Thanks, Warren, and good afternoon, everyone. We're very pleased to report record revenues, earnings per share and MSM chipset shipments in this quarter, driven by increased demand for smartphone and data-centric devices across an expanding number of regions and price points.

It's been a successful quarter and there really is a lot to be excited about. First and foremost is the continued unabated demand for wireless data. Gartner expects sales of smartphones in the fourth quarter of 2010 to grow 15% sequentially and over 70% year-over-year. Gartner forecast annual smartphone shipments to grow more than 50% year-over-year in 2011 to reach approximately 440 million units. And of course speaking of smartphones, we're happy to see the Verizon iPhone announcement because it's been a subject of intense speculation, but I have to say we have no other comments to make on that topic.

In addition to smartphones, we're now seeing increasing volumes of new 3G-enabled device types such as tablets and e-readers. Our Snapdragon family of chipsets, including our dual core products, are well-positioned to target the range of devices that we expect to be launched this year.

To help support the traffic and provide higher data rates to consumers, operators are continuing to invest in the latest technologies and are purchasing additional spectrum. Adoption of advanced wireless technologies will continue to be a catalyst for network and device upgrades in the coming year. Verizon launched LTE in 38 cities and started offering data modems based on QUALCOMM'S multimode solution. AT&T continues to promote its HSPA+ service, has announced they will be pulling in their launch plans for LTE. And furthermore, we've also demonstrated LTE TDD in India.

The evolution of 3G also continues to be a bright point for our business with the GSA announcing that there are currently 103 commercial HSPA+ networks, 13 of these offering 42 megabit per second data rates with Dual-Carrier HSPA+. According to CDG, three operators have launched DO Rev. B networks while an additional four operators have announced plans to deploy the technology.

And our leading position in these technologies and multimode chipsets allows us to address the complexities these heterogenous networks create, positioning us very well for the future.

As a further example of how our opportunities are expanding, Microsoft announced that the next version of Windows will support Systems on a Chip architectures, including ARM-based systems for QUALCOMM. We have a strong working relationship with Microsoft. And at CES, they demonstrated the next version of Windows running on our Snapdragon platform.

We've also announced that we've entered into an agreement to buy Aeros. You heard us talk about a vision around the convergence of mobility, computing, consumer electronics. As we commented on our recent call, this announcement should be viewed as a statement about our commitment to provide a complete set of solutions to address this trend. This acquisition will allow us to build upon our capabilities, add to our suite of best-in-class technology assets, provide new sales channels. We're looking forward to the transaction closing and joining with a proven leader.

In addition, we announced the agreement to sell substantially all of our 700 megahertz Spectrum to AT&T and wind down the FLO TV network. This is a win-win outcome and we're excited that AT&T intends to use carrier aggregation technology to provide supplemental downlink capacity to its customers. Our plans include supporting these capabilities in our chipsets to support AT&T and other operators around the world, looking to take advantage of additional unpaired spectrum to support their wireless data plans. Overall, the 2G, the 3G migration remain healthy and vibrant as increased competition and wider variety of more affordable 3G devices are driving the shift to wireless data globally.

According to Wireless Intelligence, 3G connections are expected to grow more than 25% in 2011 to 1.6 billion. A big part of this growth will come from emerging regions that have been primarily driven by 2G in the past.

Both China Telecom and China Unicom aggressively drove the uptake of 3G smartphones in the second half of calendar 2010 through the direct purchase and subsidy of these devices. As a result of these and other efforts, most operators are reporting significant growth in EV-DO and UMTS subscribed in the past two quarters. China Telecom reported approximately a 68% increase in EV-DO subscribers, while China Unicom reported an approximately 85% increase in WCDMA subscribers for the second half of 2010. And we see the same trend continuing through 2011 as bold operators continue to drive the uptake of mass-market smartphones.

And in India, Reliance and Tata DOCOMO and now more recently, Airtel, have all launched 3G services and we expect remaining operators to launch services in the coming months.

And finally, on the licensing front, I'm also pleased to report that we have resolved one of the disputes that we had previously disclosed.

So to wrap up, we just completed the best quarter in the history of QUALCOMM, driven by strong demand and excellent execution. Our broad licensing program and industry-leading chipset roadmap platform condition us well to take advantage of the many wireless opportunities ahead of us.

And looking forward, I am pleased to be substantially raising our full year forecast for revenue and earnings driven by the many positive trends of the industry's shift to 3G and the broad adoption of wireless data for mobile phones and new data-centric devices.

That concludes my comments and I'll now turn the call over to Derek Aberle.

Derek Aberle

Thank you Paul, and good afternoon, everyone. As we expected when we presented in New York in November, we see favorable trends in the industry continuing to develop that will drive further growth in our Licensing business. In particular, we are seeing strength in ASPs in both developed and emerging regions. September quarter activity also ended up being a bit stronger than anticipated, driven by smartphone shipment strength in the developed regions in particular. This drove record total reported device sales and a strong sequential growth in average selling prices. I am also pleased to report that we have now resolved one of the two licensee disputes that we have been working to bring to a close. This is not Panasonic. It is the licensee that has been underpaying its royalties to us.

We are pleased that we are able to resolve this dispute in a manner that is consistent with the established value of our patent portfolio and without the need for litigation or arbitration. The result of this resolution will start to be reflected in our fiscal second quarter results including a one-time catch-up for past periods.

