

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

During the call today, we will use non-GAAP financial measures, as defined in Regulation G. And you can find the related reconciliations to GAAP on our website. We will also make forward-looking statements, including projections and estimates of future events, business, or industry trends, or our business or financial results. Actual events or results could differ materially from those projected in our 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, the comments from Qualcomm's Chief Executive Officer, Steve Mollenkopf.

Steve Mollenkopf

Thank you, John, and good afternoon, everyone. I want to first take a few minutes to discuss the performance of the company both in the quarter and against our longer term goals before providing my perspective on the legal and regulatory matters impacting the company. I'm very pleased that in the time of these external challenges our employees are executing well on our expansion into new opportunities and at the same time improving the competitive strength and profitability of our industry leading product.

We reported fiscal third quarter non-GAAP earnings per share and revenues consistent with our revised guidance and above the guidance range midpoint driven by better than expected product mix in our semiconductor business. Our QCT business is executing very well with profitability up both sequentially and year-over-year. QCT has now delivered improved year-over-year quarterly profitability for five consecutive quarters on the strong execution, as we have continued to refresh our product roadmap, delivered improved product cost and grow EBT margins despite the impact of second sourcing at Apple over this same time period.

In Mobile, QCT continues to see strength in the highly competitive China region and is executing well across all price gears. Our gigabit LTE and 5G leadership combined with our Snapdragon 835 and new Snapdragon 600 product are well ahead of our competitive solutions. We continue to see

good traction in our QCT adjacent opportunities of automotive, networking, mobile compute and IoT, where our efforts deliver, our technologies are gaining momentum.

We saw a strong revenue growth in those adjacent businesses in fiscal 2016 and forecast growth of more than 25% in fiscal 2017. As reflected in our fourth quarter MSM guidance, we expect QCT's strong performance to continue. We are ramping investments necessary to extend our leadership position in 5G as operators and customers seek to accelerate their launch date.

We now believe that both millimeter waves and sub-6 gigahertz capability will be table stakes for 2019 5G launches. The modem technology and complexity is increasing and we believe we can continue to outperform our competitors with our level of 5G innovation. It is clear that our technology position and product roadmap are strong as they have ever been.

In addition, we believe the pending NXP acquisition will provide us greater scale in automotive IoT security and networking with their highly complementary product and world class sales channel, serving the long tale of customers that are driving growth. The combined company will be a technology and semiconductor leader with future annual revenues projected to be more than \$30 billion.

The NXP transaction remains on track to close by the end of calendar 2017. We have regulatory clearance in four jurisdictions including here in the U.S. and Taiwan and we continue to make progress in our work with regulators in five remaining regions.

In QTL, third quarter results and fourth fiscal quarter guidance reflect the impact of our dispute with Apple and the licensee dispute that we disclosed last quarter. Despite the near term financial impact to our business by the actions of a small number of powerful industry players, the long-term outlook for our licensing business continues to remain strong. With more than 300 freely negotiated global license agreements and a technology portfolio that is fundamental to the performance of wireless and mobile computing devices today and for many years to come. The licensing business will continue to be a significant revenue and profitability generator for the company longer term.

Moreover it is important to remember that 3G, 4G device trends which are a key driver of QTL financial performance remain very healthy. We are forecasting 3G, 4G device shipments to grow by approximately 6% in calendar 2017. The long-term growth outlook for units combined with

moderating ASP decline, are consistent with our prior expectations for longer term globally 3G, 4G device sales growth.

Turning to the current legal matter, we believe we hold the high ground with regard to the dispute with Apple. We will take the actions that are needed and appropriately defend the tremendous value that our innovations bring to this industry, innovations which enable a competitive ecosystem to thrive. You have now seen some of the steps we have taken in our dispute with Apple, including the filing of patented actions in the U.S. ITC and in U.S. and Germany court to address the use of our unlicensed IP in their devices.

We do not take these challenges lightly and we are focused on achieving the right long-term results for the licensing business, which also is in the best interest of our stockholders. We know that fundamentally these issues are driven by commercial interests and contract negotiations and we will continue to work to reach resolutions as we have done in the past.

As you know, we have a strong relationship with Apple for many years and they have been a long standing and valued customer. We intend to continue to provide them with our industry leading products and technologies as we always have and do our best to remain a good supplier to Apple even while this dispute continues.

