Thank you and good afternoon, everyone. Today's call will include prepared remarks by Steve Mollenkopf and George Davis. In addition, Dr. Paul Jacobs, Derek Aberle, Cristiano Amon, Murthy Renduchintala, and Don Rosenberg will join the question-and-answer session.

I would like to highlight that we issued two press releases today, our fiscal third quarter earnings release as well as a release announcing our strategic realignment plan. Both are available on our website along with associated slide presentations. Please visit our website at qualcomm.com to access these along with the audio broadcast that accompanies this call.

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

Thanks, Warren, and thank you all for joining us. Today's call will have a different structure than prior calls given the significant announcements we made today. I will focus my remarks on the strategic realignment plan and some brief updates to the business and industry environment. George will then spend a few minutes reviewing our third quarter financial results and outlook for the remainder of the fiscal year. We will then take your questions.

Today, we are announcing a broad package of initiatives designed to increase stockholder value and position the company for success in an ever-changing industry environment. These initiatives are focused on areas within our control, including making sure we have the right cost structure for the future, a corporate structure that maximizes value and will best position us for the strategic opportunities ahead within a dynamic industry landscape, the appropriate capital structure and level of dividends and share repurchases, the optimal board composition and management incentives, and a capital allocation plan that ensures that our investment dollars are spent in areas with the most promising risk-adjusted returns.

We are also pleased to be adding two new directors today. We intend to add a third new director promptly, pursuant to an agreement with JANA Partners. I will speak in more detail about our two new directors, Mark McLaughlin and Tony Vinciquerra, in a moment.

We are committed to driving meaningful change to improve our near-term performance while preserving our ability to create sustainable value over the long term. These steps are being implemented on an accelerated timeline and are designed to help us improve execution, enhance financial performance, and drive more profitable growth across the company without jeopardizing our ability to retain and build upon our technology leadership position in both our core and new businesses.

Over the last three decades, Qualcomm has thrived as both the company and the mobile industry have grown and gone through a number of significant transformations. We have demonstrated the ability to successfully adapt and change, and that ability will continue to serve as well as we implement our strategic realignment plan and continue to examine any and all ways to maximize shareholder value.

Our strategic realignment plan is designed to enable us to extend our core strengths and deliver value for our customers and stockholders in more efficient and powerful ways. The plan has six key initiatives: number one, aggressively right-sizing our cost structure; number two, reviewing financial and structural alternatives that are available to us that may create stockholder value; number three, reaffirming our intent to return significant capital to stockholders; number four, adding new directors with complementary skill sets while reducing the average tenure of our board; number five, further aligning executive compensation with performance and stockholder return objectives; and number six, making disciplined investments to further our leadership positions and build upon our core technologies and capabilities.

First, I want to address costs. As you know, we have been working with an independent third-party consultant to conduct a comprehensive review of our cost structure across the company. Based on the results of this review, we are taking actions to substantially reduce costs, taking our fiscal 2015 spending base down by approximately $1.1 billion annually. We expect to be operating at this run rate by the end of fiscal 2016.

QCT expenses will come down by approximately $800 million annually, and we expect our QCT operating margin to be 16% or better by Q4 of fiscal 2016 without assuming meaningful improvement in the current industry environment. For the long term, we are continuing to target a QCT operating margin of at least 20%, and our strategic realignment plan provides the basis for us to get there. I will go into more detail on our plan to achieve this in just a moment.

We will also eliminate approximately $300 million annually of spend outside of QCT and QTL, and we'll focus our investments there on a smaller number of the largest, most profitable opportunities, including data centers, small cells, and certain IoE verticals.

This plan still allows for significant R&D in the company. We will continue to spend over $4 billion annually on R&D, focused on continuing to drive the next wave of growth in the mobile industry as well as other opportunities.

Implementation of the plan has begun, and we expect to realize at least $600 million of the plan's annual gross savings in fiscal 2016 and to achieve the full savings run rate by the end of fiscal 2016.

Additionally, we are reducing share-based compensation grants across the company. Annual share-based awards will come down by $300 million. To be clear, this $300 million reduction in share-based awards is in addition to the $1.1 billion in other cost reductions. We expect to incur approximately $350 million to $450 million in restructuring charges associated with these actions.

We have a dedicated team and a detailed plan to achieve the cost targets I just described. We will be updating you on the progress we are making on each quarterly earnings call until it is completed.

First, in QCT, our goal is straightforward, to take down costs without sacrificing our technology leadership, customer commitments, or valuable IP roadmap. Through the comprehensive cost review, we have identified a number of ways to resize and realign our investments so they are directed at achieving that goal. Full-time head count in QCT will be reduced by approximately 15%, which is in alignment with the overall company reductions. Our company resources are being realigned to our highest return businesses, and we'll also make significant reductions in our temporary work force. Our team and organization will be streamlined. We will have fewer office locations overall, and we'll shift some of our resources to lower-cost regions.

We are also reducing our QCT R&D spend. Going forward in QCT overall, we are committing to focused investments on the most differentiated technologies and products that can deliver the highest return on investment. We will be managing costs while maintaining technology leadership, a strong product roadmap, and investment in the most promising growth opportunities.

Second, we continue to see significant opportunities for growth in new areas outside of QTL and QCT. While we are sharply focused on managing costs, we are not sacrificing the future for the present. We are taking a highly disciplined approach to our investments. We will invest in areas where we can apply our existing technology, such as small cells, or areas that are natural extensions of our capabilities, such as data centers.