As I discussed in New York in November, due to a variety of factors including the fact that certain QTL revenue components such as fixed licensing fees and infrastructure royalties are growing at a slower pace than subscriber royalties, the increasing diversity of incremental product types with non-traditional royalty structures contributing to our Licensing revenues, as well as the impact of intermittent licensee disputes, the implied royalty rate that you calculate based on the information we provide has become a less reliable metric for measuring the performance of the QTL business.

Having said that, the resolution of this licensee dispute increases our estimate for what we expect your calculation of the implied royalty rate to be for fiscal 2011.

We had previously said that we expected your calculation as the implied royalty rate based on the midpoint of our prior guidance for fiscal year 2011 to be approximately 3.3%, excluding amounts for prior periods. While we have not yet finalized the accounting for the license agreement that we recently signed to resolve this dispute, we now expect the implied royalty rate you will calculate for fiscal year 2011 to be approximately 3.5%, including a one-time benefit in the second quarter for periods prior to fiscal 2011, as well as the first quarter of fiscal 2011. And that we will exit the fiscal year with an implied royalty rate, as you calculated, of approximately 3.4% to 3.5%.

It is important to note that this updated outlook excludes any potential upside that may result from the arbitration with Panasonic. As we mentioned during our last call, we are very pleased with the outcome of the first phase of that process as the arbitrator issued an interim order, finding that QUALCOMM did not breach its license agreement with Panasonic. This supports our belief that Panasonic's claims are without merit.

In closing, I'm very pleased with the successful resolution we have announced today and continue to feel QTL is well-positioned for strong growth ahead in a very exciting global wireless industry.

Thank you, and I'll turn the call over to Steve Mollenkopf.

Steven Mollenkopf

Thank you, Derek, and good afternoon, everyone. Our QCT business delivered another strong quarter. We shipped a record 118 million MSMs and delivered both record revenues and record operating profits. We are seeing stronger demand for our integrated chipsets compared to our prior forecast and are pleased to be raising our outlook for the remainder of fiscal 2011.

Smartphone-driven demand for our solutions, particularly in North America, was very strong again this quarter and contributed to a favorable product mix.

Our leading roadmap, technology and integration capabilities are aligning well with industry trends. Shipments of our 7k and 8k integrated chipsets were up more than 40% sequentially and more than 150% year-over-year. Our leadership in LTE continues as we began volume shipments of our multimode 3G LTE chipsets last quarter. There is a strong design activity in the pipeline with over 25 manufacturers developing more than 50 LTE devices, including data modems, LTE hotspots, smartphones and tablets.

Our support for multiple operating systems across multiple product tiers continues to position us well within the growing smartphone segment. We saw over 30 new devices announced by our partners including several industry firsts. The sharp Galapagos, which is the first 3D mobile phone with 3D display and 3D capture; the first HSPA+ phones including the T-Mobile myTouch 4G; and the HTC Thunderbolt, which is the first 4G LTE phone for Verizon Wireless. Windows Phone 7 devices began shipping this past quarter, all powered by Snapdragon with handsets from HTC, LG, Dell and Samsung.

We are also pleased to see Microsoft demonstrate a future version of Windows running on our Snapdragon platform at CES. We believe our architectural advantages deliver high-performance computing and graphics at low power and will enable new, innovative device types in the computing ecosystem just as they have in the mobile ecosystem. This will open up significant new opportunities for our chipsets.

We continue to demonstrate our ability to execute at scale this quarter, which is required to succeed in such a large and expanding industry. We currently have more than 150 Snapdragon devices in development, including more than 20 tablets.

Our new dual-core MSM 8660 chipset is already being designed into over 60 devices by our partners. The performance and efficiency of this chipset make it well-suited to both tables and phones. It delivers console-quality graphics for rich, on-device gaming and high-definition video. The chipset also has integrated support for HDMI output, which means you can plug your phone or tablet into a TV to share photos, play games, or even watch high-definition 3D video.

Snapdragon's large install base, strong graphics capabilities and software development tools have attracted a sizable community of gaming developers. We currently have close to 100 casual and HD games optimized for our graphics processing unit, which we believe is 2x to 3x the number optimized for any other mobile chipset. And we see this number growing quickly.

Our next-generation chipset architecture is on path to raise the bar for the industry again. This architecture delivers 5x the performance and uses 75% of the power of our previous generation, which was already industry-leading. As we have mentioned previously, the MSM 8960 will be the first chipset with this new architecture and an integrated LTE modem. It is sampling later this year.

We will also update the Snapdragon line to include this new architecture at all tiers. We will share more details of our plans at Mobile World Congress in Barcelona.

As we mentioned in November, during fiscal 2011, we expect to see an increase in a variety and tiering of smartphones. Specifically, a greater mix of mass-market smartphones. In addition, increased chipset shipments in emerging regions will be driven by the transition of 2G to 3G technology. Our integrated solutions are particularly well-suited for these mass-market devices, and we will continue to price in order to grow share in this environment.

As we have commented on in the past, we also prepare to transition our product line towards our first 28 nanometer parts and continue to increase the focus on cost-optimized solutions.

In the nearer term, we do expect some seasonality in our fiscal second quarter, consistent with prior years including the effects of annual pricing resets with our customers and MSM shipment levels a bit lower coming off a busy holiday quarter.