Derek will provide further detail on the actions we have taken in connection with our dispute with Apple as well as the specific steps we have taken in the other matters to defend the value of our innovations and our business model.

Looking ahead, our innovations driven by decades our R&D investments are at the forefront of multiple new industries and product categories. Our intellectual property as never been more valuable and relevant and opportunities ahead for Qualcomm have never been greater. Our breadth of technologies and products continues to benefit from our ongoing strategy to invest ahead of the industry and combined with our global scale and partnerships, we are extremely well positioned to grow into an expanding step of new opportunity.

Further with the pending NXP acquisition we will further accelerate our move into these exciting industries. I will now turn the call over to Derek.

Derek Aberle

Thank you, Steve and good afternoon, everyone. QTL fiscal third quarter revenues were \$1.2 billion with earnings before tax as \$854 million. As Steve mentioned, QTL fiscal third quarter results reflect non-payment of royalties on Apple products by Apple's contract manufacturers, as well as the

non-payment of royalties by the licensee with which we have a dispute that was disclosed last quarter.

During the fiscal second quarter, the licensee reported and paid only a portion of the royalties it owed under its license agreement and at that time, we expected the licensee to continue to report and pay sum, but not all of the royalties they owe for the fiscal third quarter. Although, we remain in discussions with this licensee in an effort to resolve the dispute, the licensee did not report or pay any royalties during the fiscal third quarter.

This is a dispute as per the terms of the licensee's existing agreement that is similar to a number of the ones we have resolved in the past and we expect to be able to do that again here. With Apple's contract manufacturers refusing to fully report their total reported device sales for Apple products and the licensee with which we have a dispute also with holding reporting, we are not providing quarterly actuals or guidance for total reported device sales and related unit shipments and ASPs by our licensee. Because the significant portion of quarterly activity is not available and would not be included in those metric, making them incomplete in a limited value.

We are however, providing quarterly QTL revenue guidance to help our investors model our expectations for the licensing business going forward. Despite the near term impact of these items, which we believe we will be able to resolve over time to QTL financial performance it is important to note that 3G, 4G global sales and device trends remain very positive.

For fiscal 2017, global 3G, 4G handset ASPs continue to track consistent with our prior expectations of low single digit percentage declines year-over-year. Global ASP trends continue to be strong this year with ASPs continuing to increase in China and for devices sold by Chinese OEMs globally. We also continue to see healthy growth in global device sales for the fiscal year, consistent with our longer term growth expectations of mid-single digit annual percentage increases.

For calendar 2017 3G, 4G device shipments, we continue to estimate shipment of 1.75 billion to 1.85 billion devices globally, up approximately 6% year-over-year at the midpoint. Our licensing and compliance initiatives remain on track and continue to bear fruit. Excluding the effect of the underreporting caused by the disputes with Apple and its contract manufacturers as well as the licensee I just described which we do not view as compliance issue. We estimate that the level of compliance by our licensees were sales during the March was in line with sales by our licensees during the December quarter.

As you have seen from our recent announcements, we continue to actively pursue resolutions of the challenges to our licensing business that have been orchestrated by a few of the most profitable and powerful companies in the world. And to defend a well-established value of our patented technologies in the regulatory and other legal matters in which we are involved. And our appeal of the Korean FTC decision hearings were held last week in the Seoul High Court on our motion to say that remedial portion of the KFTC's order while we proceed with the appeal. We expect to get a decision on the request per se in the coming month.

The U.S. FTC lawsuit is on track to be tried at the beginning of 2019. We look forward to demonstrating that many of the facts are wedged in the complaint are wrong. And the FTC's legal theories are without merit. As to the Taiwan FTC investigations, we continue to work to find a resolution and we are continuing to cooperate with the TFTC. We also continue to work through additional investigations in Europe. However, those investigations do not target Qualcomm's licensing business or practices.

Finally as Steve mentioned, we have now filed patent infringement complaints against Apple with both the International Trade Commission and in Federal Court in the US. The six patents are assorted in those actions enable high performance in a variety of areas of the smartphone while extending battery life. Each of the patents does so in a different way for different popular smartphone features. While the technologies covered by the patents are central for the performance of the iPhone including internal performance, graphics, higher data rates and network capacity, flashless boot and power management.

The assorted patents are not essential to practice any standards in a mobile device or subject to a commitment to offer to license those patents. We expect that the ITC investigation will commence in August and that the case will be tried next year. We expect the Federal Court case to trail the ITC action will be stayed pending the conclusion of the ITC act.