The third element of our cost reduction program is in SG&A. We are increasing SG&A efficiencies across the company. In the near term, we are combining corporate functions and reorganizing to gain efficiencies from scale. While these specific cost initiatives are expected to be fully implemented by the end of fiscal 2016, the company will continue to examine its cost structure for additional efficiency opportunities.

As you know, we do not provide our outlook for the next fiscal year until our November call, but I do want to share our thinking behind our Q4 fiscal 2016 QCT targeted operating margin of 16% or better. Simply put, we are assuming that industry conditions remain similar to the current environment. Our planning assumptions for this target do not factor in more favorable industry and customer dynamics, particularly related to the back half of next year, that could materialize, nor do they factor in the impact of our pending CSR acquisition. George will review this in more detail shortly.

In light of recent industry developments and other elements of our strategic realignment plan, our board and management team are conducting a fresh review of our corporate structure and financial alternatives to create stockholder value. This review, which is being done with the assistance of outside financial advisors, will include a review of possible business separation alternatives and the potential strategic and capital structure opportunities they may enable as well as additional capital return opportunities and other potential strategic and financial alternatives that may be available to the company to create stockholder value. We expect to complete the review before the end of the calendar year, and we do not expect to publicly comment on this review prior to its completion.

A key element of the strategic realignment plan is our continued commitment to our significant capital return program. We are reaffirming our intention to execute the largest capital return program in the history of Qualcomm. Our objective is to maintain a balance sheet that supports our commitment to stockholder returns while preserving the strategic flexibility needed to compete and drive growth in a rapidly evolving industry. We remain committed to returning at least 75% of free cash flow to stockholders through dividends and buybacks. In March, we announced that we will repurchase $10 billion of common stock before March 2016. This buyback is in addition to our existing commitment to return at least 75% of free cash flow to stockholders going forward. As of today, we have repurchased $6.4 billion of our 12-month commitment, including the $5 billion ASR.

Capital allocation is a subject on which the board and management have been intensely focused, and we will continue that focus going forward. As part of the review of financial and structural alternatives, the board and management will consider changes to the capital return program.

We have a high-caliber board with exceptionally qualified directors who have been actively implementing changes to drive stockholder value. Today we announced that we have added Mark McLaughlin and Tony Vinciquerra to the board. Mark is the Chairman, President and CEO of Palo Alto Networks and was previously the President and CEO of VeriSign, where he helped improve the cost structure and rationalize their portfolio of businesses. Tony was formerly the Chairman and CEO of FOX Networks and Lead Independent Director of Motorola Mobility, where he oversaw a meaningful cost rationalization program. He was also a director of its predecessor company, Motorola, where he was involved in evaluating and implementing its separation. We also expect to appoint a third new independent director. These new directors bring skills, expertise, and experience that will be helpful as we implement our strategic realignment plan.

In addition, the average tenure of the board will come down. General Brent Scowcroft and Duane Nelles have retired from the board. As we previously announced, Sir Donald Cruickshank will not stand for reelection to the board in 2016. Raymond Dittamore has also informed the company that he does not intend to stand for reelection in 2017, assuming he is reelected at the 2016 meeting. On behalf of the company, the Qualcomm board sincerely thanks these valued directors for their years of service. Without question, we are a better company as result of their dedication to Qualcomm and their service to the stockholders.

The board also plans to make changes to our compensation program to strengthen the connection between compensation decisions and the goals of our strategic realignment plan. Accordingly, the Compensation Committee plans to change our executive compensation program so that it is more closely aligned with our operational performance and stockholder return objectives. That means adding return on invested capital as a metric for determining performance-based equity awards. The Compensation Committee also intends to use earnings per share results in determining additional cash bonuses and plans to take stock-based compensation awarded to all employees into account when calculating EPS.

Fiscal 2016 will be a transition year as we continue to implement these initiatives, but we intend to build upon our technology leadership position. Our balance sheet is strong and we have the right assets in place. We have been through industry transformations before, and Qualcomm has always thrived coming out of them. In the process, we have delivered substantial stockholder value. After pioneering digital cellular communications, we pioneered mobile computing, and now also have world-class technology in a number of important areas such as graphics and connectivity.

We successfully evolved our chip business from providing just modems to providing a smartphone SoC platform with a multitude of industry-leading technologies. We are now the number three semiconductor company in the world, with broad presence across mobile, networking, connectivity, and other industry segments. We also navigated the transition from CDMA through the introduction of WCDMA and 3G to the launch and ongoing enhancement of 4G/LTE. We intend to drive the evolution of 5G next.

There are big opportunities in front of us to build upon our technology leadership, and we believe that the plan we are announcing today will set us up well to capitalize on these opportunities. We have recently concluded the NDRC investigation and announced several investments in China that position us well to grow our businesses in China going forward. In addition, we are investing in adjacent opportunities that are already delivering significant revenue for QCT today and which we expect to drive meaningful growth for QCT in the coming years. Finally, our disciplined investments outside of QCT and QTL and our technical capabilities provide the opportunity for us to participate in new high-growth segments such as the data center.

