Thank you and good afternoon. Today's call will include prepared remarks by Steve Mollenkopf, Derek Aberle, and George Davis. In addition, Cristiano Amon and Don Rosenberg will join the question-and-answer session. You can access our earnings release and an executive presentation that accompany this call on our Investor Relations website. This call is also being webcast on Qualcomm.com, and a replay will be available on the website later today.

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. As well, 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.

**Steven M. Mollenkopf - Chief Executive Officer & Director**

Thank you, Warren, and good afternoon, everyone. We delivered a stronger than expected quarter as we continued to execute on our strategy to position the company for the next phase of profitable growth. Non-GAAP earnings per share were above the high end of our guidance range, driven by strength in both QTL and QCT.

QTL revenues reflect seasonably strong December quarter activity, and we are pleased with the progress we are making in China. We signed several new China licenses in the first few months, with more than 100 companies now having accepted the NDRC [National Development and Reform Commission] terms. We remain in active discussions with the few key Chinese OEMs that have not yet signed and believe we are making progress in those discussions. We are also pleased to have recently resolved our licensing dispute with LG.

In QCT, our chipset shipments were above the midpoint of our prior guidance range, driven by strong demand from Chinese OEMs, and we had favorable product costs.

During the quarter, we returned approximately $2.3 billion to stockholders through dividends and stock repurchases. We also announced a 10% increase in our quarterly cash dividend, reflecting our confidence in the strength of our ongoing cash flows and future earnings growth. We remain focused on improving our financial trajectory exiting the fiscal year, and we are on track in this regard.

In QCT, we have updated our roadmap across tiers, and our new products have been very well received. The flagship Snapdragon 820 is now available in leading devices such as the Samsung Galaxy S7, the LG G5, and the Xiaomi Mi5, along with devices from Sony, HTC, HP, and others. We now have over 115 Snapdragon 820 designs, and expect volume to ramp on this platform through the second half of the fiscal year.

Our strategy of offering differentiated all-mode modem solutions with carrier aggregation capability is extending our leadership and enabling strong design traction, particularly in China at the mid and high tiers. In China, new use cases for carrier aggregation are providing product differentiators for our customers and enhancing our design traction.

We are continuing to pursue additional content opportunities in the smartphone and recently announced a suite of next-generation Qualcomm RF360 technologies. We are on track to deliver our next-generation CMOS and Galliumarsenid PAs in 2017 and will extend our product offerings, including complete RF front-end module solutions once the TDK transaction closes.

Further, we are broadening our presence in adjacent opportunities, including automotive, networking, mobile compute, and IOT. Collectively, the serviceable addressable opportunity for these adjacent areas is expected to grow at a CAGR of 18% over the next five years, from $12 billion to $29 billion, according to a combination of third-party and internal estimates, and we are well positioned to benefit from this expanding opportunity. We expect these adjacent opportunities to drive approximately $2.5 billion in QCT revenues in fiscal year 2016.

We are seeing significant momentum across these areas. In automotive, we have very strong design traction in telematics across Tier 1 manufacturers. With the completion of our CSR acquisition, we now have a comprehensive connectivity portfolio, including Bluetooth Smart, Wi-Fi, and LTE, which allows us to offer a broader suite of products to our expanded set of customers.

In networking, we have a strong pipeline of over 240 designs with our 802.11ac solution across router, home gateway, and set-top box implementations. We continued to gain significant traction and win category-defining designs in IOT segments such as wearables, action cameras, security and surveillance cameras, virtual reality headsets, drones, and smart city infrastructure.

At MWC, we announced ecosystem expansion for our next-generation Snapdragon Wear platform, and we are pleased to report that there are now over 100 wearable devices using Qualcomm technology, which includes over 80% of all Android Wear smartwatch designs. Looking at the IOT more broadly, there are now over 1 billion IOT devices that have shipped using Qualcomm technology.

We continue to forecast QCT operating margins of 16% or better in the fourth fiscal quarter and are targeting 20%-plus operating margins longer term. It is important to note that for planning purposes, both our near-term and long-term margin targets have consistently factored in a range of second sourcing assumptions at our large customers, and we believe our margin targets are achievable under those scenarios.

We have strong confidence in our technology leadership, differentiated modem roadmap, and unique global scale. For instance, we recently demonstrated our Snapdragon X16 LTE modem, the first commercially announced gigabit-class LTE chipset, designed to deliver fiber-like LTE Category 16 download speeds of up to 1 gigabit per second, at least two generations ahead of the competition. This modem also supports Licensed Assisted Access, the global standard for LTE in unlicensed spectrum, becoming the mobile industry's first commercially announced LTE advanced pro modem and marks an important step towards 5G as we enable deeper unlicensed spectrum integration with LTE and more advanced MIMO techniques to support growing data consumption.

Further, we are leading the world to 5G, as we did in both 3G and 4G. To support this, we are designing a new OFDM-based 5G air interface that will not only enhance mobile broadband services but also enable connectivity and management for the Internet of Things and new types of mission-critical services that require lower latency, higher reliability, and robust security. We demonstrated our 5G millimeter wave 28 GHz prototype system at Mobile World Congress, showcasing robust and sustained mobile broadband communications at these higher spectrum bands.