This week we also filed two patent infringement lawsuits in Germany against the Apple seeking damages and injunctive relief for iPhones imported into or sold in Germany. The patents we are asserting in these cases represent two technologies important to iPhone functions. But again they are not standard essential patent and are not subject to end commitments to license those patent.

Similar to the ITC process here in the US, we expect this litigation in Germany will move on a fairly fast timeline with an outcome likely in approximately 12 months. In addition, we have filed a motion asking the Federal Court in San Diego to require Apple's contract manufacturers to

comply with the terms of their license agreement with respect to Apple product, while the various cases are heard.

Before it instructed its contract manufacturers to stop paying royalties to Qualcomm, Apple had been indirectly paying royalties on its products based on the contract manufacturer agreement for 10 years. Nothing has changed Apple continues to generate substantial profit by using our technology in the contract manufacturer agreement remain valid. There will be a hearing on that motion in mid-August.

Yesterday, Apple's contract manufacturers responded to our claims against them and the motion I just described. In addition Apple start to oppose our motion in the contract manufacturer cases, as well as to consolidate the contract manufacturer cases with the Apple cases. These filings by Apple and its contract manufacturers prove what we have been saying all along. Apple has interfered with our license agreement with its contract manufacturers by instructing them not to pay the royalties they owe for sales of apple product and then agreed to indemnify and protect the contract manufacturers against any damages and payments they would owe to Qualcomm as a result of Apple instructing them to breach their license agreement.

It is clear that Apple is controlling all of the contract manufacturers' statement and actions in the litigation. If Apple hadn't interfered with the licenses and instructed the contract manufacturers to take these actions, the contract manufacturers would not be contesting the licenses now. It is important to remember that in most cases our license agreements were negotiated and entered into with the contract manufacturers before Apple ever entered the smartphone market. And then Apple decided to rely on them for a decade, before now trying to disrupt them.

One of Apple's claims has been that this is just a dispute about how much they should pay for using our valuable intellectual property and that they have stopped paying because, they don't know how much to pay us. This is quite obviously wrong. As I just explained the long standing and valid contract manufacturer licenses clearly specify the royalties that are due and payable on Apple products, yet Apple is interfering with those contracts.

Further, we have made several offers to Apple to have an independent third-party result of parties best agreement over the value of Qualcomm's technology and set the royalty terms of a direct license between Qualcomm and Apple once in for all. Apple has refused those offers each time, which shows they are more interested in pursuing the strategy the way rather than good paid resolution.

We will continue to vigorously defend the value of our innovation and our pro-competitive business model. Turning to our datacenter business, we remain on track for commercial shipments of the Qualcomm Centriq 2400 processor family by the end of the calendar year and we have already shipped more than 1000 evaluation platforms to leading customers and partners.

We continue to be very encouraged by the engagement with and feedback from a variety of our growing list of customers and partners as to the performance of our product. In parallel, we are working hard to continue to build the datacenter ecosystem for Centriq-based server. This quarter we announced the collaboration with Packet a leading bare metal cloud provider to deliver a consumable cloud platform based on the Qualcomm Centriq 2400 processor for access by the software development community.

We demonstrated with Canonical a highly scalable OpenStack NFV infrastructure running on a Qualcomm Centriq 2400 platform. And we announced the collaboration with MariaDB to implement MariaDB's enterprise grade, database architecture on the Qualcomm Centriq 2400 processor to drive performance and compute that scale.

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

George Davis

Thank you, Derek and good afternoon, everyone. We are pleased to report a solid fiscal third quarter consistent with our revised expectations. Revenues were \$5.4 billion and non-GAAP earnings per share were \$0.83. Our results were above the midpoint of guidance driven by better than expected QCT results on higher revenue and stronger margins. QCT EBT margin was 14.2% for the quarter at the high-end of expectations driven by favorable mobile product mix. We are continuing to see strong traction in QCT adjacent opportunities with quarterly revenues from these areas in total up approximately 30% year-over-year. As a reminder our adjacent opportunities include our chip sales into automotive IoT networking and compute.

In QCT MSM shipments were 187 million up 4% sequentially and modestly below the midpoint of our expectations, on softness in mid and low tier devices. In QTL, revenues were \$1.2 billion largely in line with expectations. Consistent with our revised guidance, the quarter was negatively impacted by our dispute with Apple, as they instructed their contract manufacturers to not fully report and to not pay royalties due on sales of Apple products.