QTL remains a source of strength for Qualcomm, where our IP and technology leadership is unrivaled, with more than 275 3G licensees and more than 140 4G single-mode licensees. QTL will remain a growth driver for the company. We are continuing to invest in leading-edge technologies for the future, wireless technologies as well as a broad set of other device technologies. We also are investing in new technology areas designed to grow and diversify the licensing business beyond 3G/4G devices, and equipment.

We expect strong global 3G/4G device growth to continue, with device sales expected to increase at a mid to high single-digit CAGR over the next five years. We also continue to expect modest declines in global 3G/4G device ASPs over the longer term, consistent with our previous commentary. Finally, we continue to target longer-term QTL margins in the range of 86% to 88%.

We have a growing technology leadership position in QCT. Our product roadmap, which was developed in tandem with leading global network operators, remains at the forefront of the industry. We are an industry-leading innovator with worldwide scale. Our footprint and scale position provides cost savings and leading global support capabilities. We have strong design win traction for new handsets at the premium tier, including among Chinese OEMs.

The current industry environment has seen OEM share shift in the highly profitable premium tier, where the top player continues to take share and where, according to IDC, the top two manufacturers together now have more than 85% share of premium tier shipments.

The current product cycle also has seen certain OEMs pursue vertically integrated strategies at increased levels compared to the past. These developments along with other product cycle issues are currently impacting our business. We have a plan that we believe will allow us to deliver profitable growth in this challenging environment moving forward while we continue to execute on the technology and product roadmaps that position us for future success.

Now turning to our significant opportunities for QCT growth, even as we take down companywide costs, we are equally committed to continuing to strengthen our position in key technologies and capitalize on additional silicon opportunities in smartphones. Cumulative smartphone unit shipments are forecast to be more than 8.5 billion between 2015 and 2019, according to IDC, and we are growing our share of content within devices with new technologies. That requires investments in modem and differentiated IP leadership, technologies that scale across the core smartphone and adjacent growth businesses, and process node leadership with multi-fab support. And we have the scale and technology leadership to drive profitable growth.

We have the best modem roadmap and team, application processor leadership across tiers, and tremendous scale. We are applying our core smartphone technologies into rapidly expanding adjacent opportunities in a disciplined way, carefully selecting the opportunities where we can create the most value and generate the best returns. We already have a significant business in these areas, with fiscal 2015 revenues estimated to be approximately $1.6 billion.

We have identified networking, mobile computing, IoT, and automotive as the highest return areas and will focus our investments there. In fact, we continue to expand our investment in these growth areas. These areas have an addressable opportunity of more than $10 billion today. Based on a mix of third-party estimates and our own forecasts, the serviceable addressable opportunity for these four areas is expected to double by 2020 to more than $20 billion. Our strategic realignment plan combined with execution on growth opportunities and product design improvements provides the basis for our long-term operating margin target of at least 20%.

In summary, with the strategic realignment plan, we have taken actions designed to drive stockholder value, improve performance and execution, and position Qualcomm for long-term success. These steps are being implemented on an accelerated basis, and we will continue to explore additional steps to enhance stockholder value. Our balance sheet remains strong. And with the NDRC review behind us, we moved quickly to significantly increase our capital return program, the largest in our company's history. Shortly thereafter, we commenced a comprehensive cost review that resulted in a $1.1 billion cost-cutting plan that is detailed and actionable and will be at its full run rate by the end of fiscal year 2016.

Investments outside QTL and QCT will be refocused on the highest return areas and reduced by approximately $300 million. Annual share-based compensation grants are also being reduced by $300 million. Our board and management are taking a fresh look at financial and structural alternatives to enhance stockholder value. We are further aligning executive compensation with our performance and stockholder return objectives. We have added new directors and reduced the average tenure of the board, and we are refocusing our investment spend to drive growth while delivering attractive returns.

We have significant opportunities before us, and we are executing on a strategy to realize these opportunities. We are absolutely committed to leading the next wave of mobile computing and delivering profitable growth in new areas beyond the smartphone in order to deliver significant value to Qualcomm stockholders.

I want to thank the Qualcomm employees around the world whose dedication and focus will be critical as we work to implement this plan. Our long-term opportunities are significant, and we have complete confidence in our ability to realize our vision.

With that, I will pass it over to George.

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

Thank you, Steve, and good afternoon to everyone.

Our fiscal third quarter results were in line with our expectations, with both revenue and non-GAAP earnings per share within our prior guidance ranges. In QCT, revenue was in line with expectations at $3.85 billion. And the operating margin at 7.5% was at the low end of the guidance range as stronger than expected share and units in the low tier in China were more than offset by weaker mix in the premium tier. We believe that in addition to reduced demand, sell-through for some of our premium tier customers was weaker than expected, leading to an inventory build, which we now expect to impact QCT MSM demand in the fiscal fourth quarter.

In QTL, total reported device sales by our licensees were $60.4 billion, up 4% year over year, but below the low end of our prior guidance range, reflecting lower than expected reported device shipments. The lower-than-expected reported device shipments were primarily driven by a higher mix of unlicensed three-mode units and the fact that it is taking us longer than previously expected to conclude new license agreements with certain Chinese OEMs.

QTL revenues were up 7% year over year and modestly ahead of our expectations. Audit recoveries and other payments for prior-period activity recognized in the quarter more than offset the impact of lower reported device sales. We estimate that the average selling price of reported devices sold during the third fiscal quarter was approximately $208, up approximately $12 sequentially at the midpoint.