Looking ahead, we continue to execute on our strategic plans to position us well for the future. Fiscal 2016 is a transition year, and we are making very good progress. We are taking decisive steps to enable us to capitalize on the significant opportunities ahead while delivering improving near-term performance.

I would now like to turn the call over to Derek.

**Derek K. Aberle - President**

Thank you, Steve, and good afternoon, everyone. As Steve noted, QTL had a stronger than expected fiscal second quarter, with total reported device sales of approximately $70 billion, reflecting the seasonally strong holiday quarter.

I am pleased to report that we recently resolved our dispute with LG. As a result of the resolution, we will resume recognizing quarterly LG revenues in fiscal Q3 in addition to recording the revenues we deferred from the first two fiscal quarters. As a reminder, LG continued to report and pay during the dispute, so the sales they reported for the first two quarters of fiscal 2016 were included in the total reported device sales for those quarters, but we did not recognize revenues for those quarters given that the arbitration was underway.

We are also continuing to make steady progress in China, completing new China license agreements. We recently signed new agreements with Lenovo, EWPE, Yulong, and Hisense, and now have more than 100 companies that have accepted the NDRC terms, including the top five worldwide Chinese licensees. Yulong and Hisense were signed after the close of our second fiscal quarter and will be reflected in our third quarter results. In addition, we are still actively negotiating with several of the other remaining key Chinese OEMs and are making progress in those discussions.

As we explained at our Analyst Day in February, we are also working hard on a number of fronts to improve compliance with our licensees in China. We have begun implementing those plans and expect them to deliver meaningful improvements over time. The percentage of global units not reported to us during the second fiscal quarter increased modestly quarter over quarter, driven primarily by share gains from OEMs that have been withholding royalties during license negotiations.

Looking ahead, we continue to see growth in global 3G/4G device shipments. LTE penetration is only approximately 16% of cellular connections globally, and cumulative smartphone unit shipments are forecast to be more than 8.7 billion from 2016 through 2020 according to GSM Intelligence and Gartner.

For calendar year 2015, we now estimate global 3G/4G device shipments were approximately 1.55 billion units, slightly below the midpoint of our prior range and up approximately 13% year over year. We saw strong growth in emerging regions, particularly in China, and expect this trend to continue in calendar 2016.

We are adjusting our estimate of calendar 2016 global 3G/4G device shipments to 1.625 billion to 1.725 billion devices, with year-over-year unit growth of approximately 8% at the midpoint, down from our previous midpoint estimate of approximately 10% growth. The strong 4G ramp in China continues, as each of the operators pursues aggressive subscriber growth targets with their 4G-plus service offerings, and design momentum is moving rapidly towards all-mode devices across China.

The strength in China, however, is being offset by a reduction in growth rates in other emerging regions, which we believe is attributable to macroeconomic headwinds. In addition, our forecast for premium-tier device shipments is down slightly versus our prior view, driven by slower than expected upgrades within one of the premium-tier ecosystems.

Global 3G/4G handset ASPs are tracking slightly better than our prior expectations of an approximately 6% year-over-year decline for the fiscal year, driven primarily by stronger premium-tier ASPs. We continue to expect low single-digit growth in global 3G/4G device sales in fiscal 2016, as unit growth is expected to more than offset ASP declines. Despite adjustments to near-term shipment estimates, we believe the long-term growth drivers for 3G/4G device sales remain intact and provide a solid foundation for the licensing business to deliver greater than $10 billion in revenue in our fiscal 2020.

Turning to our QTL revenue outlook for fiscal 2016, despite weaker than expected unit shipments for the fiscal year, we continue to expect QTL revenues to be in the range of $7.3 billion to $8 billion. Given the weaker than expected 3G/4G device demand, we will need to make some additional progress on signing the remaining license agreements in China in order to be within that range, but continue to feel that is achievable.

As we said at our Analyst Day, although there will be quarterly fluctuations in the externally implied royalty rate that you calculate based on the information we provide, we estimate a normalized rate for fiscal 2016 will be approximately 2.9%. This is based on adjusting for one-time items and other anomalies such as a difference in timing between when revenues for catch-up payments are recognized and when the related TRDS may be reported.

In conclusion, we continue to make good progress in China and are pleased to have resolved the LG dispute. We are keenly focused on concluding the right long-term agreements with the remaining China licensees as well as improving compliance, and expect continued progress throughout the rest of the fiscal year.

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

**George S. Davis - Chief Financial Officer & Executive Vice President**

Thank you, Derek, and good afternoon, everyone. Fiscal second quarter non-GAAP revenues were $5.5 billion, and non-GAAP earnings per share were $1.04, up 7% sequentially and above the high end of our prior guidance range.

In QCT, MSM shipments were 189 million, 2% above the midpoint of our prior guidance, reflecting stronger demand in China. QCT revenues were $3.3 billion, with a sequentially higher implied revenue per MSM. QCT operating margin was 5%, toward the high end of our prior expectations.