Finally, we are excited about the recently announced agreement to acquire Atheros. This acquisition significantly expands our opportunities as a semiconductor provider. With this incremental set of products, channels and customers, we can accelerate the extension of our technologies and platforms beyond cellular to computing, consumer electronics and networking.

In closing, the QCT team is executing very well, driving our technology and integration-leadership position in the industry. We expect another wave of exciting devices based on our technology to be announced this quarter. We are in a unique position to lead the transition to smartphones and always on, always connected computing and entertainment devices.

That concludes my comments. I will now turn the call over to Bill Keitel.

William Keitel

Thank you, Steve, and good afternoon, everyone. We have another quarter of record results to report today. We are pleased to be substantially raising our estimates for fiscal 2011 revenue and earnings per share. The impact related to the recent license dispute resolution announced today will be recorded in our second fiscal quarter and beyond. It is not reflected in our first fiscal quarter results.

Our fiscal first quarter revenues of $3.35 billion were a record high, up 25% year-over-year and at the high end of our prior guidance. Non-GAAP earnings per share were also a record $0.82 per share, up 32% year-over-year, significantly exceeding the high end of our prior guidance. We shipped a record 118 million MSM chips during the quarter towards the high end of our prior guidance and average revenue per MSM increased sequentially consistent with our prior guidance. QCT's operating margin was 30%, driven by a favorable mix of smartphone chipsets.

Total reported device sales by our licensees were a record $34 billion, exceeding our prior expectations and driven by a greater-than-expected mix of licensee device shipments in developed regions, notably North America, Japan and Korea. We estimate that our licensees shipped approximately 165 million to 169 million new CDMA devices in the September 2010 quarter, also a record. We estimate the average selling price of CDMA devices was approximately $201 to $207 per unit, up approximately 12% sequentially, driven by the greater mix of devices in developed regions, as well as approximately $8 of favorable foreign exchange.

QTL's operating margin was 84% and the implied royalty rate that you calculate based on the information we provide was slightly lower sequentially, consistent with expectations and driven primarily by fixed revenue items and infrastructure royalties within QTL's total revenues.

Cash and marketable securities totaled $19 billion at the end of the first quarter, including $6 billion onshore and $13 billion offshore. During the first fiscal quarter, we paid cash dividends of $309 million or $0.19 per share. And on January 14, we announced another cash dividend of $0.19 per share payable on March 25, 2011. Our non-GAAP tax rate was 19% in the first fiscal quarter. We recorded a $32 million tax benefit in the first quarter of fiscal 2011 related to fiscal 2010 as a result of the retroactive reenactment of the federal R&D tax credit. To facilitate a better period-to-period comparison, we excluded this tax benefit related to fiscal 2010 from our first quarter non-GAAP results.

Our fiscal first quarter non-GAAP earnings per share were $0.10 higher than our initial guidance midpoint of $0.72 at the outset of the quarter. QCT was approximately $0.04 higher, QTL was approximately $0.03 higher. The remaining $0.03 was a combination of the lower tax rate driven by the fiscal 2011 portion of the federal R&D tax credit and investment gains not included in our prior guidance.

We estimate that calendar 2010 CDMA device shipments were approximately 640 million to 660 million new devices. Based on the 650 million midpoint of our estimate, 2010 CDMA device shipments grew 28% year-over-year.

Now turning to our guidance. We are increasing our estimate for calendar 2011 CDMA device shipments. We estimate that between 750 million and 800 million CDMA devices will ship in 2011, an increase of approximately 15% to 23% over the midpoint of our calendar 2010 estimate because I'm sure you know that we are substantially raising our financial guidance for the fiscal year.

Of the $1.2 billion increase to our fiscal 2011 revenue guidance, approximately $650 million is driven by an improved outlook for our Chipset business and approximately $550 million is driven by an improved outlook in our Licensing business. The approximate $550 million licensing improvement is due in part to the license dispute resolution and in part to a material increase in the base Licensing business independent of the license resolution. The $550 million is also a net increase on top of the amount we included in our fiscal 2011 guidance back in November for the potential resolution of one or both of our licensee disputes.

The new licensee amendment was just recently signed. Though the accounting treatment still needs to be finalized, we expect our fiscal second quarter will include revenues from this licensee, for sales in the second fiscal quarter, as well as for past sales in prior quarters. As Derek pointed out, we think that the implied royalty rate as you calculate it has become a less reliable metric for modeling the Licensing business. Having said that, we estimate that the implied rate for the remaining three quarters of fiscal 2011, excluding the amounts related to periods prior to the second fiscal quarter, will be relatively constant in the range of approximately 3.4% to 3.5%.

As Derek noted, although we remain confident in our position, the arbitration with Panasonic may not be decided until after our fiscal year end, and we therefore are not forecasting any amounts related to any resolution with Panasonic in this fiscal year at this time.

We expect non-GAAP fiscal 2011 revenues to be in the range of approximately$13.6 billion to $14.2 billion as compared to our prior estimate of $12.4 billion to $13 billion. We are also raising our fiscal 2011 earnings per share guidance by $0.28 per share. We anticipate non-GAAP earnings per share to be in the range of $2.91 to $3.05, an increase of 18% to 24% year-over-year. We estimate the average selling price of CDMA-based devices to be approximately $190 to $200 for all of fiscal 2011.