Turning to capital structure, we continued our aggressive capital return program, returning a record $6.2 billion to stockholders in the quarter, including $757 million of dividends paid and $5.4 billion in stock repurchases. These amounts include a $5 billion accelerated share repurchase, which we expect to be completed no later than November. Our shares outstanding were reduced by 3% in the last quarter and 6% since the start of fiscal 2014.

Turning to our fiscal fourth quarter, we estimate revenues to be in the range of $4.7 billion to $5.7 billion, down approximately 22% year over year and 11% sequentially at the midpoint. This outlook puts us at the low end of our previous revenue guidance for the full fiscal year. We expect sequential QTL revenues to be flat to up slightly in the fourth quarter, driven by increased 3G/4G total reported device sales, including from the execution of new agreements with Chinese OEMs, offsetting the absence of audit recoveries and prior-period revenues recognized in our third fiscal quarter. Our outlook also incorporates a continuing foreign exchange headwind.

Let me comment further on our progress implementing the revised licensing terms in China. We are adding new agreements and continue to expect improvement over time in the underreporting we have been experiencing, including collecting on three-mode shipments. However, the timing of executing new agreements and improving the underreporting is likely to remain somewhat difficult to predict. As we evaluate TRDS for the second half of fiscal 2015, we now estimate that TRDS will be lower than previously expected, primarily driven by a higher mix of three-mode devices in China, an increase in share by Chinese OEMs globally, as well as the timing uncertainty relating to new agreements and compliance I just discussed.

Having said that, our outlook for global device sales remains strong, and we continue to believe we will successfully conclude new agreements in China and improve collections over time, consistent with our prior views.

Turning to QCT, we have reduced our outlook for the fiscal fourth quarter on lower shipments, which I will discuss in a moment. We now expect QCT operating margins to be approximately 2% to 4%. The revenue and margin downside to our previous expectations for the fourth quarter are driven primarily by three factors weighing on premium tier demand.

First, we are seeing share concentration in the premium tier impact demand for certain OEM devices that use our chipsets more than our previous expectations. This dynamic led to inventory build in the fiscal third quarter for these OEMs, which is driving reduced demand for our chipsets in the near term on inventory drawdown. Second, we are seeing weakness in demand for our premium tier chipsets from a vertical customer based on a change in the mix of devices that are selling through. And third, lower than expected sell through in China of certain handset models using our premium tier chipsets is impacting demand in the fourth quarter.

Product costs are expected to be modestly higher than previous expectations, as some of the yield-related benefits forecasted on higher volumes will not be realized. We are pleased with our design traction across all tiers, and our view on fourth quarter low-tier unit volume and share in China is consistent with prior expectations.

Let me spend a moment on the sequential change in units. We are guiding to a 45 million unit sequential decline in MSM shipments. This decline is explained by two factors. First, our previous guidance expected MSMs to be down sequentially by 10 million to 15 million units in the fourth quarter. And the addition of 5 million units into the third fiscal quarter brings the anticipated impact closer to 20 million units. Second, the remaining approximately 25 million unit reduction is largely explained by the premium tier developments I explained a few minutes ago.

Turning to our earnings outlook, we estimate non-GAAP earnings per share in our fiscal fourth quarter to be approximately $0.75 to $0.95 per share. Fiscal 2015 full-year earnings guidance range is $4.50 to $4.70 per share.

While it is too early to forecast fiscal 2016, the strategic realignment plan is designed to deliver significantly improved QCT margins, even assuming the industry trends experienced in the second half of fiscal 2015 persist and does not assume the potential upsides from market improvement or recovery of premium tier share at a leading vertical OEM. We believe these actions position the company well going forward and will require our complete focus over the next year to ensure we execute well on our customer commitments and technology roadmaps while delivering on the plan.

That concludes my remarks. 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

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

T. Michael Walkley - Canaccord Genuity, Inc.

Great, thank you. Steve and George, maybe you can just share with us a little more on the cost reductions. Can you help us think about the cadence to reach this run rate? Is it more linear through fiscal 2016, or is it more front-end loaded? And then could you talk on maybe any program that you might be shutting down? Thank you.

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

Yes. Hi, Mike. This is George. The cost savings will come in over time, as you would expect, throughout the year. We'll have some front loading, but we see costs actually based on the timing that's required for meeting the roadmap requirements and other factors spreading it out. But we expect the cost savings to be fully realized by the end of the year. And if you average out what we expect, we think about $600 million will come out in the fiscal year.

Steven M. Mollenkopf - Chief Executive Officer & Director

Mike, this is Steve. Just very quickly on programs. Essentially what we're doing is we're going to protect our IP roadmaps. We are not going to withdraw from tiers. We're going to do some changes to how we're doing things and where we're putting employees, and obviously, we'll be out talking to customers and making sure they're comfortable with that as well. But I think you're looking at a case where we've had some significant growth and we're trying to get our cost structure in advance or trying to react to what's happening in the industry and get ahead of it, and I think we'll be healthier as a result. But we're going to definitely be continuing to invest in the roadmap.

Operator

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

Timothy Long - BMO Capital Markets (United States)

Thank you. I just want to get back into the chip business here. I get the moving parts around units and market share, and it sounds like a little build this quarter and a little burn next quarter. But if I average the two of them and just divide by the TRDS units and compare that to the few quarters before that, it looks like about 10 full points of market share reduction. And at the same time, it looks like ASPs have come down and gross margins dip into 40% or maybe even lower for that segment. So is there something else going on competitively, other than the Samsung vertical integration and the channel build? It seems like we're at a step function down in market share above and beyond the high end at that one customer.