In QTL, total reported device sales and revenues benefited from strength in both developed and emerging regions during the holiday quarter. As a reminder, we report QTL on a one-quarter lag, so these results reflect the strength of fourth calendar quarter holiday demand. QTL results also include a one-time revenue benefit of $266 million, resulting from the merger of two infrastructure licensees, as we forecasted on last quarter's call. This was partially offset by the end of a multiyear license fee amortization of approximately $100 million per quarter as well as the impact of the LG dispute revenue deferral, which will now be included in our fiscal third quarter results, consistent with the settlement announced today.

Non-GAAP combined R&D and SG&A expenses decreased 1% sequentially, slightly less than our guidance range, due to an increase in legal and litigation related expenses.

We returned approximately $2.3 billion to stockholders in the quarter, including approximately $700 million of dividends paid and $1.5 billion in stock repurchases at an average price of approximately $49 per share. We ended the quarter with cash and marketable securities of $30 billion.

Our non-GAAP tax rate during the quarter was 18%, consistent with our expected rate for the full year.

Now turning to fiscal 2016, in QTL, as Derek indicated, we continue to forecast revenues will be between $7.3 billion to $8 billion despite a weaker overall TRDS outlook for the year. In QCT, we continue to see improving demand for premium and high-tier devices in the second half of the fiscal year, offset by reduced demand for thin modem products and low-tier chipsets. We remain on track for operating margin of 16% or better in the fourth fiscal quarter.

We also remain on track to meet the $1.4 billion reduction in spending under the strategic realignment plan, and we continue to expect at least $700 million of savings in fiscal 2016 relative to the SRP baseline, ahead of our original $600 million target. A summary of the savings program is included in the investor presentation for this call on our website.

We continue to expect fiscal 2016 non-GAAP combined R&D and SG&A expenses will be down approximately 2% to 4% year over year, which includes the full-year impact of acquisitions of approximately 5%. Adjusting for M&A, estimated spending in these areas would be down 7% to 9% year over year.

Turning to our fiscal third quarter, we estimate revenues to be in the range of approximately $5.2 billion to $6 billion, up approximately 1% sequentially at the midpoint, driven by strong product mix in QCT and the favorable LG dispute resolution in QTL, including catch-up revenues from prior-period activity. We estimate non-GAAP earnings per share in our fiscal third quarter to be approximately $0.90 to $1.00 per share, down approximately 4% year over year at the midpoint. We expect fiscal third quarter non-GAAP combined R&D and SG&A expenses will be approximately flat sequentially.

In QTL, fiscal third quarter revenues will include recognition of more than $200 million that was deferred in the first fiscal and second quarters related to the LG dispute resolution.

Separately, we estimate total reported device sales between $52 billion and $60 billion will be reported by our licensees in the June quarter for shipments they made in the March quarter, down sequentially compared to the seasonally high holiday quarter shipments. We have not included any potential benefit from license agreements under negotiation, consistent with our prior practice.

We expect QTL's operating margin percentage to be down sequentially, in line with seasonal trends reflecting the first calendar quarter. In QCT, we anticipate MSM shipments of approximately 175 million to 195 million units during the June quarter and expect revenue per MSM to be up more than 10% sequentially. We expect QCT operating margin to improve sequentially and be in the range of 9% to 10% for the fiscal third quarter. These expectations reflect the benefit of a stronger chip roadmap on both performance and cost leadership across tiers, favorable product mix, growth in adjacent opportunities, and lower operating expenses.

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

**Warren Kneeshaw - Vice President-Investor Relations**

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

**Question-and-Answer Session**

**Operator**

Thank you. Your first question comes from the line of James Faucette with Morgan Stanley. Please go ahead. James, please make sure that your line is not on mute.

**James E. Faucette - Morgan Stanley & Co. LLC**

Hello? Can you hear me now?

**Warren Kneeshaw - Vice President-Investor Relations**

Yes, we can hear you, James.

**James E. Faucette - Morgan Stanley & Co. LLC**

Hello? Okay, I'm sorry. So I just had a couple of quick questions. First, I just want to clarify the comments around QTL and its potential licensing. Should we take from your comments that the risk of it potentially falling outside of or below the targeted range for this year have gone up, or are you just trying to clarify that?

And I guess my second question is related, and that is as you continue to pursue licensing agreements with some of the larger Chinese OEMs with whom you don't have agreements, does it reach a stage or when do we reach a stage that you may have to start to pursue legal options through the courts there, and what would that look like? Thanks.

**George S. Davis - Chief Financial Officer & Executive Vice President**

Great. Thanks, James. On the range of $7.3 billion to $8 billion, our point was the range was initially defined solely by the outcomes based on our market assumptions at the beginning of the year if we were able to. If we weren't able to make much progress, we saw ourselves ending up at about $7.3 billion in QTL on the licensing agreements. If we made significant progress, that could take us to $8 billion.

Obviously, the LG issue from last quarter created some confusion. We said that was really outside the range. Now that that has been resolved, what we're saying is that the end market is softer than we had anticipated when we set the range up front, and that's pulled down the overall size of the market. So we would have to make up some of that in the form of some additional progress on the licensing agreements. And we feel that we're making progress there, so it would be premature to say that we don't believe that we'll end up somewhere in between the $7.3 billion and $8 billion that we started with.