In QCT, although the opportunity to be in the higher end of this range is now a bit better, reflecting stronger volume and mix expectations, we are reaffirming our prior estimate that operating margins will be in the range of 22% to 24% for fiscal 2011.

The expected decrease in operating margins for the remainder of fiscal 2011 relative to the last couple of quarters reflects our continued expectation of a greater mix of mass-market smartphones and our new chipset products to service demand.

We expect the combination of non-GAAP R&D and SG&A expense to increase approximately 12% year-over-year, higher than our prior guidance of approximately 7%, reflecting variable cost related to our greater expected revenues, as well as some foreign exchange impact.

Based on the midpoint of our updated guidance, R&D expense will improve to approximately 17% of revenue, similar to the rate we experienced three and four years ago. And SG&A expense will improve to approximately 10% of revenue, the lowest rate in the last five years. We estimate our non-GAAP annual tax rate to be approximately 21%.

Now turning to the second fiscal quarter, we estimate non-GAAP revenues to be in the range of approximately $3.45 billion to $3.75 billion. And non-GAAP earnings per share to be approximately $0.77 to $0.81.

Based on the midpoints, we expect second quarter revenue and earnings per share to increase year-over-year by 35% and 34% respectively. We expect total reported device sales reported by our licensees to be approximately $36.5 billion to $38.5 billion, up 35% year-over-year based on the midpoint.

We anticipate QCT shipments of approximately 113 million to 117 million MSM chips during the March quarter, down a bit coming off the busy holiday quarter but up 24% year-over-year based on the midpoint. We expect revenue per MSM to be down quarter-over-quarter driven by annual pricing resets with customers consistent with historical norms. And we expect lower operating margin sequentially.

Our estimate for CDMA channel inventory is largely consistent with our prior expectations, remaining at the low end of the historical range through fiscal 2011. We anticipate second fiscal quarter non-GAAP R&D and SG&A expenses combined will increase approximately 11% sequentially, reflecting normal increased seasonal expenses primarily related to employee payroll taxes.

Our fiscal second quarter non-GAAP earnings per share guidance midpoint is $0.03 lower as compared to our first quarter. We expect QTL to be better $0.17 sequentially, driven by revenue related to the new license dispute resolution and increased device volumes reported by licensees for the busy holiday quarter.

We estimate that the one-time revenue benefit related to periods prior to the second fiscal quarter will be approximately $250 million or $0.09 per share in the second fiscal quarter. We expect QCT to be approximately $0.10 lower, driven by the seasonal lower volumes and pricing resets mentioned earlier.

Non-GAAP combined R&D and SG&A expense growth accounts for approximately $0.05 and the remaining decrease is driven by the dilutive impact of increased share count and lower sequential investment income as we do not include estimates for uncertain realized investment gains losses in our forecast. Net unrealized gains on marketable securities were $968 million at the end of the first fiscal quarter.

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

Warren Kneeshaw

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

Question-and-Answer Session

Operator

[Operator Instructions] Mike Walkley from Canaccord Genuity.

T. Michael Walkley - Canaccord Genuity

Bill, just want to build on the guidance you just gave us. Can you help us maybe think about the cadence of your QCT chipset margins to get to your full year guidance? I know you just gave us some math we can work through, but would they recover more midyear as March the lowest quarter, or is it kind of at this lower rate for the rest of the year, stable, to get to your guidance? If you can help us think through that and the seasonal trends. And also just on the royalty side, with this one-time payment, is that $250 million included in the guidance? Should we use that number in calculating our implied royalty rate or is that separate?

William Keitel

Mike, on your first question, the QCT margins for the rest of this year, we do expect, with this Q2 guidance, pretty substantial decline from the first quarter into the second quarter. Again, consistent as with what we expected at the time we were with you in New York three months ago. From that point, I would just say that at this early stage, we expect to be going out of the year just a bit modestly higher on the margins, but of course that will be a function of volume and mix as we go. On the $250 million, I think the key there is just to know that when you look at Q2 in terms of comparing it to what you want to model for Q3 and forward is that, that was an amount that really relates to prior periods. We haven't gotten into, as of this early stage, of how much of that might be Q1 versus prior periods. The deal was just recently signed, so we haven't gotten to that far yet. But I think with the information given here on the call, including our expectation of implied royalty rate, hopefully, you've got enough to do some decent modeling of the business going forward. Derek, do you want to. . .

Derek Aberle

Let me just add one thing on the rate. I think we made two points on the implied rate that you calculate. One is that for the full fiscal year, taking into account the $250 million, that we expected it to be in the range of 3.5%. And then we also said exiting 2011, meaning the fourth quarter of 2011, we expect it to be between 3.4% and 3.5%.

Operator

Tim Long from Bank of Montreal.

Tim Long - BMO Capital Markets U.S.

If I could just follow on the royalty side there, could you just frame for us, maybe it sounds like a steady state, you went from 3.3 to 3.45 at the midpoint with this deal signed. Should we expect when the other deal is signed, a similar magnitude of change? And then also on this topic, could you just talk to us, it was a much bigger tablet quarter, so what impact did tablets have on the rate? I calculated it at 3.1% or so in the quarter. Was there a tablet impact, and is it consistent with the guidance that you give us as far as the diluted impact of tablets at the Analyst Day a few months ago?

