of QCT this year that tends to help us as well. They tend to be fairly highly leveraged from the same investment on the selling space.

Operator

Your next question comes from the line of Ehud Gelblum with Citigroup. Please go ahead with your question.

Ehud Gelblum

Hey guys appreciate it. I know Derek you are not going to totally tell us, but trying to try and give a couple of data points you gave us with respect to the catch up and how large that was, any other information you can give us in terms of the access TRDS this quarter that the catch up helped would help kind of bridge the gap between the TRDS this quarter and next quarter. So, whatever you can do to give us a sense as to the size of the catch up period in this quarter would be helpful.

Then Steve question on GS 6 and note going forward, I understand of the revolution of using your custom core and moving them to 14 nanometre et cetera with everything you said about concentration at the premium tier, if in a situation you don't get back into Samsung, where does that leave you? If your share in the GS 6 and note going forward is roughly the same as where it is now when it is back-and-forth, is there enough other market to make the margins work back into the 20% plus range at QCT?

Derek Aberle

Hey this is Derek. Yes we are not, as you suspect we weren't planning on breaking out exactly the amount of the catch up. One of the points I wanted to highlight was we had 17% year-over-year growth in QTL this quarter and that was in the face of some meaningful foreign exchange headwinds. And so when you sort of looked at that impact netted against the catch up amount, you know the foreign exchange impact was actually for the year will be greater and would be for the quarter as well. So still even if you strip out the ketchup would be a record quarter for QTL and really strong growth.

Steve Mollenkopf

And Ehud on the question about the premium tier and the concentration. First of all when we look at customer interest we don't think that that is the scenario to plan for. We do think that our roadmap is very compelling, we like the impact that we are getting, the interest that we are getting from the OEMs, I think broadly we also think our business, which is also supported by our modem leadership also we think is in a good position when you look at the competitive dynamics as well. That being said, it would help us a lot if the industry structure was to be different. We don't have a lot of control over that, but I would say the history of that is that it does move around quite a bit. We want to be in a position to participate in that and I think one of the reasons that we are looking at our cost structure is to make that easier to handle, should we have to ride out a product cycle or not.

Operator

Your next question comes from the line of Blaine Curtis with Barclays. Please go ahead with your question.

Blaine Curtis

Yes a [indiscernible], just maybe from a very high level you obviously already reduced full-year guidance based upon kind of same factors and Apples place generally hasn’t changed that much since December they had a knock out quarter and it’s been kind of holding in. Samsung has been very public about their AP plans for a longer time here for a change. So, I am just trying to figure out what has changed really since the end of the last year and definitely spend your first negative revision of maybe a billion dollars, now that you are doing again. And then when you look at gross margin, clearly the GS6 that shouldn’t have an impact on gross margin, I’m just curious it looks like it is down again in June. What’s really the driver for another step down over a couple hundred basis points? Thanks.

Derek Aberle

So, the change in the guidance is really more a change in our view of the sizing and concentration in the third quarter compared to our original estimates. And you know Steve talked about some things about some of the OEMS pushing out their timing based on what they were seeing in the marketplace and other factors. There is some gross margin impact actually that we see going into Q3 and then I think the balance of the impact is really the timing roadmap spending is heavier in the second half. I don’t know, if Steve, you want to say something.

Steve Mollenkopf

I was just going to say, just a little bit of color from a perspective of an OEM, OEMs typically have a pretty broad portfolio and they may put emphasis in one place or another depending on the reaction of a flagship launch and the timing of a flagship launch. I think this year is probably characterised a bit by the first calendar quarter of 2015 was probably a little stronger in quarter for U.S. based flagship company. And then people move around I think based off of big launch. So, I think when the Galaxy S6 came out people moved around their plans a little bit, including Samsung. So, that tends to ripple through to us beyond our control. Those things can also change a lot during the year, but I think this is our best estimate of where we are today.

Operator

Your next question comes from the line of Kulbinder Garcha with Credit Suisse. Please go ahead with your question.

Kulbinder Garcha

Thanks. My question is for Derek on the licensing side, what I'm trying to understand is I think you said you had signed 35 licensees on these new terms since you’ve started discussing with them recently, can you give us some kind of broad indications to, does that actually cover a significant part of the forms that you weren't licensing the 200 million or so run rate. That’s just one question, because I’m trying to think about the visibility you might have as we head into fiscal year 2016 of recapturing some of those licensing revenues. That's my kind of first question. The second one is as I think about what you weren’t collecting on last year that 200 million number this year would have grown I assume given the market shares the Chinese vendors have gained and they would have grown revenues quite meaningfully as well. So, should we think about at some point over the next whether it is one two or three years? That 200 million unit number which has a revenue number attached to it in TDRS, so you then license against and it should be significantly higher when it starts coming in or is that the wrong way of thinking about it. Thanks.