**Derek K. Aberle - President**

James, this is Derek. On your second question, right now we're really focused on trying to conclude the remaining agreements through negotiation if that's possible. And I think as you've seen and Steve mentioned and I mentioned in my comments, we have been continuing to conclude additional agreements over time. So if we get to the point where we don't believe that that's possible through continued negotiation or the companies aren't negotiating in good faith, then we're certainly prepared to take the next step and enforce our rights. With most of the companies, it would really be more along the lines of an action to enforce their agreement that they have in place today. And like I said, we've been preparing for quite some time to do that if necessary, but so far have felt like we're still making enough progress with the licensees. And I think the progress that you're seeing through the announcements is supportive of that. And so we're going to keep at it and see if we can get across the finish line without the need for litigation. But of course, that's always an option for us if we need it.

**Operator**

Your next question comes from the line of Tim Long with BMO Capital Markets. Please go ahead.

**Timothy Patrick Long - BMO Capital Markets (United States)**

Thank you, just two if I could. Steve, you mentioned chip margins with regard to thoughts about second-sourcing at large customers. Could you talk to us, just expand a little bit about that on timing, when you think you might see second-source at most of your major customers? And on the cost side of it, do there need to be OpEx cuts if there is a second sourcing going on, or can you handle it without that?

And then just one follow-up for Derek on the Chinese, could you just clarify? There have been a lot of announcements from these large players. Have they pretty much all been just adding three-mode to existing deals, or have any of those large ones announced been fully incremental? Or again, has it just been just three-mode additions? Thank you.

**Steven M. Mollenkopf - Chief Executive Officer & Director**

Tim, this is Steve. So on the second-sourcing, I think the main point is that we have been assuming that in our plans really since the beginning of when we did our restructuring. Difficult for me to talk about timing related to that, but I think the point we wanted to communicate was that we are assuming for planning purposes that that is the case. And even with that, we are comfortable with our margin targets and our improving financials in the chip business in the second half.

**Derek K. Aberle - President**

Tim, on your second question, I would say we've commented on this a couple of times, and unfortunately there's still a little bit of confusion on the catch-up picture. As we've said, most of the companies that we've been negotiating with to try to conclude agreements on the non-three-mode part of the market have been continuing to report and pay under their agreements. And so when we sign them to the new NDRC terms, that doesn't result in most cases any significant catch-up on the non-three-mode part of the market. As you noted though, in many cases, it will result in them starting to pay royalties and pay past royalties on three-mode devices that were previously not licensed.

It's turned out so far that a number of the players have been the smaller players in the three-mode market. And so the contributions from that haven't been significant, or the way we've structured the deals and how the past royalties have been structured to be paid over time, those are things that will come into our P&L through probably a period of time later in 2016 and maybe even into 2017. And so we are getting agreements for those to be paid. It's just that they're being probably spread over a longer time than people anticipate.

There are less than a handful of companies that we're in negotiations with that are larger players also on three-mode and non-three-mode that have been not reporting while they're negotiating. And when we conclude those deals, you would expect to see more significant catch-up payments for prior-period sales compared to the ones that we've signed to date.

**Operator**

Your next question comes from the line of Simona Jankowski with Goldman Sachs. Please go ahead.

**Simona K. Jankowski - Goldman Sachs & Co.**

Hi, thank you very much. Can you clarify for the June quarter, what is the royalty rate that we should be thinking about? I understand that 2.9% is the longer-term number. But just in the nearer term given the LG and the China catch-ups, how should we think about that for the June quarter?

**Derek K. Aberle - President**

Simona, this is Derek. At this point, we're not going to guide quarter by quarter on the implied rate, as I spent a fair amount of time at the Analyst Day going through, there are so many factors that impact it. And the timing of a number of these elements, some of which are in our guidance, some of which are not in our guidance because we haven't yet reached closure on it, can have an impact on the rate.

We do feel, continue to feel, as I noted in my script, that for the year, for the full fiscal year, that we will be in the range of around the 2.9% that I spoke about at the Analyst Day, so still consistent with that. But you are going to continue to see fluctuations quarter over quarter as some of these disputes get resolved or catch-up payments come in. That is going to move, so we're not going to be guiding one quarter out on that.

**Operator**

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

**T. Michael Walkley - Canaccord Genuity**

Great, thanks. Switching over to QCT, to hit your 16% margin, can you walk us through revenue per MSM trends? Is the step-up of 10%-plus going to continue to go higher based on mix shift? And then also, if you could, just talk about your momentum in China on the mid to high tier. How sustainable you think that is over a multi-quarter period, and what that might do to the revenue per MSM trends longer-term? Thank you.

**George S. Davis - Chief Financial Officer & Executive Vice President**

Hey, Mike, it's George. We're seeing a lot of factors that support stronger revenue per MSM growth, not only in the third quarter but also in the fourth quarter, including the lower thin modem. You've got very attractive mix shift between the low tier to the mid and the high tier. All those things will play strongly in revenue per MSM, and we expect that to hold in the third and fourth quarters.