Steven M. Mollenkopf - Chief Executive Officer & Director

Hi, Tim. If you look at the fourth quarter effects that we're talking about, they're effectively all premium tier. I know Derek may want to jump in, in a minute, on the TRDS point. So our design traction in the premium tier has not had any change. So we did cite that we had lower volumes at one vertical OEM, which you could describe it as share loss. But overall, it's really the fact that we have this concentrated environment and a very large impact on a number of our premium tier customers as a result of that. The other piece is we cited in China that certain handset models using our chipsets had lower demand than was forecasted going into the quarter.

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, thanks for taking my question. Steve, I was wondering if there's any way you could quantify the impact of the Snapdragon 810 issues, whether it's some of your customers choosing to use prior-generation chips or any expenses that you've had to incur that are abnormal related to that.

And then secondly, I know you've looked at the separation in the past. Can you remind us the logic of having QTL and QCT together, at least the major points that came to a conclusion in the past to keep these together? Thanks.

Steven M. Mollenkopf - Chief Executive Officer & Director

Sure. Why don't I ask George to handle the first one? I'll be happy to do the second part about separation.

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

Sure. In terms of the Snapdragon 810, I think probably the biggest single impact as we look at the year – first off, again, much like the fourth quarter, it's almost entirely attributable to changes in the premium tier and certainly the socket loss at a major vertical customer. And so that would typically have been a customer for the Snapdragon 810 for their new-generation devices. But it's also been a factor of the impacts that are happening in the premium tier overall, that we're seeing SKUs other than the leading SKUs that are not selling through at the levels that customers thought that are impacting some of our premium tier chipsets as well. So the only other thing from a cost standpoint is we have had some increased E&O and certainly some portion of Snapdragon 810 is a part of that. But overall, it's really been more a function of the significant shift in demand that we've seen throughout the year.

Steven M. Mollenkopf - Chief Executive Officer & Director

And with regards to the separation, I think each individual time that we've looked at this, the circumstances were different. I think we've looked at it a number of times over the last decade and a half. Today, given that we're on the other side of the NDRC investigation, the structure of the industry, how we're looking at the market, I think it's time to take a fresh look, and I think that's what we're describing. There's no foregone conclusion either way here. But we want to make sure we do a thorough look to make sure that we're looking at all ways to drive shareholder value. One of the reasons that we look at our board composition, we do have some new eyes coming in that can help us look at that as well with some unique experience, so we're going to go through the process and we will update you shortly.

Operator

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

Blayne Curtis - Barclays Capital, Inc.

Hey, thanks for taking my question. George, I just wanted to clarify on the timing of the OpEx cuts. I thought I heard you say $600 million this year. I just want to make sure that it was – obviously, the fiscal year ends in September. When did those cuts start and how linear is that?

And then I just wanted to better understand the inventory picture here. You mentioned 25 million units. Does that clean up this issue? And then I just wanted to – as you look into China, in terms of differentiating your – you said you're investing in your modem. I think one of the issues is that you haven't had the market move to carrier aggregation. Just any progress on moving the market ahead in terms of getting the carriers to actually roll out more carrier aggregation to create an advantage?

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

Hi, Blayne. This is George. On the $600 million, my point there is that we'll take $600 million of the $1.1 billion run rate out in fiscal 2016. I didn't mean to imply 2015, if that's how it came across.

In terms of the inventory, we're really going to have to see how it plays out. We certainly are coming into the quarter with a significant overhang that we didn't forecast coming into the quarter. And so we will – I mean in the previous guide. So it will really depend on how our customer sell-through plays out in the quarter.

Steven M. Mollenkopf - Chief Executive Officer & Director

With respect to the carrier aggregation question in China, China Telecom has already launched. It's starting to work its way through the design cycle and through the ecosystem. China Mobile is expected to launch at the end of this calendar year. And we think this will be a good dynamic and has been anticipated in our roadmap, as you may know. The other dynamic that's happening in China is just also is just the desire for the Chinese OEMs to be exporters, and that's also been a good trend for us. But we're looking forward to this carrier aggregation launch happening in China.

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)

Just a couple of questions. One just on clarification on the cost savings. All these are gross numbers. So are you guys going to be reinvesting some part? And I'm trying to figure out of the $1.1 billion how much will actually drop to the bottom line that might enhance profits over the longer term. Can you just speak about how you think about reinvestments?

And then for Paul or for Steve, on the separation point of QTL and QCT, I just want to understand what the basic arguments are because in the sense that previously I was under the impression that there's joint R&D and there's clear synergy between it. What are the dyssynergies of separating these businesses now, especially I think one thing that is maybe very different versus the past is that the QTL business has achieved...

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

Kulbinder, we can barely hear you. Can you speak more closely to your...

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

Sorry, let me start again. I was just saying that first of all on the cost savings side, how much of them will be reinvested? And furthermore, will some of the $1.1 billion, that's a gross number I think, how much drops to the bottom line, how should we think about that?

And then on the separation point, can you please just give us the pros and cons of separating in the sense that right now QTL license is so much of the handset industry, it's almost achieved a large part of what you needed to do to be with QCT in the first place? Is now the right time to separate? What's the dyssynergy of separating, for example? I'm not asking for a number, but what are the arguments we should think about? Thanks.