Derek Aberle

Kulbinder this is Derek. So just to be clear the 200 million number that we put out for 2014 is sort of a combination of units that we think are actually being sold by licensees who didn't report them, as well as basically unlicensed activity, you know the most prominent one we talked about is 3-mode. So, it is a little bit hard to translate that over into the – kind of the new terms. If you think about the new terms that we are going out to offer, if the licensees accept them after we offer them and discuss them with them they will impact both the 3G volumes which would be sort of how we’ve thought about the under reported amounts, as well as then impact the 3-mode, which we had kind of bucketed at unlicensed.

So it is a little bit hard to split that out in terms of what percentage get picked up that we weren't collecting anything on at all, but we are, well I think we are making good progress, we've got relatively significant number that kind of run the spectrum of very large to small companies that have already accepted the terms and generally when they've accepted them they've applied to the 3-mode devices sold for use in China. So, I think that has been a positive trend for us. There have been a couple of other positive things. One is as I try to explain the market we think actually came in larger in 2014 than we thought when we originally gave out that 200 million unit number, which means by that holding steady effectively our collection percentage went up. It also went up in the face of kind of a worse or a more difficult market shift because more of the market also we believe was three-mode where there is a larger portion of unlicensed activity.

So kind of in a worsening marketing environment and a growing market, we were able to kind of hold the number flat, which means we are making progress. We believe that that's going to better even going into the March quarter based on the early evidence we're seeing. And we do have kind of a plan as we've talked about that – that the past sales will be things that we are working on to drive collection, but it's going to take some time and I think we've indicated just where we sit in the fiscal year with kind of the June cut off for shipments flowing into our fiscal year. It's likely that more of that will come-in in fiscal 2016 and fiscal 2015.

Operator

Your next question comes from the line of Stacy Rasgon with Bernstein. Please go ahead with your question.

Stacy Rasgon

Hi, guys. Thanks for taking my question. First of all, if I sort of back into the royalty rate trajectory, you seem to be guiding royalty rates or implied rates next quarter to maybe 3%, probably down 20 basis points and maybe even a little more in fiscal Q4. So I'm assuming that is mix as the China volume starts to come back in which it actually is coming at the lower rate, how should I think about the trajectory of royalty rates as I go into 2016 and beyond is presumably the Chinese volume should be the piece that's growing the biggest and it will be under the new royalty rate terms?

Derek Aberle

Hey, Stacy, this is Derek. Yeah, I mean we've indicated that. If you look at sort of quarter-over-quarter Q1 to Q2 relatively speaking sort of in line in terms of the implied rate that you guys calculate, we do see that taking a step down in the back half of the year and I think you pretty much hit it on the head that really the primary drivers, there's some OEM mix in there and a number of the other factors that always move it around. But we do expect a couple of things impacting the back half, two of which are the licensees, kind of the impact of the licensees accepting the China terms in China, but also with us concluding agreements on three-mode where we were collecting before.

As we bring that revenue into the program that will come in at a lower rate as we talked about when we announced the resolution. So kind of the combination of those factors will push it down. Really hard to say longer-term beyond kind of this year where that goes just for all the reasons I've previously explained in terms of market share of OEMs and ASPs and caps and all the other drivers that moving around.

Operator

Your next question comes from the line of James Faucette with Morgan Stanley. Please go ahead with your question.

James Faucette

Great. Thank you very much. I wanted to ask two follow-up questions on a lot of those that have already been asked. First, can you talk a little bit about from a visibility standpoint, I think one of the things that may be concerning to some investors is, I guess, the poor or lack of visibility relative to new product launches. They seem to taking a little bit by surprise. Can you talk about it if that indeed has been the case et cetera on the chip side? And then on the royalty side, Derek, I just wanted to ask about, as you are addressing the new licensing structure how are you handling the non-essential IP licensing and how we should think about the impact of that and can you give us any sense of – I know that you weren't very specific in terms of like what the – the rate at which things are – or you are signing up new licensees, but that it's improving. But in the long run how should we think about your – what a reasonable alternate capture rate should be and that kind of thing? Thank you.