Derek Aberle

On the first point on the difference between this deal and the other dispute, I think we haven't really gotten into trying to characterize one versus the other. And I don't think we're prepared to do that today. Remember when we went out and we gave prior guidance, we had said that there was an amount, whether it was probability adjusted or otherwise, but there was an amount that was included in our prior guidance related to resolution of licensee dispute. And so now there's some increment above that, that's now in the guidance as a result of actually concluding the deal, which is making a positive move on the implied rate.

Tim Long - BMO Capital Markets U.S.

Derek, could you just remind us, was there a $200 million given a year or two ago? What was the sum total of the two at one point that was given?

Derek Aberle

We said through the end of fiscal 2010, for both disputes, that there was approximately a $200 million in revenue not being recognized or deferred.

Tim Long - BMO Capital Markets U.S.

And then how was it $250 million?

Derek Aberle

Well, that was as of the end of 2010. And so what we're saying is for the prior period, as we've said prior to Q2, it would be amounts for the first fiscal quarter of '11, as well as prior periods to that. So you have yet a missing quarter in there. Then on your tablet question, I think the tablets, quarter-over-quarter, were up in terms of both units and the percentage of total devices reported to us. And so as we explained in New York in giving the capping program we have in place, that's going to have an impact on the implied rate, which you're seeing to some extent this quarter.

Tim Long - BMO Capital Markets U.S.

No change to the impact that you talked about, five or 10 basis points?

Derek Aberle

I'm not sure what you're referring to.

Tim Long - BMO Capital Markets U.S.

Bill said the full year impact would be -- Bill Keitel said five to 10 basis points on the full year effective calculated royalty rate based on the tablet program.

Derek Aberle

Yes, I guess we can follow-up, I'm not aware of that.

Operator

Brian Modoff from Deutsche Bank.

Brian Modoff - Deutsche Bank AG

Looking at the ASP guide of 201 to 207 even backing out the currency effect, it was still 1.93 to 1.99, up nicely sequentially. How do you see that trend through the year as you're seeing increasing amounts of smartphones countered with, obviously, some increase in lower-end smartphones, but which still have decent ASPs, and then also the effects on tablets? That's question one. Question two, Steve, looking at the -- Nvidia made a lot of noise at CES around design wins in the sector with the graphics chip and with their app processor. How do you see Snapdragon? You made some comments around 60 design wins with the 8960. How do you see your design activity in both tablets and smartphones moving through the year? How do you see the timing of launches of these products? Should we see more from QUALCOMM over the next couple of quarters, I guess is the question.

William Keitel

Brian, it's Bill. On the ASP within that TRDS guidance that we gave, it does include a modest decrease in the average ASP through the rest of this year. But I would say it's being favorably impacted by both tablets and smartphones as a whole. But nonetheless, we do see a lot of movement towards mass-market smartphones that should help grow the market. But as a consequence also, lower the average selling price a bit.

Derek Aberle

And just add one other thing, I think as Bill pointed out in his comments and as I did as well, I think we're continuing to see positive trends both in developed and emerging markets on ASP. I think one thing that pushed the ASP up this quarter was just more strength in developed markets. And so I think really going forward, the ASP for the year, the question will really be the mix between the developed and the emerging regions.

Steven Mollenkopf

And Brian, this is Steve. With regards to the tablet and the smartphone traction, as you can tell from my comments, we're very comfortable actually and confident as to how that design ramp is going. It's probably what distinguishes us a little bit from some of the other competitors that you're seeing. I think we're engaged with a little bit more broadly -- or a little bit broader customer base. And so I think our time to volume will probably be a little bit faster when you consider how many different partners that we're engaged with. So we feel very comfortable with that. The other thing to remember also is that in addition to a migration to dual core and advanced graphics, which we're seeing and we've been supplying in our chipsets, you're also seeing a migration to a higher tier modem feature set as well. And so as we go through the year, I think you're going to start to see more and more of these high-tier tablets and high-tier smartphones be associated with LTE as well. Both of those areas of technology, graphics and processors on the application side, as well as the LTE modem are areas of strength for us, we think.

Brian Modoff - Deutsche Bank AG

More world phones in terms of multiband, multibug.

Steven Mollenkopf

Well, not only that. I think there's going to be a requirement for any market to take your tablet or to take your high-tier smartphone and to migrate that to other markets. And when they do that, I think there's going to be a demand for multimode LTE, multimode being 3G, as well as 4G and coupled with that high-tier processor. And in addition, if you...

Brian Modoff - Deutsche Bank AG

Including EV-DO?

Derek Aberle

EV-DO as well as HSPA+.

Operator

Tim Luke from Barclays Capital.

Timothy Luke - Barclays Capital

Maybe to follow on that, Steve if you could touch on when you think those design wins might begin to ramp for you with that multimode functionality? And if you could give a little color on your general perceptions, or maybe, Paul, with respect to opportunities broadly this year in China or in India? And then lastly Bill, you touched on inventory. Could you just give us some feel for where inventory is and how you see it trending currently both across the channel and for you guys?

Steven Mollenkopf

Tim, this is Steve. I'll take the first one. I think you'll see our dual-core designs start to ramp I would say late in the first half, maybe a little bit later than what you're hearing for some initial designs from other folks. But you're going to start to see that I think across multiple OEMs. We probably didn't benefit from being the lead design for the new software coming out of some of the software partners, but we're rapidly adding that capability and across multiple OEMs. And as I said, once you couple it with LTE, I think it starts to create a -- some pullback to us, so we're pretty comfortable how that's going to ramp.