**Cristiano R. Amon - EVP, Qualcomm Technologies, Inc.-President, Qualcomm CDMA Technologies, Qualcomm, Inc.**

Hey, Mike, this is Cristiano. I think to your question on China, I think if you remember, in the last earnings call and during the Analyst Day, I think we talked about an interesting trend in China that was very helpful, is the transition of the market to the new version of LTE with carrier aggregation and as well as all-mode. I think we're starting to see this strategy materialize not only in this quarter but as we think about the coming quarters. And this is driving also the mix improvement on the mid and the high tier. We see the mid and high and premium tier in China actually growing faster than the market. That helped drive the mix improvement for QCT. Thank you.

**Operator**

Your next question comes from the line of Rod Hall with JPMorgan. Please go ahead.

**Rod B. Hall - JPMorgan Securities LLC**

Hi, guys. Thanks for taking my question. I guess I had two. One, I wanted go back to this change in the TRDS unit expectation for the calendar year versus the guidance range for QTL, and just understand. Is the reason that you're not changing the QTL guidance range because these puts and takes, you've signed some deals, the market's a little bit weaker than you thought, you just end up at the same midpoint? Or can you give us some more color around why those two things seem to differ from each other in terms of movement?

And then the second thing I wanted to do, Derek, you mentioned in your commentary I think an ecosystem player and expectations for slower upgrade cycle there. Is most of that expectation happening later this year, or are using it happening now? Can you just clarify what's your definition of ecosystem player? Is that a vendor or is that a particular region of the world? Just give us a little bit more clarity there. Thanks.

**Derek K. Aberle - President**

Rod, so let me try to take the first one on. So really what we're seeing is if we look at the market for calendar 2016, and 2015 came in just slightly lower than what we expected for the year. We are seeing some softness in the premium tier, some puts and takes, some other weakness in emerging regions, but actually improvement in China. China continues to be quite strong. And overall also, the ASP picture is looking good as well. We expected moderation in the ASP declines year over year, and that seems to be at least so far tracking better than our assumption.

So we do feel like there is – the net-net of that is a bit weaker market for the fiscal year, but we gave a pretty wide range on QTL revenue for the year just given all the different elements in there. And we felt with still some time left in the year, we do believe we can continue to make progress in China as we have been demonstrating over the last few months. And so as George mentioned, we just felt it was premature to adjust the range. We will need to make more progress relative to where we were before, just given the change in the market, but we still think the range is a reasonable range to hold for now.

On the second question, really I think what we're saying is we are seeing some continued softness in the premium tier. We saw that earlier, and our projections were based on that. It's a little bit more softness, and I think that plays out. It has played out through some of the previous quarters already and will continue through the year.

**Operator**

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

**Blayne Curtis - Barclays Capital, Inc.**

Hey, guys. Thanks for taking my question, just two related questions. Just when you talked about with the second sourcing that you had a good idea and had right-sized the OpEx, the definition of second source, would you have an idea of what percentage you'll get?

And the second part is as you look forward into next year, you've always been ahead on the modem, but here is a top-tier phone using someone else's. Can you just talk about the sustainability at the leading edge and talk about what percentage of the market actually uses the Cat 12 modem and whether that can increase over time? Thanks.

**Steven M. Mollenkopf - Chief Executive Officer & Director**

Blayne, this is Steve. I'll take the first part and maybe Cristiano can jump in on the long-term question. I think we took an appropriate planning assumption really for sizing the OpEx. We wanted to make sure that when we implemented our realignment in terms of cost structure that we comprehended, I think, the proper range of outcomes. I think we feel quite strong or quite good about our modem roadmap and where it's going, but I think we're doing the appropriate thing from the perspective of planning our OpEx. And maybe Cristiano could add some of the product details of that.

**Cristiano R. Amon - EVP, Qualcomm Technologies, Inc.-President, Qualcomm CDMA Technologies, Qualcomm, Inc.**

Hi, this is Cristiano. Look, I think it's important to understand. When we think about technology, not only in the modem space but even on the MSM, I think we continue to maintain at least two generations lead over the competition. But I think more important is some of the transitions and trends we're seeing in the market.

I think one of the things is more the Internet is becoming wireless, and you see the 4G transition becoming more mature in developed markets. You see carriers now competing for premium customers. And the transition that we've been talking about, LTE to carrier aggregation, I think that's actually growing faster. So I think you're starting to see gigabit LTE modem that we demonstrated. And we will see from that one, the user from licensing spectrum with the global standard, I think was mentioned by Steve, the LAA, and maybe within the next two to three years an accelerated timeline of deployment of 5G. As we continue to invest and we see those technology transitions ahead of us, we feel very confident that the whole nature of the market is probably going to demand the latest technology and the key devices. So that's how we're feeling about the market and our modem business. Thank you.

**Operator**

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

**Kulbinder S. Garcha - Credit Suisse Securities (USA) LLC (Broker)**

Thanks. I just have a couple of questions. For Derek first of all, at the analyst meeting, Derek, you laid out Chinese OEM revenue of $83 billion this year, and you guys really weren't collecting on I think about 44% of that between what was unlicensed and what was basically under-reported. Just given you've now got 100 of these deals done and you've got some of the negotiations and you're doing your compliance program and auditing as well, should we think about – is the hard work by the end of this fiscal year done that that level that you're not really collecting on today you would have at least addressed through deals and under-reporting, or is this a program and situation that could roll all the way into 2017?