Steve Mollenkopf

James on the chip side, the way I think about it – one of the big OEMs what they tend to do, in fact the one that you are probably concerned with, they tend to hold two designs until very late in the process and make a decision very late in the process. And in some cases, actually might go to market with multiple designs, one with our chip, one not with our chip, and then make a decision regionally even during the ramp of the design. So it can be quite difficult to project share and units as a result of doing that much later in the process than I think people typically think. The other element which is mix of OEMs and who wins in the marketplace and whether an OEM decides to rationalize their portfolio by no longer focusing on SKUs in the n-1 product cycle for example. That tends to be something that we don't have great visibility into and it tends to be something that the market controls. So I think we are all trying to figure out how to get a better handle on that.

Derek Aberle

And then – it's Derek. So, on the first question, which really was around how we are going to deal with the patents that are sort of outside the scope of the commitment we made to the NDRC. As you know, we've typically licensed generally our whole portfolio together, but one of the things that we agreed to as part of the rectification plan in China is that we would separately offer to license just the 3G/4G essential Chinese patents and then we would negotiate agreements for the rest of the portfolio kind of separate from that.

So really the first order of business for us is to go out and really implement the commitment that we made which is to offer these terms and around the essential portfolio and get those concluded. And then as part of those discussions, it could involve some of the other patents or we could end up dealing with the need for licenses to the rest of the portfolio down the road a little bit. What we've included in our guidance and are thinking around fiscal 2015 really just is based on what we would expect to collect on the essential portfolio and doesn't build in incremental revenue at this point for the remainder of the portfolio, although we do believe there is an opportunity there.

On compliance, we think that we are in a position really to kind of drive the business back more to normal course before we had the investigation and I think we are pleased with some of the early trends we are seeing. It's going to take some time to get there, but we do believe that we can get back to a high compliance environment in China with some of the tools that we have available to us and now with the investigation behind us.

We do also think there is going to be some industry dynamics that will help, I do think there is going to be consolidation around the OEM base in China, so you'll have a fewer number of larger payers, which I think is just an easier thing to deal with from compliance standpoint than a lot of smaller players. And they are going to build successful export businesses where there is a need to play by international rules both inside and outside of China. So I think over time those trends really point in a positive direction for us.

Operator

Your next question comes from the line of Tal Liani with Bank of America Merrill Lynch. Please go ahead with your question.

Tal Liani

Hi, guys. I just have two questions quick questions kind of big one. First, when it comes to exchange rate, are we – what's the mechanism for exchange rate? Is there a risk that actually you see the impact of exchange rate next quarter because of the mechanism that you can clarify? And then the weird question I have is really for next year and this question was asked many times, but may be a different way, is it all – if you think about competition, I mean you think about MediaTek and Intel and Marvell and the local Chinese, how does it get better from here? I understand that this one is a trough from an expense point of view and margin point of view, but on the business, how does it get better from here? What needs to happen for you to see growth in revenues on the semiconductor side? And let me stop here [indiscernible]. Thanks.

Derek Aberle

Tal, this is Derek. Maybe I will answer your first question on the FX. Really the primary FX effect on the company is really around the licensing business. And couple of things to remember there I think that you know is that obviously the sales are reported to us one quarter in arrears. But the basic – probably the most significant exposure for us is really the euro and basically when the licensees and not all of them do it the same, so it's somewhat difficult to always estimate precisely the impacts, but I think we have a pretty good sense of it at a higher magnitude. But basically there is a mechanism for them to convert their sales in local euro back into dollars for purposes to calculate in the royalties and that creates an impact to the business. If you think about this year, in particular, there is probably at least a couple of percentage points of revenue growth that QTL has been impacted by just on FX alone.

Steve Mollenkopf

And on next year and to the forward-looking view in terms of the competitive environment, it's – I would say for us, it's – we don't see it changing that much and I would say our view of the current competitive environment may be different than what you see, you know we look at the modem tier and modem leadership and the accounts where that's important and we pretty good about our position there. I think that's an important differentiator for us. We have also moved quickly to advanced nodes. One of the things we did this year and we are currently investing in is moving rapidly across the tiers to the advanced nodes, which we think is a good strategy and enables us to leverage our feature leadership in the premium tier down and that I think has good results.

