Thanks Warren and good afternoon everyone. We're obviously off to an excellent start in fiscal 2013 and pleased to report a record quarter driven by strong year over year growth in both our QCT and QTL businesses. Revenues were up 29% and non-GAAP earnings per share were up 30% compared to a year ago. In QCT, we delivered record chipset volumes which included eliminating the constraint on 28 nanometer devices as we had expected. In addition, QCT continues to drive technology and product leadership as we announced the new Qualcomm's Snapdragon 800 and 600 processors, featuring ultra-high definition video playback and capture and our latest generation micro-architecture with clock speeds up to 2.3 gigahertz per core, the 800 processor is class leading and we continue to set the bar for the smartphone user experience.

Turning to QTL, our licensees reported stronger than expected total reported device sales as the broad based adoption of 3G and 3G/4G products continues driven by strength in smartphones. We continue to invest and innovate across a broad set of technologies and believe that our patent portfolio applicable to 3G and 4G products is the most widely licensed in the industry. In fact, we have now over 225 CDMA licenses and - licensees – and more than 40 royalty bearing single mode OFDMA licensees.

And with respect to our display business, we recently announced an expansion of our display arrangement with Sharp in order to accelerate the commercialization of our Pixtronix MEMS displays utilizing Sharp's IGZO technology with the goal of driving high performance, lower-power displays from a variety of devices, including smartphones and tablets.

Our Pixtronix technology uses the MEMS-based shutter system to deliver color performance similar to OLED with wide angle view ability and lower power consumption than LCD or OLED. As we previously indicated, we are increasing our focus on licensing our display technologies, including our next generation Mirasol display technology while at the same time directly commercializing certain current generation Mirasol displays.

Looking forward we believe our long-term growth drivers remain intact. Smartphone demand remains strong. Gartner estimates that approximately 169 million smartphones were shipped in the third calendar quarter of 2012 representing a 47% year-over-year growth. In China alone, Gartner estimates that approximately 47 million smartphones were shipped in the third calendar quarter of 2012 representing greater than 115% year-over-year growth.

In the U.S. both AT&T and Verizon Wireless recently reported a healthy fourth quarter – fourth calendar quarter smartphone sales with close to 20 million units between them. And in emerging markets, Wireless Intelligence estimates that there are now more than 1 billion 3G 4G connections, representing 34% year-over-year growth. In China in particular Wireless Intelligence estimates that there were 325 million 3G connections, including [one act] (ph) at the end of 2012 which represents 49% year-over-year growth.

Now this brings 3G penetration to 29% in China, so excellent progress and still plenty of opportunity ahead. China Mobile recently announced a pre-commercial trial for LTE TDD and Qualcomm chipsets were in 14 out of 31 devices selected for the trial. In addition, I recently attended China Telecom's annual handset fair where they discussed having 480 CDMA 2000 ecosystem partners and their goal to have 200 million mobile subscribers by the end of 2013. And there are currently over 0.5 billion CDMA 2000 connections globally according to Wireless Intelligence.

With the increased penetration of the data centric devices and higher usage, we continue to see robust growth in wireless data. In order to address this growing demand we remain focused on addressing what we call the 1000x data challenge. We're working to expand the wireless data capacity by a 1000 times from its current level. We believe that small cells operating and license spectrum band and using advanced interference management techniques on a dynamic basis will be an important component in meeting the challenge. There was positive progress on this initiative in December when the SEC proposed to convert the 3.5 GHz band into a dedicated license spectrum band for small cells.

Additionally, operators continue to use the advanced network technologies, such as LTE to help address growing demand for data. Globally the number of LTE operators has now reached 145 according to the GSA representing greater than 200% year-over-year growth, and Wireless Intelligence estimates that global 4G LTE connections which run on multimode 3G, 4G devices reached approximately 60 million in the fourth quarter of 2012, up more than 500% from the prior year.

Finally, we continue to see the opportunity for non-handset devices as positive for our business. In early December at Dell World, Dell highlighted upcoming support for multimode 3G, 4G and the XTS 10, their Windows RT based tablet as well as across their portfolio of business tablets and notebooks. In addition, auto manufacturers are now announcing multimode 3G, 4G connectivity in new models and together with AT&T we announced a plug and play development platform based on Gobi that will enable a wide range of applications and devices to connect to AT&T's network.

To conclude, we've completed a record quarter at Qualcomm and we're pleased to be increasing our fiscal 2013 guidance. We are continuing to execute against our strategic priorities and we look forward to addressing the growing set of opportunities ahead.

So, thanks, and I'll now turn the call over to Steve Mollenkopf.

Steve Mollenkopf

Thank you, Paul, and good afternoon, everyone. Our QCT business had another great quarter, with record MSM shipments, revenues and operating profit. Revenue and operating profit were up 34% and 45%, respectively, versus a year ago.

We shipped 182 million MSM chipsets above our prior expectations, reflecting strong demand across our portfolio, including China - emerging account shipments, which more than doubled year-over-year, and multimode 3G/LTE shipments up more than 90% sequentially.

We were pleased to see our chipsets driving many of the flagships smartphone models announced this holiday season, including the Google Nexus 4, the LG Optimus G, the Nokia Lumia models and Samsung Galaxy S III and [Xperia S] [ph], the HTC Droid DNA 8X and 8S, the Motorola RAZR M and the Sony Xperia T and TL.