And then for Steve and for Cristiano maybe, on the LTE modem probably the last comment you made, I take the point, by the way, that there's carrier aggregation and everything else. It looks like you lost market share last year in the chipset industry on the wireless side. It probably sounds like there's some risk as we go through this year as well, and I'm just wondering. Does it take till actually 5G comes out and carrier aggregation wouldn't really drive home your competitive advantage, or could the market share for you at some point start inflecting and you start gaining share in this industry again? Many thanks.

**Derek K. Aberle - President**

Kulbinder, this is Derek. On your first question, I think you got the numbers right. The chart that we showed at the Analyst Day was again for fiscal 2016, basically just in your revenue note catch-up from prior periods. And we said if we completed these remaining negotiations with the handful of companies we have left that that would get us to about 75%-ish collection rate on the TRDS, but that we would continue to have compliance issues that we were going to need to work through. And that really is going to be something that we hope to make progress on and expect to make progress on as we move through 2016, but certainly will also be a longer-term project. There's a fair amount of work involved and it's going to take some time. So I think the way to look at it is if we can achieve the results that we hope in the negotiations, we'll have a meaningful step function up on collections, but to get to the remainder of that 25% issue is going to take some time.

**Cristiano R. Amon - EVP, Qualcomm Technologies, Inc.-President, Qualcomm CDMA Technologies, Qualcomm, Inc.**

This is Cristiano. I think maybe to address your question on share, I think it may be important to decompose that question into different segments. One, if you look on the premium tier, we have been – there have been a number of announcements. We've been very confident in the Snapdragon 820. I think we made a lot of progress there. I think even if you look with one of the large customers, both the Samsung Galaxy S7 and S7 Edge that launched in the second fiscal quarter, they're using the Snapdragon 820. And I think we have about 117 designs. We feel good about that portfolio.

And in China, if you look at what happened, when China entered 4G – when we started the transition to 4G, we expected over time, we started with very high share. We expected that to normalize over time. But what we've seen actually in this year, we are doing better than we expected in share in China, and also seeing the impact of those technologies changing the product mix from growth being higher from the low to the mid and high tier, showing that modem continues to be a good point of differentiation even in a growth market like in China.

I think maybe to clarify this, I believe we had said early in the year as we went through the SRP that we were planning so that we could derisk the market concentration in our planning assumptions, I think that's what we're saying. We're planning that we have conservative planning assumptions. But at the end of the day, we're still designing a very competitive product roadmap, and we're seeing good traction in the marketplace, not only on the modem, but the MSM premium tier and the product portfolio that we have been commercializing in China. Thank you.

**Operator**

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

**Timothy Arcuri - Cowen & Co. LLC**

Thanks, I had two. I guess first of all, a question for all of you. Do you worry that we're talking about share loss at the premium tier? And there's some consensus as to who you're going to lose that to on the chip side. And of course, they make their own chips. So do you worry that that becomes a competitive disadvantage over time, having access to world-class manufacturing that your foundry partners, just frankly, aren't able to just keep up?

**Steven M. Mollenkopf - Chief Executive Officer & Director**

So, Tim, this is Steve. I think a couple things. One is just to reiterate that for the purpose of when we plan OpEx and our margin trajectories, we do assume that something will happen, but we're quite confident in our roadmap.

Now right now, our products that we are competing against are really not manufactured by – it's not a vertical play in terms of who we're going after. And then specifically when you look at our foundry partners, they – we're very happy with what we're seeing from a transistor roadmap out in time, actually from multiple sources. So we feel not only can we compete in the modem tier and the connectivity tiers, but even more importantly in computing and even computing going into very high-performance computing, we have the transistors to be able to make that successful. So I think we feel very confident both in the transistor roadmap that we're seeing from our suppliers and also with the business model that we will be in a strong position.

I think also our scale within the fabless industry is actually helping us a lot in terms of pricing. I think that's one of the things you're seeing the benefit of in terms of some of the margin improvement that you're seeing embedded in the business in the second half and even delivered out here in the second quarter.

**Operator**

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

**Stacy Aaron Rasgon - Bernstein Research**

Hi, guys. Thanks for taking my questions. I have two. The first one on the QTL licensing guide, I've got to be honest. I still don't understand why you're guiding like you're guiding. I understand what you're saying. You need to get more collection out. But if your trends of collection, the range of collection right now was the same today as it was when you first gave the guidance, what would the guidance range be? What are we talking about here?

Secondly, it seems to me like you are implicitly guiding your QTL margins, your operating margins into the mid-70% for next quarter, which is lower than seasonal. And I know you said you had some increase in legal and litigation costs, which I assume is what's driving that. So are these compliance-related, or is there something else going on the legal and litigation front that's taking the QTL operating margins down next quarter?