In addition, we did not report QTL revenues from the ongoing dispute with the licensee that we disclosed last quarter, as that entity did not report or

pay royalties this quarter. Non-GAAP combined R&D and SG&A expenses overall this quarter were up 6% sequentially, which was above our prior guidance of up 3% at the midpoint.

Our prior guidance reflected the impact of a full quarter of the RF360 joint venture spending being included in our results. The increase in spend relative to our original expectations was driven by higher than expected litigation expenses, as actions related to our dispute with Apple escalated and from accelerating investment related to pending 5G trials and related technology development.

We believe these priorities are critical for value creation and preservation, but are contributing to higher than model spending in the near-term, which we will address as we get through this period. Our non-GAAP tax rate for the quarter was 5%, reflecting the prior period impact of our revised April guidance of a full year non-GAAP tax rate of approximately 14%. As a reminder, our effective tax rate is influenced by the mix of onshore and offshore earnings. The result of a lower mix of licensing revenues which are onshore impacts that a full U.S. rate is a reduction to our overall blended tax rate.

Turning to our balance sheet, in May we issued \$11 billion of debt in the capital market. The funds from this offering will be used to finance a portion of our proposed acquisition of NXP and for general corporate purposes. With this financing, we have now completed our prefunding for the NXP transaction.

We ended the quarter with cash and marketable securities of \$38 billion and total debt outstanding of \$22 billion. Our non-GAAP operating cash flow in the fiscal third quarter, which excludes the impact of the KFTC fine and the BlackBerry arbitration was approximately \$2 billion or 39% of non-GAAP revenue. As a reminder, while a charge related to the KFTC fine was recorded on our income statement in our fiscal first quarter and the charge related to the BlackBerry arbitration was recorded in our fiscal second quarter. The related cash payments for both were made in our fiscal third quarter.

Through our fiscal third quarter, we have returned approximately \$3.4 billion to stockholders this fiscal year, including \$2.4 billion in dividends paid and \$1 billion in share repurchases. This is consistent with our continued commitment to the dividend program and dividend growth and our intent to repurchase shares to offset dilution.

Turning to our fiscal fourth quarter guidance, we estimate revenues to be in the range of approximately \$5.4 billion to \$6.2 billion down approximately

6% year-over-year at the midpoint. Our revenue and EPS estimates exclude QTL revenues for Apple related products and for the other licensee in dispute. We estimate non-GAAP earnings per share in our fiscal fourth quarter to be approximately \$0.75 to \$0.85 per share.

We expect fiscal fourth quarter non-GAAP combined R&D and SG&A expenses will be approximately 1% to 3% sequentially driven primarily by increased litigation related expenses and 5G investment. As Derek explained, we are providing guidance for QTL's segment revenues for the fiscal fourth quarter, which we expect to be in the range of \$1.0 billion to \$1.3 billion. We expect QTL's EBT margin percentage to decrease sequentially and be between 64% and 68% reflecting lower revenues at the midpoint and increase litigation related expenses as we continue to defend our business model in various forms.

Turning to QCT, we anticipate MSM shipments in the fiscal fourth quarter of approximately 205 million to 225 million units up 15% sequentially at the midpoint driven by OEM product launches and continued traction with OEMs in China. We expect QCT EBT margin to be approximately 17% to 19% in the fiscal fourth quarter increasing from 16.7% in the fourth quarter of fiscal 2016 favorable mobile product mix and growth in adjacent opportunities year-over-year.

For our Snapdragon 835 premium tier chipset, we expect to supply of 10 nanometer to largely meet demand in the fiscal fourth quarter consistent with our prior expectations. We expect that interest expense will be up sequentially in the fiscal fourth quarter reflecting a full quarter's impact related to the \$11 billion of debt issued in late May. For fiscal 2017 overall, we now expect the combination of investment and other income and interest expense to be roughly flat versus fiscal 2016.

Lower interest income year-over-year has been supplemented with gains on the sale of higher risk assets in our portfolio, as we move into highly liquid short-term investments in preparation for funding the NXP acquisition.

That concludes my comments and I'll now turn the call back to John.

John Sinnott

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

Question-and-Answer Session

Operator

[Operator Instructions]. Mike Walkley with Canaccord Genuity. Please go ahead.