With our leading technologies broad product roadmap and relationships with all the top OEMs in the industry, our design pipeline continues to grow. There have been more than 600 Snapdragon-based devices announced and another 170 plus devices announced based on our Qualcomm Reference Design solutions.

Looking ahead, there are more than 450 Snapdragon-based designs in development and over 100 plus designs based on our QRD solutions. As you know, our strategy is to set the technology design point for our industry and we have succeeded again with our recently announced Snapdragon 600 and 800 chipsets.

Our new Snapdragon 600 processor builds on the momentum of our highly successful S4 Pro processor. The 600 includes our new Quad Core Krait 300 CPU running up to 1.9 GHz and our Adreno 320 GPU.

Our new Snapdragon 800 processor includes our new Quad Core Krait 400 CPU running at up to 2.3 GHz, our new Adreno 330 GPU with two times the compute performance of our Adreno 320. The third generation of our leading LTE modem which adds LTE Advanced and Carrier Aggregation support, as well as integrated 802.11ac Wi-Fi.

In addition, the Snapdragon 800 is the first chip in the industry to use TSMC's 28-nanometer HPM Advanced process technology. We expect Snapdragon 600 and 800 chipsets to deliver up to 40% and 75% better performance, respectively, than our previous industry-leading Snapdragon S4 Pro.

There are already more than 90 designs in development using the 60 -- 600 and 800 processors, and we expect commercial devices based on the 600 in the second calendar quarter of this year and based on the 800 in the middle of this year.

We are also continuing to invest and grow our business in emerging regions, and with our differentiated technologies and products we believe we are well-positioned versus the competition in this segment as subscribers migrate from 2G to 3G and multimode 3G/LTE.

Last week in China, we held our bi-annual QRD event with participation by 145 OEMs and ODMs. We had multiple emerging accounts including Yulong and Tianyu announced handsets based on the Snapdragon 8x25Q, making it the first quad-core chip for high-volume 3G smartphones. There are now over 60 8x25Q designs in the pipeline from over 25 OEMs.

Separately, we have also announced the Reference Design for our 8x30 chipset which contains Dual Krait CPUs integrated LTE, TDD and TD-SCDMA, and support for all operators in China.

Also of note, the first TD-SCDMA device based on the Snapdragon processor was launched by Nokia in the December quarter on time.

Our mobile connectivity design traction continues to grow with 400 plus devices based on our 28-nanometer S4 and Snapdragon 600/800 products. We also announced our first NFC chipset with a new tri-band 802.11ac/ad Reference Design and our StreamBoost Technology to intelligently optimize home network performance.

We're off to a great start in fiscal 2013 with exciting growth opportunities ahead, including continued global smartphone and multimode 3G/LTE demand. We continue to manage our business for long-term revenue and operating profit growth and we continue to see the year unfolding broadly in line with our initial expectations.

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

Bill Keitel

Thank you, Steve, and good afternoon, everyone. We had record quarterly results and we are pleased to be raising our estimates for fiscal 2013 revenue and earnings per share. Our record first quarter revenues of $6 billion were up 29% year-over-year and at the high-end of our prior guidance.

Non-GAAP operating income was a record $2.45 billion, up 31% year-over-year. Non-GAAP earnings per share were a record $1.26 per share, up 30% year-over-year and $0.14 above the midpoint of our prior guidance.

QTL contributed $0.06 of gross margin improvement driven primarily by greater than expected 3G, 4G device shipments. QCT contributed $0.05 of gross margin improvement on the strength of higher MSM shipments and favorable product cost. More operating expenses contributed $0.02 and higher returns on our cash and marketable securities contributed $0.01.

Total reported device sales reported by our licensees for last September's quarter were a record $53.3 billion above the high-end of our prior guidance, greater than expected device shipments in both developed and emerging regions, particularly China. We estimate that total reported device sales were comprised between 233 to 237 million 3G, 4G device shipments at an average selling price of $224 to $230 per unit.

QTL's operating margin was 87% and we shipped a record 182 million MSM's during the quarter, exceeding the high-end of our prior guidance and QCT's operating margin was 26%.

As I mentioned at our Analyst Day in November, we are seeing more efficiency in the 3G, 4G inventory channel as the industry continued to move toward an open retail channel versus a carrier centric channel, consistent with that trend our MSM delivery interval has been shortening, which introduces additional volatility in the timing of shipments and therefore impacts our ability to accurately forecast quarterly MSM shipment timing.

Non-GAAP combined R&D/SG&A expenses were lower sequentially, which was a bit better than our prior expectations. Operating cash flow was a healthy $2 billion, up 11% year-over-year and 33% of revenues.

During the first quarter we return $678 million to stockholders, including cash dividends of $428 million and $250 million to repurchase 4.3 million shares. We are increasing our estimate for calendar 2012 3G, 4G device shipments to between 915 million to 940 million units, up approximately 17% year-over-year at the midpoint. The increase to our calendar 2012 estimate is driven by global demand for 3G 4G devices, particularly in emerging regions, including China and Latin America.