**Derek K. Aberle - President**

Stacy, this is Derek. If you look at the Q3 guide, I think our view has been that we're not going to include in guidance in-quarter deals unless we have clear line of sight to those and they're essentially either done or close to done. And so we've been taking a more conservative approach maybe than we have in the past, and we've been doing that for a couple of quarters now. I think as you see, the guide in Q3 is consistent with that. And I think really if you step back and look at it, the difference may be just the terms of the assumptions and timing if I look at some of the other models out there in terms of what lands in Q3 versus Q4. Because of the way we're guiding, that would essentially mean that more is in Q4 versus Q3 as you look at the profile for the year, assuming we're able to conclude those remaining deals. So that may be part of it.

On the margin question, I just think you're – I'm not sure how you got to your number. That's not consistent with what we're modeling in the business.

**George S. Davis - Chief Financial Officer & Executive Vice President**

I would add that that would be well below our assumption for QTL in any of the remaining quarters. And I think what we've seen is on some of these licensing arrangements, they can be large and lumpy, and trying to forecast what is inherently a negotiation process proved over a number of quarters to be something that either: one, was hard to do; or two, created unnecessary negotiating leverage. And so I think we'll stick with this process. But we have said for the full year in the $7.3 billion to $8 billion that we'll have to conclude some activity on the licensing front to get back within that range because of the softness in the market. Thanks.

**Operator**

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

**Tal Liani - Merrill Lynch, Pierce, Fenner & Smith, Inc.**

Hi, guys. I wanted to understand two things. First, the contribution of LG this quarter, when you guided the quarter, I think that LG was not in. And I'm trying to understand how much of the strength this quarter is related the addition of LG versus your previous expectations and how much is the underlying market.

And then second, this is a broader question. Your QTL is down 11.6% year over year, and I know there was a catch-up payment last year. But if I look at – think about things at a high level, China was not in last quarter outside of the catch-up payment I think from Huawei. This year, this quarter you do have China in. You also have LG in. So why are we seeing – we don't see much higher contribution of China just on a like-for-like basis. Again, the TRDS between the two quarters is down 7.5%, but your revenues are down 11.6%, so you're down more than the TRDS. That shouldn't happen given that China is kicking in this year. So I'm just trying to understand the dynamics of China contribution and why isn't it at a much stronger pace or a much stronger revenue level than we are seeing right now. Thanks.

**George S. Davis - Chief Financial Officer & Executive Vice President**

Tal, just to be clear, the LG settlement happened in our third quarter, so it is not in the second quarter numbers. It will be roughly $200 million. We said it's a couple hundred – roughly $100 million a quarter for the first two quarters that will be catch-up that's embedded in our guidance. And then we'll be back to a run rate with LG. But that's all in Q3. Really, the Q2 item that we talked about was the fact that you had the ALU [Alcatel-Lucent] agreement, which added approximately $250 million. And then we had seen the discontinuation of a licensing amortization of about $100 million in that quarter. Derek, did you want to comment on...

**Derek K. Aberle - President**

Yes, I think just to add to what George said, I think really what we said about LG was it's in the quarters we've talked about, it's been more than $100 million per quarter. So as George said, that is not in Q2. That will be reflected in Q3, both the in-quarter activity for Q3 as well as two prior quarters of catch up.

In terms of trying to do the walk between last year Q2 to this year Q2, George hit on some of that. Obviously, we've got a one-time event in Q2 this quarter with the acceleration of the license fee that came in, the $266 million-ish payment, but then being offset by the fact that LG revenues are deferred, they're not in the quarter. And then we also have the end of this $100 million-ish a quarter amortization that's reflected in this quarter. Plus, as you mentioned, a year ago we had some catch-up payments, about $150 million from the resolution of a prior dispute.

And then the China contribution, China was reflected pretty strongly in a year-ago quarter, meaning that was the last quarter that was reported to us before the NDRC resolution. The effect of that took hold in January of 2015. And so one of the other issues you're dealing with, with the year-over-year comparison is you've got application of the NDRC terms now in this quarter that wasn't a factor a year ago, as well as we saw the amount of units that are being under-reported accelerate throughout the year last year, in particular related to these negotiations where licensees stopped paying. And that was not really a primary driver in a year-ago quarter. So I think that's the walk as probably best we can break it out.

**Operator**

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

**Tavis C. McCourt - Raymond James & Associates, Inc.**

Hey, guys. Thanks for taking my question, a couple of them here. First on the MSM guidance, unit guidance for next quarter, so if I look at that on a year-over-year basis, it's down high teens. And obviously you're gaining some share at a major customer. I assume all of that cannot be related to unit weakness at the other major customer. And yet everything I hear so far is China is good, China is good. So help me with that disconnect. What's driving that unit growth in light of some share gains at one of your – or unit decline year over year in light of some share gains at one of your larger customers?

And then secondly, to help me get to that 16% operating margin guidance for June, should we expect a more material change in the R&D or SG&A line item as we go from Q3 to Q4 than we've seen earlier this year? Thanks.