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

Kulbinder, the cost reductions are meant to be reductions relative to the run rate that we had in 2015, so they are effectively net reductions in that sense. We'll certainly spend some more in certain areas of the company, but it's a pretty broad-based reduction, and the $1.1 billion is meant to be the amount of savings that are coming out pre-tax.

Paul E. Jacobs - Executive Chairman

Kulbinder, this is Paul. We don't want to get into a lot of the details on separation arguments because we're going to do a fresh review, and there are really no preconceived notions right now. So I think it's best if we leave that situation as it stands and allow the new directors, the outside advisors to make some decisions on their own.

Operator

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

James E. Faucette - Morgan Stanley & Co. LLC

Thank you very much. I wanted to touch on the cost reductions. You've talked about OpEx reductions, and I am wondering how much improvement in cost of goods and gross margin, particularly on the chip business, may be attainable. I guess I'm interested in that simply because if I look at what you're targeting for a run rate exiting next fiscal year and apply that to just the QCT gross profit you put through this quarter, it would indicate a better operating margin then you've even targeted for next year. So I was just wondering how we should think about COGS and that as a cost reduction effort.

And my second question is back on the demand. I guess I'm wondering how long you think it will take to work through this inventory because 25 million units roughly, as George outlined, is a huge proportion of the customers that you have in that high-end segment. And so I'm just wondering how long you think it will take to put through and get through that inventory adjustment? Thank you.

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

So most of the cost savings that we've talked about are coming out of OpEx, although there are engineering activities within cost of sales that are part of the overall $7.3 billion base that we've talked to.

In terms of COGS, we've had, as you know, for some time a significant focus on improvements in our supply chain, including some long-term agreements, some prepayment activities. We've said that we expected to start to see the fruits of those things after 2015 and getting through the initial ramp of 20-nanometer. So most of the savings we're focusing on here are really OpEx related, but we will continue to look for opportunities to improve COGS. And we have not forecasted margin improvements as part of this exercise, but of course that's something that we'll be focused on as well.

In terms of the demand, the 25 million is really the number of units that is below what we had anticipated in the fourth quarter, which accounts for really the bulk of the revenue and margin decline that we're seeing. It's not necessarily just the inventory balance. So it's not – as you know, the inventory, we can look into the channel and we can certainly clearly see significant build across that channel, but to know exactly how it will come out would be hard to forecast. We just know it's going to have a significant impact in the fourth quarter.

Operator

Your next question comes from the line of Timothy Arcuri with Cowen & Company. Please go ahead. Mr. Arcuri, please make sure that your line is not on mute. Mr. Arcuri, please make sure that your line has not been muted. Your next question comes from the line of Stacy Rasgon with Bernstein Research. Please go ahead.

Stacy Aaron Rasgon - Sanford C. Bernstein & Co. LLC

Hi, guys. Thanks for taking my questions. My first question, I just wanted to clarify. It doesn't look like you took your global unit forecast for QTL for calendar year 2015 down. That's still sitting at 1.560 billion, which suggests you're not seeing any further degradation in the second half versus your prior outlook for the global market. I just wanted to verify that and ask you how confident you are that there are no impending headwinds building in the market itself in the second half of the year.

And for my second question, on chipsets and the 16% margin guidance, I know you said you're not factoring in anything improving in the market. But at this point, why shouldn't we be factoring in the prospect for the market getting worse, given a lot of the issues that seem to be hitting here on margins in terms of competition and mix and everything else, at least to me, would appear to be structural rather than something that would be fully in your control?

Derek K. Aberle - President

Stacy, this is Derek. Why don't I take the first one? I think we looked across the market. There are obviously some puts and takes, a little softness we're seeing in the premium tier and a little bit slower early parts in China for the year. But as we look at the full year, we do think that will reaccelerate in China in particular. And the net-net of the overall reevaluation of the market we still feel confident in the prior forecast that we put out there, so we're not going to adjust it at this time.

Steven M. Mollenkopf - Chief Executive Officer & Director

Stacy, on the planning assumptions that we used, we think that the second half gives you a pretty balanced view. We saw weak mix in the third quarter. We obviously see a very difficult environment in the fourth quarter. And really it's meant to be a planning assumption so that we can give some sense of where we see the company and QCT in particular on margins coming out at the end of next year. We believe there are certainly upsides and downsides to that planning assumption, but to try and forecast what that means for 2016 until we get closer is too difficult at this point. So we'll do that in November, and we'll have a better view whether we're in a weaker or stronger situation.

Operator

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

Timothy M. Arcuri - Cowen & Co. LLC

Thank you. I had two. First of all, George, relative to the new QCT operating margin targets by the end of next year, when you say that that doesn't assume any improvement in the industry, does that mean to say that it assumes that QCT revenues stay in this low $3 billion per quarter range?

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

Tim, what we've said is that we're assuming that the conditions of the second half of fiscal 2015 continue. And so you can – but saying I'm not going to guide 2016 revenues.

Operator

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

Tal Liani - Bank of America Merrill Lynch

Hi, guys. You've said in the past that you may consider acquisitions in order to grow to the markets. The fact that there is a business change as well as a big restructuring plan and you need to deal with all these issues, does it mean that they're going to put any M&A aspirations on the back burner more and focus internally on the other things you announced? So that's question number one.