Turning to our guidance, given continued global macroeconomic uncertainties, we are continuing to maintain a cautious outlook for the year ahead. We are reaffirming our estimate for calendar 2013 3G, 4G device shipments of between 1 billion and 1.07 billion units, up approximately 8% to 15% year-over-year. We are raising fiscal 2013 revenue guidance by approximately $4 million. And we now expect fiscal 2013 revenues to be $23.4 billion to $24.4 billion, up approximately 25% year-over-year at the midpoint. We are raising our non-GAAP earnings per share guidance by $0.13. We now anticipate non-GAAP earnings per share of $4.25 to $4.45, up approximately 17% year over year at the midpoint.

We're also raising our guidance for GAAP earnings per share by $0.21, and we now expect GAAP earnings per share of $3.61 to $3.81, up approximately 6% year-over-year at the midpoint. We are reiterating our prior fiscal 2013 guidance estimates for QTL ASP, QCT and QTL operating margin percentages as well as non-GAAP combined R&D and SG&A expense growth. We estimate our non-GAAP annual tax rate to be approximately 17% to 18% for fiscal 2013 below our prior estimate reflecting the retroactive extension of the federal R&D tax credits among other factors. The R&D tax credit benefit related to fiscal 2012 will be recorded in our fiscal second-quarter and consistent with our prior guidance will be excluded from non-GAAP results.

Now turning to the second fiscal quarter, we estimate revenues of $5.8 billion to $6.3 billion, up approximately 22% year-over-year at the midpoint. And we estimate non-GAAP earnings per share of $1.10 to $1.18, up approximately 13% year over year at the midpoint. We expect second fiscal quarter GAAP earnings per share of $0.98 to $1.06 per share. We expect total reported device sales by our licensees to be $57.5 billion to $62.5 billion, up approximately 16% year-over-year and up approximately 13% sequentially at the midpoint, reflecting again strong 3G 4G based device shipments in the busy December holiday quarter.

We anticipate QCT shipments of 163 million to 173 million MSM chips during the March quarter, down sequentially, which is typical coming off the busy holiday quarter but up approximately 11% year-over-year at the midpoint. Our estimate for 3G, 4G channel inventory through fiscal '13 is consistent with our prior expectations remaining within the 11 to 16 week range as we discussed at our analyst day.

We anticipate second-quarter non-GAAP R&D and SG&A expenses f combined will increase approximately 10% to 12% sequentially, reflecting increased seasonal expenses typical for this time of year, notably employer payroll taxes and increased marketing expenses. We estimate our fiscal second-quarter non-GAAP tax rate to be approximately 16%, lower than what we expect for the full year, because it will take count of two quarters of the retroactive R&D tax credits approved by Washington.

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

Paul Jacobs

Thanks Bill. So before we go on to Q&A, I want to let you all know that Bill has decided to retire from Qualcomm effective March 11. Bill has been a great partner to me and an outstanding leader in this role as CFO for Qualcomm over the past 11 years. His financial readerships played a critical role in establishing Qualcomm as a company known not only for leading-edge technology but also for super fiscal performance and rigorous financial discipline. And over the years helped run QUALCOMM as finance and investor relations organization and himself many distinguished award for excellence in financial reporting.

Under Bill's leadership, the company has achieved unprecedented financial growth and success particularly through some very challenging economic environments. On behalf of the entire executive committee and all our employees worldwide, we really like to thank Bill for his strong financial leadership, partnership and incredible dedication to Qualcomm.

So we wish you all the best. We're pleased that you've agreed to stay at Qualcomm to ensure a smooth transition and will continue throughout the year to serve in the advisory role for the company. So thanks again Bill.

I am also very pleased to announce that after a careful consideration George Davis would join Qualcomm as Bill's successor in our new executive vice president and chief financial officer. George currently serves as CFO for Applied Materials and will join Qualcomm on March 11. George is a seasoned financial executive and has been the CFO for Applied Materials since 2006. We look forward to George's joining Qualcomm executive team and working closely with them. His financial expertise and leadership will be instrumental as we continue to expand our business and strive to deliver strong financial results.

So I like to thank Bill again for his many years of leadership and commitment to Qualcomm, and I look forward to introducing all of you to George in our next quarter's earnings call. So I will now turn the call back over to Warren Kneeshaw. Thanks Bill.

Warren Kneeshaw

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

Question-and-Answer Session

Operator

(Operator Instructions) Mike Walkley from Canaccord Genuity.

T. Michael Walkley - Canaccord Genuity

Bill, best wishes for a wonderful retirement, it's great to have worked with you and my questions are really for Steve, just on the competitive dynamics. Can you update us on how you're seeing your competitors, one, in the low end, a lot of talk about quad-core competition, and then on the high end, on the LTE side, are you seeing any increased competition this year?

Steve Mollenkopf

Hi Mike, this is Steve. I think there is kind of two dynamics, on the high end, it's all about the technology leadership and I think we've been able to keep ourselves in a pretty good position both on the modem side as well as on the AP side. On the low end it's about scale, and I think speed of execution. Both of those things I think are benefits that we bring to the table as well. We've come out with a number of products on the low end. The first one is the 8X25Q which I think has been received quite well. We also announced that our event last week in Shenzhen that we're going to come out with the first of what will become many new low end optimized chipsets, which is the 8X26. There will be multiple chipsets like that coming out over the years. So I think we feel like we've got a pretty good roadmap on the high side and the low side right now. In fact, I would say we're probably biased positively now on share. We just feel – we feel the roadmap and the some of the investments are starting to pay off.