**George S. Davis - Chief Financial Officer & Executive Vice President**

Sure. On the MSMs, as you look at year over year, there's definitely a significant delta from one major customer that is contributing. And what you're seeing in China is a shift in low/entry to mid and high, and so it's one of the reasons why you're seeing strong pickup in revenue per MSM in the quarter. So it's a story more of mix shift. It's pretty neutral outside of that. And so the low tier units, they tend to be more of those low-tier units that we're trading off, but we're picking up a significant amount of mid-high.

In terms of OpEx, we expect OpEx to continue to decrease into the fourth quarter, but I think some of the comparisons that you may be doing would be looking at R&D period over period. But in one period, we didn't have the CSR OpEx; in the other period we do. So just make sure you're doing an apples-to-apples comparison because we've already seen a fair amount of the reduction already in the base level OpEx.

**Operator**

Your next question comes from the line of David Wong with Wells Fargo. Please go ahead.

**David M. Wong - Wells Fargo Securities LLC**

Thanks very much. A clarification, the LG resolution of the dispute, did it actually end up in any of the terms of the payments from LG changing? And if so, are there any adjustments to prior periods that you've already recognized payments from LG?

**Derek K. Aberle - President**

This is Derek. No, there are not any. The deal will not result in any modifications or changes to revenue that was previously recorded by the company. And as we said, really the results of this will be reflected in Q3, not in Q2.

**Operator**

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

**C.J. Muse - Evercore ISI**

Good afternoon. Thank you for taking my question. I guess two questions. First on OpEx, your fiscal year guide implies OpEx down 7% in September. I'm curious if that's right, and what we should think about going into the December quarter.

And then secondly, with the nice uplift to ASPs for MSM in the June quarter, I'm curious how we should think about that heading into the back half of the calendar year as you layer in both the high-end as well as mid-level handsets. Thank you.

**George S. Davis - Chief Financial Officer & Executive Vice President**

Yes, we said for the full year on OpEx, if you just look at the reported numbers, we'll be down 2% to 4%, but we have about a 5% impact from acquisitions. So it would be down in the range of 7% to 9% year over year. And as I said, we would continue to expect some cost reduction continuing through the back half of the year just on some of the actions that have taken place.

In terms of revenue per MSM, as I said earlier, I think the dynamics that are driving the significant pickup that we are seeing in Q3 remain in place for Q4, very good mix, strong demand for our premium tier, again, a shift from low tier into the mid and high tier, and then some softness certainly comparatively year over year on thin modem volumes, which tend to depress revenues per MSM.

**Operator**

Your next question comes from the line of Edward Snyder with Charter Equity Research. Please go ahead.

**Edward F. Snyder - Charter Equity Research, Inc.**

Thanks. Steve, you said that the forecast for QCT margins include expectations for second-source at your largest customers. Are we to imply from that statement that the mere mention of it means that it will be material in either units or margins, or do you see it more as a headline risk?

And then along those same lines, since we are talking about Intel, it is true that every modem they've shipped so far has been fabbed at TSMC. But does your calculus on competition or market share change if they move that modem into their own process, or does it have no bearing at all on your outlook? Thanks.

**Steven M. Mollenkopf - Chief Executive Officer & Director**

Ed, I think on the second question, it really doesn't bear much to it. The modem business is all about feature leadership and RF, and it's really about technology breadth and technology complexity. It tends to be less about die size and those things. And first to market, first to market with complexity tends to be the thing that leads the most.

I think on your first question, it's really a communication of a planning assumption and also confidence in us meeting our long-term trajectory, both in this year and outside of this year with that assumption. I think it's important to make sure people understand that. We do feel very confident, though, in our position in the modem segment.

**Operator**

Your next question comes from the line of Kevin Cassidy with Stifel. Please go ahead.

**Dean Grumlose - Stifel, Nicolaus & Co., Inc.**

Hello, this is Dean Grumlose calling in for Kevin. Thanks very much for taking my question. I have seen numerous announcements of infrastructure and ecosystem progress with ARM-based server effort. Can you provide any additional color of your progress in ARM-based servers at this time, and when we might possibly see products or initial revenues?

**Derek K. Aberle - President**

Kevin, this is Derek. We went into some detail on the server opportunity that we're pursuing a couple months ago at the Analyst Day. And so we feel very good about the opportunity there. Not only is it a big and growing opportunity, but we feel like we're very well positioned to be successful in going after it. We're looking – we have some development platform out that's in customers' hands today and we're getting feedback on that, and that's going quite well.

In terms of commercial product, basically our assumption is that we will be shipping samples towards the end of the year, and revenue would be something that would flow through mid to late next year.

**Operator**

Thank you. That concludes today's question-and-answer session. Mr. Mollenkopf, do you have anything to add before adjourning the call?

**Steven M. Mollenkopf - Chief Executive Officer & Director**

Yes, thank you. I want to thank everyone for attending the call today. We had a stronger than expected quarter, and are executing well on our plans to position the company for the next phase of profitable growth. We continued to make good progress on the licensing side in China, and this remains a key focus area for the company. We are also seeing positive impact of new product releases in QCT along with the efficiency gains from our realignment program.

In closing, I want to thank our employees for their hard work and commitment as we move forward to capture the many exciting opportunities ahead. Thank you.