It's being offset a little bit now because of the concentration in the premium tier, so you're not seeing that maybe as broadly as you would think. The product cycle is quite fast in China as I mentioned. The modem transition later this year, I think a number of OEM, our competitors are having a difficult time producing five more designs and certainly have in the ability to do multi-SIM and all of the VOIP and international features that allow them to grow, at the same time we are changing the table stakes across the tiers on the modem. So we actually view our roadmap as getting stronger over time at least based on our view of the competitive environment. I don't think at the premium tier with the exception of the vertical threat at one of the OEMs. We don’t see that dynamic being as threatening as perhaps was implied in the question.

Operator

Your next question comes from the line of Timothy Arcuri with Cowen & Company. Please go ahead with your question.

Timothy Arcuri

Thank you very much I had two. First of all Steve, can you again just from a higher level, can you remind us or maybe discuss the high level merits for keeping the two businesses together. You had filed previously to spit the business up in the past, but you are being hit with these investigations and this new one from Korea. So again just getting your view there would be good. And then secondly I noted that George talked about having to pre-pay 950 million for some capacity and that’s in the space of declining economics in the ship business. So, I was wondering if you can just discuss how we should be thinking about that pre-payment is this opportunistic or is it more of a defensive I guess?

Steve Mollenkopf

So, on the business structure it’s something that we’ve looked out throughout the company’s history, I think a couple of times even publically it is something that is constantly and periodically discussed at the management team and at the board level. There are lot of puts and takes and those puts and takes change over time depending on the situation, but I would say just broadly you should think of the businesses as having significant synergies in the ability to deliver products to market.

So, for example the channel of QCT is very, very important to be able to introduce new technology into the industry and share it’s scale and be able to work. There are many things like that, but that is one of the ones that we want to make sure we can maintain, particularly given that we are driving into an environment where you're going to see convergence between Wi-Fi and Cellular and the modem itself is moving much more rapidly then I think people are thinking. At the same time the industry, the number of players who are investing in those technologies and that breadth of technology is decreasing. So we think we have an opportunity for us to continue to deliver modem innovation. That being said, it is something that we actively evaluate and it's obviously something that is one the minds of investors and something that we spend time talking to them actively about getting their perspective.

George Davis

Hey Tim, it's George. On the capacity pre-payment it's really part of our overall supply chain initiative to drive more cost effective supply chain and it's an opportunity that we saw and that our partners saw to bring them a little bit more certainly and for them to provide us with a better long term cost roadmap.

Operator

Your next question comes from the line of C.J. Muse with Evercore ISI. Please go ahead with your question.

C.J. Muse

Yes good afternoon. Thank you for taking my question. I guess first question, in terms of QCT, can you walk through implied PBT [ph] margins into September and your long term outlook for MSM pricing and then a little bit bigger picture thanking on the chipset side. As you think about adjacent growth, particularly hyper connected areas like IOT and Auto, do you have the scale across technology customer relationships and distribution to succeed or do you need to look at acquisitions, and if yes, would you consider large scale M&A, or would you continue to focus solely bolt-on acquisitions. Thank you.

George Davis

It's George. On our margin you are seeing the effects both of the positioning within the premium tier which is having some impact on the gross margin, but also primarily it's the increase in Opex in the quarter having a little bit of an effect as well. So, it is a combination of mix of the Opex effects and just the market overall in the third quarter.

A – Steve Mollenkopf

And with respect to the adjacent businesses, there are a lot of technologies that are leveraged from the mobile space. There are some things that are not, for example, we got things like networking from the Atheros acquisition and we believe we are going to get a strong portfolio of technologies with the announced acquisition of CSR, which we hope will close here in this year. I think one of the things you get besides technology is the sales channel and the ability to sell into different types of customer then our current slate in the handset business. And we actively plan that out and that's one of the reasons why we have done M&A. It is also I think an environment in the industry right now where there is a lot of consolidation, particularly in the semi-conductor space and it is something that we think about and I think we can potentially have an opportunity to de-risk some of those things if we continue down through our strategy and we are trying to keep our strategic options open at the same maintain our capital structure.

Operator

Your next question comes from the line of Srini Pajjuri with CLSA. Please go ahead with your question.

Srini Pajjuri

Thank you. Steve, this question has been asked, but I just want to ask a little differently, you said in the modem differentiation is your key competitive advantage and you seem to be banking on that, you know to regain some of the business, I am just curious you know given that in a lead that you have, it appears that Samsung is using an internal modem even now, even though I guess they could have used your modem with their own processor, I am just wonder, is the modem technology that mature that customers don't care as much about the differentiation or in a - what do you think cause that.