And question number two, when I calculate the implied price for MSM, what are the puts and takes this quarter when it comes to the price? I'm trying to reconcile your verbal comments with the price change. That is not very different from what we expected. So what are the puts and takes there? And then what's your best guess – again, not in terms of numbers, but in terms of the drivers – what's your best guess for what's going to impact this implied price in the coming quarters? Thanks.

Steven M. Mollenkopf - Chief Executive Officer & Director

Tal, this is Steve. I'll give my answer to the first one. Perhaps my colleagues can jump in on the second one. With regards to M&A, we obviously have CSR outstanding and getting to the point soon here where we hope to be talking about that as something that influences earnings, obviously something that's accretive to our fiscal year 2016 plan.

I don't think we've made a change in terms of our M&A stance. I will say that when we look at the management team and what we're focused on, we're very focused on delivering this cost plan. I think right now, we look at that and we say that really positions the business in a way that will really benefit the shareholders and drive value. So that's what we're focused on.

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

Tal, on the revenue per MSM in the third quarter, you're right. It wasn't terribly different than expectations as the quarter pretty much on an operating basis came in where we thought it would. But you did see higher MSMs. Those are really part of the story of us having stronger than expected share in the low tier in China in the third quarter. That just created a little bit weaker mix. We're actually seeing some of that. As we said, we expect to see lower low-tier volumes in China in Q4. That was already in our forecast in our prior guidance. So we actually get a little bit of mix benefit in the fourth quarter even though overall it's not as strong as we would have thought because we had a much better premium tier mix in our original expectations.

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 questions. So I just had two. I guess the first one is back to the MSM chip unit guidance. Even once you reconcile this back, the difference between the guidance and last quarter or this quarter you just reported, we're still flat quarter on quarter, which is abnormal seasonality. Typically in fiscal Q4, you see unit volumes on MSM up. And it doesn't sound like, even after all the reconciliation, you're expecting that. So I just wanted to just ask you guys if you could talk a little bit about why the seasonality is somewhat abnormal this year. Is it a demand issue? What's going on with seasonality once you make all the adjustments?

And then the second thing I want to ask you is maybe just a little bit longer-term question, which is we know about the vertical integration into one

ODM. I'm just curious. What probability, Steve, would you assign to further vertical integration, especially up in the high tier? Thanks.

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

So on the seasonality, again, I think the effects that we're seeing in the marketplace of concentration and again, as we said, the pullback in unit share that we're seeing in the low tier in China, I think those things dominate our view of the MSM situation I think much more than the seasonality adjustment would explain.

Steven M. Mollenkopf - Chief Executive Officer & Director

This is Steve. My view on the vertical aspect, I would argue that what you're seeing was probably more of a product cycle issue versus a general trend. The overall difficulty of delivering MSMs or delivering something like our MSM is actually getting harder. And the same dynamics, particularly with concentration in the industry, the same dynamics that occurred over the last decade and a half to people like Nokia or Motorola with a vertical strategy, I think still happen with chipsets today. So I think I don't see that as a trend that's going forward now. Clearly with our planning assumptions for planning our OpEx, we wanted to put the business in a position where it is less susceptible to those individual design wins, which I think is part of our cost program, but I think it's going to get harder and harder.

The other thing I would note too is that feedback from customers and particularly customers who you may be worried about with respect to vertical aspirations have been strong with respect to our Snapdragon 820 and other designs. So I feel like our roadmap is getting a warm reception broadly, and we just have to continue develop on it and get our cost structure in the right spot.

Operator

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

Mark Sue - RBC Capital Markets LLC

Thank you, gentlemen. I understand the OpEx issue and also the potential split, maybe some consideration for the issue related to the maturing smartphone market and the change, possibly permanent change, in your customers who want to do their own chipsets. So perhaps how Qualcomm can quickly move into new markets to find a home for new chipsets, and are they large enough to replace the substantive smartphone market?

Steven M. Mollenkopf - Chief Executive Officer & Director

This is Steve. I think our challenges are – the smartphone and the handset business continues to be an attractive market. I think we need to get our profitability up in that opportunity, which is why we're taking these changes to our cost structure and get ahead of what we see happening in the market.

But equally, I think there's significant growth available to us as we leverage the IP roadmap that you develop in smartphone SoCs and take that and really fan that out into a number of new markets. If you look at what's happening across the board from every major consumer electronics industry, they're all trying to embrace the smartphone, and part of what we are doing is moving resources off of the phone space into supporting those new markets. So if we can boost profitability in our home market and take opportunity of these new or take advantage of these new opportunities in adjacent markets, I think we'll have the business back on a good track for growth.

Operator

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

David M. Wong - Wells Fargo Securities LLC

Thank you very much. The cost cuts that you are contemplating for QCT, do they have any effect on the number of foundries that you might consider working with or on future technologies that you might be putting chips currently in design?

Steven M. Mollenkopf - Chief Executive Officer & Director

This is Steve. No, really we're trying to protect our IP roadmap. And obviously with the scale that we have, getting changes and making sure that we're optimal from the supply chain point of view, particularly COGS, is very important in terms of driving value. So we're continuing to protect those opportunities.

Operator

Your next question comes from the line of Brett Simpson with Arete Research. Please go ahead.

Brett Simpson - Arete Research Services LLP

Thanks very much. You mentioned, Steve, that you won't be withdrawing from certain tiers in QCT. But can you share with us with your business activities on the low end consistently make money as we continue to hear about aggressive price cuts in this segment, particularly in the last couple of quarters? So just can you give your perspective there?