Paul Jacobs

With respect to China, I just got back from a trip to China, and I was at a conference that China Telecom held for I think it was a few thousand of their partners and they declared to be the year of the 3G smartphone. So I think that's going to do well. And then these launches that we're seeing in India really bode well too because once again, we're going to see a very strong push for 3G. A lot of competition. And then we're looking forward to getting LTE TDD up and going there too.

William Keitel

And Tim on the channel inventory, we gave some specifics on that outlook, our forecast back in New York three months ago. And our current estimates are pretty tight to that prior forecast. We did expect some inventory build for the holiday season. Our best estimates, it wasn't inordinate. And we expect a modest work down here over the next two quarters, a little uptick going into the final quarter of this fiscal year. But at this point, going out of this year, our channel inventory forecasts and QCT's forecast is based on a forecast that the channel remains quite low.

Operator

Simona Jankowski from Goldman Sachs.

Simona Jankowski - Goldman Sachs Group Inc.

Just a couple of questions on the royalty rate. First, I just wanted to confirm that my calculation basically points to a slight decrease sequentially to 3.1% to some 3.25% of the calculated rate. But stripping out the effect of tablets, it seems like the underlying rate did not change, so I just wanted to confirm that I have that roughly correctly. And then secondly, your comment that the royalty rate would exit at about 3.4% to 3.5% is about a 40 basis point acceleration of 3.1% that you just reported. But then the settlement only adds about 20 basis points to the full year royalty even including the catch-up. So to me that implies that the rate is actually accelerating from now through year end and that's despite the increasing tablet mix. So I just want to understand if that thought process is correct. And if so, then what's driving the higher royalty rate between now and year end stripping out the settlement?

William Keitel

Simona, it's Bill. The slight decrease in Q1, I think your math is based on the numbers we provided, and yes, we did see a slight decrease. It's a mix of product, not a change in rates for any licensees. And as you're aware, we have been expecting tablets to increase, connected devices to increase. So that slight decrease in the Q1 was consistent with our expectation. As for the full year, there is an uptick due in part to the resolution. Obviously, there's the implied rate that you calculate based on the information provided. There's a fairly significant increase in Q2. But then, we've given you the data so that you could pull out of that if you like the amount of that, that would be attributable to prior periods. Then for the full year, in addition to the license resolution amount, we are expecting some mix shift that does slightly favor the implied royalty rate. And then as we said previously, the remaining dispute with Panasonic, that's not included in our guidance. So that would be further upside if we can successfully conclude it this year.

Simona Jankowski - Goldman Sachs Group Inc.

And I guess, Bill or Derek, that's actually kind of the essence of the question is what is driving that increase in the royalty rate? Because for it to increase on a net basis despite the deflationary impact of tablets, it would mean that some other category that's even higher -- at a higher royalty rate is actually growing faster than tablets. And I guess I'm just kind of curious what that other category would be.

William Keitel

We're not going to get into further disclosure there, but I think I would just point lastly to what Derek said. This implied royalty rate, it's an indicator. It can be suspect. You have to be careful how it's used because it can give some wrong signals. But the reason we gave you the data points we did was to just help you triangulate through what this license dispute resolution is in the context of our year versus just the ongoing business without -- independent of that resolution.

Operator

Rod Hall from JPMorgan.

Rod Hall - JP Morgan Chase & Co

I just got a couple. One is with regards to the revenue guidance, I just wanted to clarify, or make sure I understand, you're raising revenue guidance by, at the midpoint, about $1.2 billion. And for the last three quarters if you include, you had in Q1, you start to raise of over $1 billion. But I just want to make sure that $250 million payment is also in there, is that correct? So we should be thinking something over $750 million in terms of organic revenue raise for the back end of the year. And I guess that also includes some of these royalties coming back. So I just want to make sure we understand that correctly. And if you could comment also on how that additional revenue, whatever it is, $750 million or maybe it's just a little bit more than that, how it comes through in the different business forms, particularly QCT and QTL, that would be helpful.

William Keitel

Rod, I'll try and answer the question here. So yes, we are raising our revenue guidance by a total of $1.2 billion. The low end and the high end of our guidance increased by a total of $1.2 billion. That does include the revenues we expect this year as a result of the license dispute resolution that we just announced here today. And then within that license -- and let me further before I do, of the $1.2 billion, approximately $650 million is attributable to the chipset business QCT and approximately $550 million of that is attributable to QTL. And then the only other data point we shared on the QTL breakdown was that we expect at this time approximately $250 million of Q2 revenue that is in that $1.2 billion raise for the full year, we expect about $250 million to be attributable to periods prior to the first quarter. So that license dispute resolution is first quarter and prior, the prior periods. And so that license dispute resolution number is specific only to QTL. That does not port directly into QCT.

Operator

Ittai Kidron from Oppenheimer.

Ittai Kidron - Oppenheimer & Co. Inc.

Can you give us a little bit more color on what you're spending the R&D on? You mentioned that you're going to raise your R&D run rate for the year. What is it that you see a need for? And second, Bill, with regards to your annual guide, does it still exclude gains of the portfolio as was your guidance earlier in your Investor Day for the year?