Steve Mollenkopf

Well I think when you have a vertical decision there could be many more elements in the decision than just technical merits or what might have happened outside of that environment. They have the ability to share one place or the other. When we look at the tier downs of those decisions we tend to see that it compares at least from a feature and a geography point of view to a product that we probably delivered two generations ago. So, I would actually view it as more evidence of our modem lead.

Now it is possible to portions of the SKUs without having the modem expertise, but I think you are always better off having in the application processor and the modem together and have that worldwide scale, particularly given the industry structure today. We are seeing that the very attractive in the case of the internal OEMs or the Chinese OEMs that want to go international. So, we still think that modem is an important component. If you look what's in the head of any modem player they have enormous number of [indiscernible] they have to sink up Wi-Fi and the cellular network. Just recently the FCC gave a very positive ruling on the spectrum that will be used for LTE-U.

So, we think the modem still has an enormous migration and then upstream and then beyond that you are going to have 5G. So the modem continues to be big. In addition, hopefully we are not downplaying the strength of our application process. So, we have – we think the best mobile CPU coming and that's going to be a portfolio of products, not just one product and our strength in the GPU is, I think quite strong, we are market leader in terms of mobile GPU shipments and look at the performance of the 89, 94 I think you would see it's quite strong. So, we feel like we are in a good position. We just need to get through this product cycle, maintain the investment in the roadmap and at the same time sort of get ourselves in a position where we can weather out these storms a little bit easier and I think we are going to have a reasonable business there.

Operator

Your next question comes from the line of Tavis McCourt with Raymond James. Please go ahead with your question.

Tavis McCourt

Thanks for taking my question. Derek you ran through a few numbers, now I want to make sure I had them right, they are not addition up to me. I think you said QTL ASP this year would be down 11% to 12% in the fiscal year. Device sales would be up 8% to 11% but revenues will be up 8% or so, was that the right numbers for fiscal 2015?

George Davis

So I think we probably – we kind of mix-and-match a little bit. The units are for calendar year. The ASP that we gave was a global ASP, that's remember not the one that necessarily will get reported to us, that sort of the all-in number assuming we were getting 100% compliance. We haven't given guidance on a reported ASP for fiscal 2015 for a number of reasons, including it's probably going to get bounced around by things like catch up payments and the timing of signing some of these new agreements. So I think that may be your difficulty in trying to triangulate the numbers back to the 8% revenue guide for QTL.

Operator

Your next question comes from the line of Mark Sue with RBC. Please go ahead with your question.

Mark Sue

Thank you. In the past [indiscernible], it didn't make economic sense where some of the smartphone makers do spend money to develop their own chipsets just for their internal consumption. However, it doesn't seem that would change anytime soon because the market is maturing and Samsung, Apple, they all want to focus on improving their margins. So within those confines, how should we think about the automation in terms of pushing it to new markets outside of smartphones and how to fund those investments so that we can actually see a better return on the invested capital in other segments of the business? Thank you, gentlemen.

Steve Mollenkopf

Mark, you are breaking up a little bit. So I will try to answer what the question was and I think it was related to how we can continue to invest and have confidence given that some people are trying to go internal. Our evaluation of the efforts to go internal, they actually tend to be more expensive than if you had bought them externally, particularly when you amortize the R&D investment across all of the many different technologies that are required to produce and integrate it or a mobile smartphone offering. In fact, I would say, particularly, given the fact that in some cases people are launching very early in the node, you really pay a penalty for yield. And our estimate is that it would be quite expensive right now to be launching without good yield.

I think you will also see if you look at teardowns, the difference between the size both footprint on the board as well as cost to assemble all of the components that we have in Snapdragon using external partners, it tends to be fairly expensive. For example, Snapdragon has GPS integrated inside of it and putting that on externally tends to be fairly expensive. There are number of things, codec, a number of things that sit there and become more expensive. So our view of the trend is that things are moving more toward integrated versus less toward integrated. And when we look at the economics, it's quite difficult we think to have people compete, have the same internal offering unless you have a fairly large scale, R&D scale.

Operator

This ends our allotted time for questions and answers. Mr. Mollenkopf, do you have anything further to add before adjourning the call?

Steve Mollenkopf

Thank you very much for your attention. We look forward to a call next quarter and will give you an update on our cost initiative at the time. Thank you.