And, George, just following on from the last question, on COGS savings in QCT, that wasn't mentioned as part of the cost review. I'm just wondering whether you think there's an opportunity to improve gross margins in QCT since your scale is way more than any of your rivals and you are diversifying with different foundries. Should we expect any savings at the COGS line? Thank you.

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

So let me take the COGS savings question first. We have had, like I said previously, we've had a keen focus on leveraging our scale throughout the industry to make sure that we have competition for the volumes among our foundry partners, and we believe we have a very good roadmap to maximize the cost of our use of that supply chain over time. And we had cited as part of the reason we would be off on margins at the start of this year that we are really coming out of a situation where we had, at 20-nanometer, a less than optimal COGS situation.

That being said, volume matters, and we've seen some of the issues that came with lower than expected volumes, so we're not quite seeing some of the benefits. As volume recovers, we would expect to see that. But the basic structural changes that we need to make in terms of working with a broad range of very capable foundry partners is part of our existing plan, so we're not really making a change to that. That being said, of course, it's critical that we get both margin expansion as well as improvement in the OpEx areas, and we'll be very focused on that. And as we make progress beyond what is in our base plan already, we'll keep you informed.

Steven M. Mollenkopf - Chief Executive Officer & Director

Brett, this is Steve. With respect to the low tier, I think the entire industry is actually challenged in terms of making money at the low tier. We're probably in a better position than most because of the ability to leverage our IP roadmap across the tiers. We're making some changes in this realignment plan where we're doing work to try to get the cost per head more in alignment with some of our competitors. But we still think it's an interesting opportunity for us to go after. And as George mentioned, we are assuming that this aggressive price environment continues with respect to our planning assumption on the realignment plan.

So we're probably better than most in terms of where we're going, and we think it's an important market to contribute in. It will also be a market that will move more toward 4G. Today, it is split between 3G single-mode. It will move to multi-mode 4G, which should advantage us worldwide. We just need to get ourselves better set up to address it.

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.

Thank you very much. There have been several mentions of a more focused look at expanding into markets that are already in prices you have or very closely adjacent products you are going to develop. It seems to make sense. Where does that put you on the RF side of the business? I know RF360 has been a big initiative for you for the last several years, and you're still working on that. Does that change your view of moving into that vertical?

And then in terms of investment in QTL, I know that you put out a notice about more regulatory action from Europe. What's your thinking now on the settlement you had in China spreading to other geographies? Although the laws are different, it seems like there's still a lot of interest from other regulatory agencies in maybe changing Qualcomm's licensing agreements. If you can comment on that, I'd appreciate it. Thank you.

Steven M. Mollenkopf - Chief Executive Officer & Director

Ed, this is Steve. The opportunity to grow content in the device we think still exists, particularly in an environment where the LTE band proliferation continues to be very wide. We're actually quite pleased with the RF360. It's still early days. I think we have something like 350 OEM designs already on the parts, and we think that that will build over time as we start to add more capability. But the environment for growing content in the phone we still think is a good opportunity for us.

Derek K. Aberle - President

Ed, this is Derek. On the regulatory question, actually the European Union investigations that were I think announced this last week or so, really it's just a new phase of the proceeding, and it's still relatively early in their process. But it's focused really not on the licensing program of the company. It's really focused on chipset pricing and rebate type agreements. So again, as we look at it, we've commented on this quite a bit over the last couple of calls. We do believe that the result in China is unique to China. And although we could very well have other regulatory proceedings to deal with, we're very confident in our ability to defend against those.

Operator

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

Srini R. Pajjuri - CLSA Americas LLC

Thank you, just a question on the China comment. You said it's taking a little longer than expected to improve the collections. I'm just curious. What actions, if any, can you take locally in China to improve collections going forward?

Derek K. Aberle - President

This is Derek. Actually, there are a couple of drivers here. As we said coming out of the resolution with NDRC, we were going to need to go through this process of offering new terms to our licensees. We're getting pretty far along in that process. We've made progress. But as we noted last time, this is going to take some time, and it's a bit hard to predict. We've given you our best view on the timing of when we'll be able to conclude agreements. But some of these things take a bit longer than others, and so that's going to probably have some impact. We now think that just pushing some units out of our fiscal year into next year that we thought we may be able to get earlier, but again, it's not a change in our view as to whether we'll be able to ultimately collect royalties on those units. It's just more a question of timing.

So really the process is to get these new agreements in place and get companies that were previously unlicensed for three-mode devices signed up. And again, we're going through that process now and have companies that have signed agreements and are reporting royalties to us now on three-mode, but we still have some work to do there. And then beyond that, it's a lot of the things we've talked about in the past in terms of ratcheting up the level of auditing and compliance activities in China. And ultimately, if necessary, which we always try to do everything we can to avoid this, but if we have to, enforcing the terms of our contracts that are in place there. So we're going through that process now, and we'll be updating you as we continue to progress there.

Operator

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

Steven M. Mollenkopf - Chief Executive Officer & Director

I'd like to thank everyone for being on the call today. We are excited about our growth prospects, and the major initiatives announced today will put us in an even better position to lead the next wave of growth for the company and our industry and enhance value for our stockholders. Implementation of the plan is underway, and I look forward to updating you on our progress on a regular basis.