T. Michael Walkley - Canaccord Genuity

Great, thank you.

Operator

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

Brian Modoff - Deutsche Bank

I have another question for Steve, when you say you're positively biased for share, particularly in China, can you talk about how you see that playing out in terms of where you think you're at from the standpoint of low end 3G share in that market and then overall share in that market?

And then another question on yield efficiencies with the foundries and so our check indicate TSMC did 95% yield efficiency on 28 nanometer now. How do you see that playing out for you with regard to your margins for this year? Do you see 28 nanometers being perhaps more cost effective than 45 nanometer this year and what about as you bring other foundries on like GlobalFoundries, do you see that giving you some leverage on your margins and the QCT side of the business? Thanks.

Steve Mollenkopf

Okay. Brian, on the first question, I think, remind me, again that was related to low-end…

Brian Modoff - Deutsche Bank

You noted earlier, we talked about China competitions, you said you're biased on the low -- you're biased positively now on share. Can you quantify that particularly with regard to China, what you see there your market share on the low end and then overall in that market thanks?

Steve Mollenkopf

Well, I think I'll try to stay away from any individual number but what you're seeing in terms of a dynamic is that there is a conversion of 2G to 3G. At the same time, you're getting a conversion to smartphones. So for us, we are picking up new customers and new geographies because those transitions are essentially giving us access to what would be traditionally just 2G volume.

So we've been ramping our ability to address those customers as you know over the last several years and they're starting to play into our hands. Also there has been a push and I think you'll see a push over the next 12 months where technology will be turning over in the large carriers in the world, in particular, in China. And they'll start demanding some of the combination 3G, 4G technology that we have.

And I think that's probably a reasonable set up for us. The technology change has actually always been good for us on the chipset business. Your second question was about yields I think. What's happening with us -- we've actually been quite pleased actually as to how 28 nanometers ramped in terms of yield.

I think Bill also mentioned on -- in his remarks how we had some positive product cost in the last quarter, which was actually a result of that. We're starting to bring on multiple fabs with more gusto now. You will see however at the end of the year, you will see us transition the portfolio into HPM.

So I don't know to a degree that those events sort of produce anything different than what Bill would have talked about in terms of the margin profile but pretty much according to plan, I think at this point.

Operator

Tim Long from Bank of Montreal, please go ahead with your question.

Tim Long - Bank of Montreal

Thank you. Congratulations, Bill, on the retirement, well deserved. You will be missed. Got a two parter for you on the royalty side. First, on the calculated rate, I know it does move around but by my numbers it went down about 10 basis points sequential. So just curious if there's anything abnormal in there other than just mix?

And then secondly, I just want to bring you back to something you had mentioned at the analyst day where there was the potential for 25% unit growth in the fourth quarter, that's what you typically see. It looks like the midpoint of the guidance is a good amount below that. Could you address why, is that just because the September quarter was maybe more than seasonal or was there some other reason why we're looking like mid high teens sequential in the fourth quarter when we normally see more? Thank you.

Derek Aberle

Hey, Tim. This is Derek. Let me take your first question on the rate. I think we were finishing last quarter around 338 and you're right we're coming in a bit lower this quarter at about 33. It's really a function of the things that we've talked about in the past but this quarter probably the biggest driver is the fact that we had record TRDS and in fact that came in higher than we expected.

And so that given the fixed licensing fees that roll through and the infrastructure royalties that grow at a slower pace is going to have, kind of, downward pressure on the rate. So that's really the primary driver. We also had some other fluctuations including lower audit recoveries and mix in there. But that's really the primary driver.

Bill Keitel

Tim, this is Bill. On the -- take us back to the analyst day and looking for upwards of 25% unit growth from the September to December quarter, the difference we see now, our midpoint estimate is about 17% growth, third quarter, fourth quarter and a bit lower than we were previously expecting.

But it's the result of a very strong September that came through in our licensee reports.

Tim Long - Bank of Montreal

Okay. Great. Thank you.

Operator

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

Rod Hall - JPMorgan

Yeah. Hi guys. Thanks for taking my question and congrats on retirement, Bill. So just -- first of all, I wanted to revisit 28 nanometre situation. I think the numbers suggest that you guys cleared some backlog in fiscal Q1 to December maybe a good chunk of it. And I just wondered if you could comment on, maybe, Steve, you could comment on the backlog status as we head into fiscal Q2. Is most of that now cleared or is some of your guidance including some backlog clearance, so that would be helpful if you could help us understand that.

And then, Bill, I guess this is my last chance to ask this one but could you comment on your underlying GDP growth expectations in your forecast now or is it changed since you guys reported last quarter. And Steve, if you could comment maybe on the 8X26 shipping date as well. And I don’t know if you want to comment on that but you’re just curious whether that devices with that product could ship in the middle of the year, we’re still looking sort of towards the end of the year when those devices would ship into the market. Thanks.