William Keitel

Ittai, on the operating expense raise, we are getting negatively impacted a bit by foreign exchange on the Op expense. So that's a piece of it. We have not included the Atheros business in our forecast. But nonetheless, we have incurred fees with advisors that will be paid regardless of whether we close that transaction or not, so you have those two elements. And then there is a small piece of our total expenses that tend to be variable with revenue. The major R&D spends, I would say no major changes from the program that we had lined up and the allocation of the R&D dollars lined up across programs from just three months ago. As always, we continue to review those amounts, debate those amounts. But after we lock in the budget, the changes tend to be relatively small. So no significant new introductions at this point to the R&D program.

Ittai Kidron - Oppenheimer & Co. Inc.

And with regards to the gains on the portfolio?

William Keitel

Then on the investment gains, yes, we're staying with our past practice of not including a forecast of realized gains. I did point out that as we've had now for a few quarters, the net unrealized gains are over $900 million. Now the reason we don't include that is because we think it's just suspect to forecast. Historically, there tend to be a bit more gains than what we are able to clearly see. But anything that crosses over anything that isn't highly certain. If we don't have investments maturing that are going to have a gain, if we don't have managers that are saying they are going to exit a position, or at the time we give guidance, if we already have, our money managers have realized gains, we include that. But beyond that, we do not include. Hence why on average, over the last number of quarters, you see a bit more income there reported than what we guide.

Operator

Ehud Gelblum from Morgan Stanley.

Ehud Gelblum - Morgan Stanley

One clarification just to make sure we've totally beat the dead horse, but I want to make sure I'm understanding it correctly, and then a question, and that is that this $250 million or $0.09 is completely in the guidance for next quarter, so that when the EPS guidance of next quarter of $0.77 to $0.81, that includes a $0.09 boost from this?

William Keitel

That's correct.

Ehud Gelblum - Morgan Stanley

So then, my questions are, if we do a little math on this, your full year EPS guidance for the midpoint is not $2.98. And if we take off the $0.82 you just did and the $0.79, which is the midpoint of your guidance for next quarter, I think you get $1.37 left over, which then if you divide by two is about $0.68, $0.69. So the back half of the year is going to do roughly $0.68, $0.69, but your guidance -- and then if you look at your guidance for Q2, the $0.79 at the midpoint of $0.77 to $0.81, take off the $0.09 from $250 million, next quarter is basically $0.70. So am I right to assume that your guidance is assuming basically on an apples-to-apples basis, roughly $0.70 flat for the next three quarters with no growth as you go through the year, and why would that be as opposed to seeing some growth? And then just a quick question for Steve, when you're looking at the integrated chipsets that you're selling, are you seeing a difference between more 7000s or more 8000s? I'd imagine with the developed markets doing better now that you're seeing more 8000s selling, but do you expect more 7000s to sell as we get into the next few quarters and that's a source of margin pressure?

William Keitel

Ehud, I'll take the first part of your question. Your math is largely correct. I won't comment on whether it's approximately $0.70 per quarter for the next three quarters equally. I think I did mention earlier we are expecting a little bit better in the fourth fiscal quarter at this point, but your math is correct. And a couple of key drivers there. In QUALCOMM'S first half of any fiscal year, we get the Christmas effect both in QCT and QTL. So over the years, the first half of the fiscal year does tend to be greater than the second half of the fiscal year, so that's number one. Number two, as we pointed out, you do have this $250 million that does relate to periods prior to the second fiscal quarter, and so we won't see that in Q3 or Q4 in the second fiscal half. And then thirdly, as we went through in New York and in effect what we're reiterating here is that QCT is aggressively going after what we see is a fairly substantial smartphone mass-market. And we've got new products as well to go at that market. And for fiscal 2011, we expect the margin on those products to be lower than what we have historically seen with new products. And the target is that in fiscal '12, we follow on with replacements product, namely the 28-nanometer, that brings those margins back to the level that we want to see. So I think those are the key drivers. But your math, Ehud, I mean it's basically correct, yes.

Operator

Maynard Um from UBS Global Asset Management.

Maynard Um - UBS Investment Bank

Bill, if I could check my math also. If I just run through it, it looks like your chip margins would have to drop to mid to high teens just taking in all the color you gave in your EPS guidance for the second quarter. And that's a significant drop from the 30% you just had when you compare that to last year where you did have a price cut with mix shift. And I understand, I guess, the new products that you haven't been aggressive, but there still seems to be quite an unusually large drop and maybe conservative. And maybe if there's a shift to base band or some sort of a base band-only product, is that the big impact? If you can kind of walk us through that. And then separately, if you could just give us a little color on the use of the offshore cash for the Atheros deal would be great, how that works?

William Keitel

Maynard, on the QCT margins, so our estimates for the year is to be in the range of 22% to 24% for the full year consistent with what we said three months ago. We did note that within that range, we are edging a little bit higher than where we were at the outset of this fiscal year. But that edging, so to speak, is not enough that we felt comfortable raising the 22% to 24% range. So obviously, to end up with an average of 22% to 24% after having just reported a quarter here of 30%, we expect a substantial decline. We do expect that, it is built into our guidance here for the second fiscal quarter. And it is just, it's the same drivers that we're seeing today as what we saw three months ago. We see a greater volume going forward relative to the recent couple of quarters of more developing market. And then we do see this opportunity to drive a mass market of smartphones and we're targeting that with new chipsets we have and those chipsets do have lower margin than traditionally we've seen in the past.