Steve Mollenkopf

This is Steve, I’ll just knock those out pretty quickly. In terms of a 28 nanometer, we -- I think we’d probably clear that sometime in the middle of the quarter that we just reported on. There was some discussion in the industry about some of the OEMs also having some constraints outside of our part, touchscreens and things like that, You probably read as many as I have on that. But I don’t know to a degree that that’s been cleared or not. The 8X26 just to finish up, [is really] [ph] end of this calendar year.

Bill Keitel

And Rod, Bill here, on the GDP growth estimate that’s underlying our current plan it’s unchanged from the time of the Analyst Meeting. The time of the Analyst Meeting consensus GDP worldwide among economist was 3.4%. And we thought that was a bit rosy. We based our plan on the 3% world GDP. Recently, our consensus economist were down to 3.2 and we're maintaining our basis of 3% worldwide GDP growth for 2013.

Rod Hall - JPMorgan

Great. Thanks, Bill.

Operator

Ehud Gelblum, Morgan Stanley. Please go ahead with your question.

Ehud Gelblum - Morgan Stanley

I appreciate it. Bill, definitely will be missed. Thanks for all the help and time over the years. Have fun in retirement. Couple of questions, question one when I look at your guidance for the TRDS and back it out of your full guidance -- full year guidance, I'm sorry, future guidance for the full company and then sort of back into a QCT guidance and then look at your unit shipment guidance for next quarter, you could sort of back into what you're thinking about ASPs. It looks a little bit like your guiding ASPs, Steve, to be up next quarter is where I'm going MSM shipments and I just want to make sure that the math is correct. And that you're sort of looking for ASPs in chips to go up at least one more quarter, and if so, if you can give some color on the variability behind that and what happens going forward.

And then Bill, on margins for QCT, at the analyst day again I think you had guided to somewhere around 18.5% to 20.5% for the full fiscal year, for now at 26% for Q1, last year we saw something similar, we saw about 23, and we kind of came down through the year but we have that funny thing with 28 nanometer that made the operating margin at the end of the fiscal year a naturally low. Do you still think you will end up, I mean you made the comment that that's unchanged from 18.5 to 20.5%. We've got to start pulling some 13%, 14%, 15% operating margins to get us back into that range and we start off the year so strong at 26%. I guess I am saying is do you still really believe that and if so, why would it get that low at the end of the year?

Bill Keitel

This is Bill. I will take both of those questions. On the MSM ASP, the expectation there we had expected to increase a bit sequentially in the first fiscal quarter and we successfully did that. And yes, you're right. We do expect another increase sequentially in the second fiscal quarter, somewhat of a pattern we're expecting for the full fiscal year for QCT.

On the QCT op margins, we are holding to that guidance range that you gave. For the second quarter -- second fiscal quarter we're expecting a fairly significant dip in the operating margins, it's based into the guidance we gave in a plus minus 17% kind of range. So -- and the decrease there are drivers. Number one is the volume, we do expect a decrease in MSM volume in the second fiscal quarter. Number two, QCT carries the bulk of the operating expense in QUALCOMM and at this time of year where we start employee payroll taxes and market expenses typically tick up in the December and January -- starting in January relative to the December quarter. Thirdly, it's the time of year where we typically do our price resets in the QCT business and then lastly, the QCT team has a fairly high degree of activity of new product work ongoing. And so we expect that to drive up the product costs starting with this quarter.

Ehud Gelblum - Morgan Stanley

Can you give us a percentage like you do sometimes as to what percent of R&Ds kind of go into future looking type of revenue or is that something that's not really quantifiable?

Bill Keitel

I would just repeat what we said at the analyst day that we've got approximately 30% of our current R&D going towards projects that we don't expect to deliver revenue in fiscal 2013 – excuse me 27%, it was 30% to year prior, came down to 27% is our current expectation.

Operator

Simona Jankowski from Goldman Sachs.

Simona Jankowski - Goldman Sachs

Just a couple of questions. One is more on the short term chipset guidance. I understand that you are expecting some normal seasonality there. But it seems that the decline that you are expecting is perhaps not as conservative as I might have expected. And you have the seasonality factor, you've also got one of your big customers Apple whose implied decline in the March quarter is about the same magnitude as the total number that you are guiding to. And so I am just wondering if you are accounting for the normal seasonality kind of outside of that one customer especially given that there may have been some excess inventory in China and also given Q4 or calendar Q4 was larger than normal for you because of the shortage alleviation, on the other side of that wouldn't we see bit more of a correction in the March quarter, and then I have a longer term question as well.

Paul Jacobs

Okay Simona, on the Q2 chipset guidance -- fiscal Q2 guidance, we did factor in seasonality. The last few years we often see a dip going into the March quarter but relative to 5, 6, 7 years ago as not much as we used to use back then. So we have taken account of that. We also think that the channel inventory is being managed pretty tightly. So hopefully we're right on that estimate and therefore may be a bit less dip than what you otherwise would see. If you're call from the analyst day, many of our customers are relying on us much more for their inventory needs and you'll see that when you look at our – get through our financials our inventories grew pretty nicely in the December quarter in line with what we wanted them to go.

So I think we've got Q2 pegged pretty well, albeit keep in mind that the order interval has decreased and so there is more volatility in that MSM number. And you had a second question?

Simona Jankowski - Goldman Sachs

Yes, just the second question was an update on the tablet market. Do you have a sense for what percent of the tablets are shipping with 3G and 4G attached in them right now as opposed to WiFi and based on the build you're seeing where do you think that might be a year from now?

Derek Aberle

Simona, this is Derek. I think the percentage of total unit sets that have been shipping with 3G attached has been relatively stable with, it's kind of bounced around a little bit and maybe come down in the last couple of quarters some. But as we explained at the analyst conference, I think Paul went through this in his presentation we're really hoping and expecting that to change course going forward now that we see a more flexibility on the operator side with data plans and hopefully more competition in the tablet device base with Windows RT and some of the new Android tablets coming in.

Operator

Stacy Rasgon from Sanford Bernstein.

Stacy Rasgon - Sanford C. Bernstein

Question on the annual guidance, are you taking annual EPS off pretty much by less than you just beat, and you have a lower tax rate going forward and the OpEx has basically unchanged. I am just wondering why that annual EPS guidance wouldn't be higher, doesn't feel like that you are guiding to any sort of lift at all into the back half of the year. If you can, one more question if you could revisit that inventory question, I know you're talking about customers relying on the need to take more but at the same time you built quite a bit of inventory in the quarter, where -- in front of a quarter where chipsets were going down, if you could just help us and rationalize on what's actually going on with your own internal inventories, that would be very helpful.

Bill Keitel

Sure Stacy, first on the EPS guidance, correct, relative to our midpoint for Q1 we came in $0.14 higher and relative to the full year, relative to the midpoint we're raising our guidance by $0.13. So in some of the words that we are seeing is that although we saw a little nice improvement here in the first quarter, we're cautious on the remaining three quarters given the macro environment and so we're not adding to the improvement at least at this point for the full fiscal year.

In terms of the tax item that you mentioned, yes there was a positive on -- because of the R&D tax credit extension. But if you recall though, what we have here on the outlook is better for QTL, pretty close what we previously had for QCT. And that imbalance raises our tax rate.

And so that was able to -- with the R&D tax credit extension, we were able to offset that. There were other few, other items that weren't that material, so I didn't mentioned them. For example, foreign exchange in this outlook relative to budget hit us about a penny. So you've got some small things that are offsetting the benefit, R&D tax credit extension. But from an operating standpoint, I think it's a pretty solid $0.13 raise for the full year.

Stacy Rasgon - Sanford C. Bernstein

And in inventories?

Paul Jacobs

And on the inventory, yeah, we have increased our inventory. Remember now, we are increasing -- we've got a higher end product that we've got a lot of demand for which of course, that aligns with our guidance that we do think average revenue per MSM is going to be increasing here into the second quarter, in fact into the full fiscal year.

So, yeah, our inventory is growing. We have been relatively short on inventory given the 28 nanometer production shortfalls relative to demand. Now that's caught up and so with the boost in our inventory, I think we are going to be better positioned now to handle the fluctuations that we typically see in customer order demand.

Stacy Rasgon - Sanford C. Bernstein

Right. Very helpful. Thank you, guys.

Operator

Matthew Hoffman from Cowen & Company. Please go ahead with your question.

Matthew Hoffman - Cowen & Company

Bill, congrats on a job well done. So, I'll get one last question here for you. The largest change in the regional forecasts was the uptick in China. Can you kind of give us some color on whether TD-SCDMA and an uptick there really affected your view and the forecast?

And this one is maybe for Derek. As TD-SCDMA moves up the value chain here later this year when we start to see more of high-end offering in c, will that have a positive impact on the royalty rate assuming a greater portion of the Chinese market has multimode phones and maybe even some export? Thanks.

Bill Keitel

Matt, this is Bill. On the first one on China, I think it was a pretty broad-based. Yeah, we did, we are updating our estimate a bit, improving our estimate for TD-SCDMA. But the strength across all the three operators is quite strong. CDMA2000 is going very strong. Take it back to the remarks that Paul gave earlier.

And then China Unicom with WCDMA, so I think it's pretty widespread. China is going quite strong for 3G, 4G devices and we've seen that trend, and our updated estimates here are just improving that trend a bit. Much is the same for Latin America. That’s the other market of note I would draw your attention to. We've seen a lot of strength there and just our most recent data points say that that’s likely be a bit stronger than what we had previously been expecting.

Derek Aberle

Yeah. This is Derek. On the TD-SCDMA situation in China, we have been continuing to collect some amount of royalties TD-SCDMA, although as we've said, we struggled a bit with some of the local Chinese companies. But I agree, we do see an opportunity as the volume hopefully migrates at the high end to multimode with UMTS or even CDMA. And then with the trials launching, the inclusion of LTE, that should open up an opportunity for us to collect on a larger portion of the China mobile volume. Not sure it's specifically a rate issue, but certainly an opportunity to grow the revenue base.

Matthew Hoffman - Cowen & Company

Thank you.

Operator

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

Tal Liani - Bank of America

Yeah. I have two questions. The first one is just, I'd like to understand the assumptions about MSM seasonality into our semiconductor seasonality into the second half of the year, because you're assuming and I know we spoke about it. But you're assuming that EPS is going to be down in second half, 20%. This is the first half and in last year it was a much worse year. It was only down 15%. The previous year was down 13%.