Steven Mollenkopf

And this is Steve, maybe I could add one other comment, which is that we do have a calendar year pricing reset, which does hit us in the quarter that we're talking about. This year, not unlike other years, similar type of move. And then in addition, I think there's also some employee payroll-type issue that hits, as well, that probably impacts a little bit on top of the function or the trends that Bill mentioned as well. The other thing to remember is we're coming off a very strong quarter where you had significant growth, or significant number of units really in the North America space, and in the smartphone space, the high tier, and there's probably little bit of seasonality in that as well.

Maynard Um - UBS Investment Bank

On Atheros?

William Keitel

Maynard, nothing new on the Atheros. Things are progressing along. We expect them to file their. . .

Maynard Um - UBS Investment Bank

Just on the mechanics of how you can use offshore cash to do the acquisition?

William Keitel

Really nothing new there. We still have that hope, but really nothing new.

Operator

Mark Sue from RBC Capital Markets.

Mark Sue - RBC Capital Markets, LLC

Bill, if I substract $250 million from the $1.2 billion of incremental strength, is there a way to sort of rank order the new positive dynamics that you're seeing? Is it regional, is it Apple, is a tablets, is it a faster adoption of LTE, just some color there? And then Steve, are all device makers sort of on board with this mass-market opportunity for smartphones? There's some thought that dumping down the smartphone may actually limit their broad appeal. Just kind of how low is low for you, and your thoughts there?

William Keitel

Mark, on your first question in terms of rank ordering, I think the drivers here are pretty broad. The chipset demand on QCT, we're seeing better units for the fiscal year than what we saw three months ago. We are seeing a pretty good healthy increase across a number of products there. And after this first quarter, on balance, we have seen an uptick here in some of the demand for the higher end developed market products. But as we said, we do expect that trend to be shifting a bit here as the year progresses for QCT. So I think that's -- and then that much traces back into the Licensing business as well. The other thing I do want to point out is in November we said we had an undisclosed amount, but we had an amount in our guidance that we thought was prudent, prudent based on our expectations at that time of resolving one or both of the licensee disputes. And so although there's an increment here in our guidance just for the resolution of this licensee dispute, the absolute number is greater and the difference being it's making up -- it's covering that prudent amount that we had put in our guidance at the outset of the fiscal year.

Operator

Tal Liani from Bank of America.

Tal Liani - BofA Merrill Lynch

I just want to go back to the question that was asked about the QCT margins and also the question that was about use of offshore cash. So on QCT margins, every year, you said you have a reset of prices. Now, last year

I think you priced the HSPA 14.4, the same price of 7.2. And I think that was part of the reason that the margin was down. What happens this year? Is it just price cuts across the board or is it more specific to your dual core that you're trying to penetrate to the market, et cetera, and you're reducing the price there? Any color you can give us because if I just do the math, the margins for the next three quarters, assuming -- there's going to be one quarter below 20% of margin and I just want to understand the dynamics there. Second point, in your answer on your offshore cash, you answered it I hope it's going to happen. So what happens if it doesn't happen, which means what happens if you cannot use offshore cash to pay for Atheros acquisition?

Steven Mollenkopf

On the QCT margin part. This is Steve. Maybe I'll try to also complete the answer to the last question, Mark's question. So we do see a strong trend to mass-market smartphones. It tends to be correlated to people who are engaged with multiple operators worldwide. Those folks who are probably a little bit more concentrated in the United States probably don't see it as much as you would tend to see if you are engaged worldwide. It tends to be driven in some areas by the transition from 2G to 3G, as I said in my remarks. That being said, and then maybe tying this to the op margin, for us sequentially, you've got a normal calendar year price reset. This year, not unlike other years if you go back from our side. And then in addition, you have a little bit of a mix shift in terms of sequential mix shift towards the mass-market smartphones. Those two events combined and you get a sequential drop in terms of the op margin. I'm not sure if you're going to see a number quite as deep as you may be calculating, but we definitely will see a difference in the sequential number.

William Keitel

And then Tal, on your cash question, just to be clear. We're not making any change in what we said just a little bit ago when we announced the Atheros deal. It's just that we've got a ways to go here on the planning and just getting to the point where the acquisition does, in fact, occur. So we've got a ways to go on that. If we would not use offshore cash, we have $6 billion of onshore. And so if we did use onshore, there would be less available for stock buybacks. But other than that, I don't see a significant difference.

Operator

And ladies and gentlemen, we have reached the end of the allotted time for questions and answers. Dr. Jacobs, would you like to add anything further before adjourning the conference?

Paul Jacobs

Yes, I'm really glad to be able to report such a record quarter and it's really because many of the decisions we made on investments are paying off. The LTE launches, Snapdragon traction, advanced technologies. And we've got great stuff coming up at Mobile World Congress too. So a lot of good things are going on. We had a very busy quarter and start of the year, and I can't say that every quarter is going to have so much excitement in it. But I can say that capitalizing on all the opportunities ahead of us are definitely going to make for exciting times in the future. And so I want to just say thanks to everybody who is a part of it, and thank you for your support and for joining us today.