So you are assuming that this year is going to be much worse. Seasonality wise, much worse second half versus first half. And I'm wondering about the MSM assumptions, what drives this number up so low and I know you spoke a little bit about. You gave a very detailed answer. So, I want to focus my question just about at MSM assumptions for the rest of the year. Thanks.

Bill Keitel

Okay. Tal, it's Bill. I will pick kind of add and maybe others want to add into it. On MSM seasonality, we do expect, obviously we've given your estimates our guidance for fiscal Q2. And if you just take the midpoint of that, we are expecting a decrease. Midpoints about $169 million MSMs compared to $182 million, we just reported having shipped in Q1.

And going into Q3, at this point we are modeling kind of a flattish number and an increase going into the fourth fiscal quarter. On the cost, how that correlates this year to our earnings per share as compared to prior years. Recall that in the last couple years, QTL earnings strength has been very strong at least in proportion to the QCT earnings strength whereas this year, although we are looking for both business segments to grow at a double-digit rate, we are looking for QCT growth to be substantially greater than the earnings growth coming from QTL.

Tal Liani - Bank of America

Okay.

Operator

Kulbinder Garcha from Credit Suisse. Please go ahead with your question.

Kulbinder Garcha - Credit Suisse

Thanks. And congratulations to Bill, again, on the job well done. On QCT, I understand some of the drivers with respect to the margin declined. I guess the question I have for Bill and Steve is the level of market share that you guys have in LTE, the mix shift that you are seeing on the ASP side is going to probably continue, should be positive drivers throughout the year as well. So, just the magnitude of the QCT margin pressure seems surprising to me.

A reason why just the margins are top three higher levels, maybe they do drop suddenly 17% or 18% in the coming quarters seems quite extreme. So, I'm just trying to understand why that isn't more of the positive driver or are you taking something aggressive on the pricing side mean on mean whether we think.

And then a question for Derek, specifically, on licensing. There is a building sense now and it's becoming quite clear that you are going to sell maybe 200 million, maybe 250 million 3G enabled smartphones from the Asian Taiwanese chipset community whether it's Mediatek, Spreadtrum,, et cetera and you guys should be able to license those phones.

How much of that market have you actually assumed? You can license in this year's guidance. Are you being cautious because it's a different ecosystem to license, or if there is a significant amount that are embedded into your estimates and how. Any sense around that would be helpful?

Bill Keitel

Kulbinder, first on the QCT margins. It's Bill. I gave the four major drivers for the decrease that is built into our estimates. I'm not going to – we will stay away from assigning a value to any one of those four. I will have to suffice to say that we're very comfortable with our forward plan in the business. It is a large decrease in the operating margin, but it is as we've said in the past we're going to see quarterly swings. Nothing's changed on what our three to five-year goals are for the QCT business nor our ability -- our sense of our ability to achieve those goals. So there are a lot of factors obviously, but I would just – the pricing that we give is very thoughtful, very well considered and it's always with the mind towards where we're going to be looking a few years out.

Derek Aberle

This is Derek and go ahead and take your second question. So there isn't really a different base of customers that are buying from Media Tech or others. We have now as we talked about I think more than 70 companies licensed in China and pretty much all the major suppliers in Taiwan have been licensed for quite some time. And those agreements require them to pay royalties regardless of whether it's our chip or anybody else's chip. And so when we think about the market and we give our projections we're really trying to capture the entirety and I feel very confident that maybe with the exception of some of the TD-CDMA volume that I spoke about a few minutes ago, we're really well-positioned to capture the sales of all 3G and 4G devices that are going to be supplied irrespective of the chipset that's in there.

Operator

James Faucette from Pacific Crest.

James Faucette - Pacific Crest Securities

A couple of questions, first touching on the revisions or the lack thereof for 2012 and 2013, Bill, you indicated that you hadn't changed your GDP assumption but yet we saw a pretty substantial revisions up for 2012. So just wondering if there was anything that made you feel more cautious about how that GDP could impact us especially since we are looking at a higher base for 2012. And then Derek, I wanted to follow-up on Kulbinder 's questions I guess related to licensing, in particular on TD-SCDMA could you give us an estimate as to what you think your current coverage or collection portion is on the TD-SCDMA handsets that are being shipped?

Bill Keitel

James on the first one, we did see a very – we're seeing a very nice upside to calendar 2012 3G 4G units, and I would just generally say it's fairly widespread by geography, but it's largely two main drivers. One is the upgrade rate, apparently subscribers upgrading to smartphones or upgrading their existing smartphone is one of the major drivers. And then secondly, we think we continue to see good progress on migration of 2G to 3G. We don't have a specific reason as to why those wouldn't continue to be positive factors into 2013. It was simply a matter of rolling three months into the new fiscal year and we concluded that we have a positive bias in that 3G 4G unit forecasts for 2013 but we thought it was just a bit early in the year to be raising our estimates there. We thought let's wait another three months to see where we are at that time.

Although we’re very pleased obviously with the total 3G 4G market, I think we all have to be cautious given the macro-economic environment that we’re all seeing here. So I would just say positive bias but not enough at this point to cause us to raise those estimates.

Derek Aberle

James, this is Derek. Let me take your second question. The information on the TD-SCDMA volume in China is a bit difficult to get your arms around completely at times. And I don’t have – I can’t give you a specific percentage today. I will say that as time has gone on and there has been shifts in the supplier base, the percentage of total unit is as best that we can tell that we’re collecting royalties has come down over time. But then as you go forward as I said, there are some trends that are going to shift things we think back in the other direction, higher percentages of these devices that are going to be multimode with either LTE or UMPS. So it’s really a bit hard to pin it down.

The other thing just to make sure it's clear, when we give our estimates for unit shipments for the year, what we include is the percentage of total TD-SCDMA that we expect to get reported to us and royalties to paid on.

Operator

Our next question comes from the line of Jeff Kvaal from Barclays.

Jeffrey Kvaal - Barclays Capital

My question, Derek, is for you and I am wondering if you can talk through a little bit big picture about where you feel that we are in the migration from 2G to royalty bearing fill in (ph) and how far along the penetration wave are we, now quickly do you think we might move up that penetration over the course of the next few years? And I think the idea is we have seen some exceptionally impressive growth out of QTL over the course of the last few years, as Bill suggested himself that mix seems to be shifting the other way at least this year, should that continue, how should we think about the growth trajectory in that business?

Derek Aberle

I think what Bill said is we’re seeing exceptional growth out of the QCT business this year but we’re still expecting a significant growth from QTL as well. So we’re not suggesting we're expecting a decline there, it’s more that

QCT is really accelerating. So you got to think about it couple different ways. One is if you look at the unit shipments there is still a pretty decent amount of 2G volume out there that will be shifted over to 3G. When you think about it from a TRDF perspective, meaning the unit times the ASP, actually the volume out there on 2G looks a bit smaller. But I think the opportunity ahead is quite great because we're expecting when those units transition from 2G to 3G they're going to transition at a higher ASP whether that's -- initially we have feature phone although those are rapidly going away, or more likely a low end smartphones.

So as we look at our plan, and we've said we expect continued strong growth in the business over the five-year plan, that's because we see still quite a long runway. I think China still has what about 26% penetration as Paul noted today or comments today. And we've got places like Latin America, Eastern Europe, some very large markets that still have quite a ways to go through the transition and I think as they go that they will go through I think at a higher ASP than some of the early transitions for 3G in the past.

Jeffrey Kvaal - Barclays Capital

Okay. Thank you.

Operator

Mark McKechnie from Evercore Partners. Please go ahead with your question.

Mark McKechnie - Evercore Partners

At the end of the cycle here. But, hey, Bill, your onshore cash grew nicely sequential, I believe, I think, what by the $4 billion or so, am I right? And maybe you could tell me a little -- tell us a little bit about, how that happened and if you feel like, the onshore, offshore cash challenges have subsided a bit here? Thanks.

Bill Keitel

Sure, Mark. Yeah. Total cash grew nicely and more so on the offshore, but offshore -- onshore did increase as well. I think we are clearly in a position where, we are hoping our 10B5-1 program that we have in place will trigger to use up some of that onshore cash. We think we're in a bit of an excess position on the onshore.

But having said that, we're, I think you know our philosophy. We'd like to be very patience on those buybacks and our history has shown that's been the prudent thing to do that eventually will deploy that cash. But at least, historically, we've been able to deploy it in a way that’s a very good return for the shareholder.

On the offshore and your question, more optimistic, I think, I’m just not less optimistic on timing. I think we’ve all seen that we haven't seen any much, let say sufficient cooperation in Washington that is giving me more optimism on an effective corporate tax reform, which is really what’s needed. And clearly the agenda here in the near-term seems it’s going to be consumed with debt ceiling, sequester, gun control and immigration.

However, I’m -- I remain hopeful. I think it can be a good driver to further improvement in the American economy. So I remain hopeful. But my timeframe on hope just moved out a bit.

Mark McKechnie - Evercore Partners

Great. Thanks, Bill, and congrats.

Operator

That concludes today’s question-and-answer session. Dr. Jacobs, do you have any closing remarks.

Paul Jacobs

It’s kind to imagine that this last earnings call I’m going to do with Bill. So I just want to say congratulations again, and thanks Bill very, very much.

Bill Keitel

Thank you, Paul. I’m going to miss Qualcomm greatly, I will. Thank you.

Paul Jacobs

Don’t go too far away from us bro, you’re still part of the family. And of course, we are looking forward to welcoming George at the next call. And I have to say it’s a great time, because the company is really executing extremely well and we’re competing both at the high-end and the value segment in smartphone which are continue to grow globally, really excited about the new products, the new Snapdragons are gaining lot of traction and we’re putting new radio technologies, new processors, new graphics, all sort of things that are getting integrated into those devices, really driving our lead and using our skill to advantage in terms of be able to invest R&D and invest early and drive that. And obviously the licensing business continues to grow strongly.

So, tons of opportunities ahead of us, both in the traditional businesses and in the non-handset devices and so I think, company is very, very well positioned to seize the opportunities we see for the future.

So thanks very much to all of you, and yeah, we'll probably see some of you in Barcelona. So thanks again. Thanks Bill.