Mike Walkley

Thank you very much. Just really trying to get a clarification, so for the licensing dispute outside of Apple, can you just walk us through what from that licensee maybe was included in your Q3 results and what's excluded for Q4 guidance maybe you can help us on a sequential basis, just on that licensee maybe in ballpark that dealt between Q3 and Q4? Thank you.

Derek Aberle

Hey Mike, this is Derek. So, I think when we reported last quarter, we had some amount of revenue from that licensee in Q2, but it was an underpayment, they didn't pay the full amount. And we at that time had expected Q3 to include an underpayment, but include some payment. And basically the way things turned out, they did not report or pay anything for Q3 and that's consistent with the way that we have guided for Q4. So, basically both of the quarters exclude any revenue from the licensee that's in dispute.

George Davis

Mike, hi it's George. Let me just add to that, I think one of the things that we've seen people struggle with is, the - there is no constant since this is an individual OEM. So in Q2 going to Q3 is typically a step down in the level of revenues and then you have a seasonal uptick picking up for Q3 and Q4. So, I think it's going to be hard to model a flat level of impact. And so it's one of the reasons why in the guidance for this quarter we guided QTL revenue overall, because we understand using the old method of trying to get their TRDS's can be too difficult.

Operator

Our next question is from Rod Hall with JPMorgan. Please go ahead with your question.

Rod Hall

Yes great, thanks guys. I guess, I had one clarification and one question. So, I wanted to on that last question with regards to this licensee, it looks like, I mean are detailed your guidance deviating another 100 million from what we were forecasting and even though I get that you guys don't want us forecasting or it's hard to forecast using your methodologies most of our models to run that way. So, I'm just wondering, can you give us any idea

whether the full with holding us payments from that licensee is in the ballpark of say \$250 million or something like that? Just so we can think about what the deviation from our model looking forward might be? And then, the real question I've got is on the European review NXPI that's moved a full review, can you, Derek could you just give us any color on what is happening there, why reportedly anyway you guys have not decided not to go along with remedies that have been suggested and now we are into a more detailed review, was that always the expectation in Europe or has something changed in regards to your discussions with the regulators there. So could you just give us a little bit more color on what's happening there? Thanks.

George Davis

So hey Rod, let me comment. I think one of the things I would remind people as they look at particularly the year-over-year comparisons for the licensing business, both in Q3 and Q4 comparatively. We saw good market underlying market in both of those, so there is no the - any shortfall in your estimates are not really related to the market. What we saw is there was catch up from the settlement of Chinese agreement in Q3 and Q4 of 16 that are impacting year-over-year comparisons. And so, one of the things that the models would need to show is the lower catch up in Q1 or should be in Q4 up 17 relative to 16. And then the rest is really just Apple and the other licensee and the impact of the specific dollars related to those OEMs. But those are really the only factors impacting the underlying estimate.

Derek Aberle

Hey Rod, this is Derek, let me just add that, our practice historically has been not to disclose the identity of licensees when we're trying to resolve dispute and it hasn't yet gone to litigation. And so, we're going to go ahead and stick to that practice and so, we're not going to give specific color on the amount of underpayment coming from any particular licensee. I think one of things just to think about in terms of volume, we have had catch up payment kind of flowing through QTL from prior period sort of quarter-to-quarter, we said that's going to be lumpy and will be hard to predict in coming over time. And there were some those amounts, meaningful amounts in Q3, but I would say the midpoint of our -- QTL revenue in Q4 doesn't really include a significant amount of that so, that maybe another kind of deviation when you look into your model.

Don Rosenberg

And Rod, this is Don. I'll take your question about NXP in Europe. There is not a lot to say about that at all, but phase I process as you know is fairly

short. We're dealing with significant acquisition here in both with both the U.S.-based company and a major European-based company. So it's not surprising that we are moving into phase II, we are engaged in phase II, we will listen to any concerns that maybe expressed and we'll respond to them, we think within the time period that should be the normal run of phase II process. Obviously can't predict, but we're very optimistic about our ability to continue to demonstrate the complementary nature of this acquisition with four regulatory approvals already we think - we're on a pretty good track there.

Rod Hall

Great. Okay, thank you guys.

Operator

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

Kulbinder Garcha

Thank you. My question is for Derek, well just on the dispute with the licensee, which is not, just to be clear not like a regular audit type which is a fundamental disagreement, on the both parties in terms of how the licensing agreement how that is being interpreted. So, this may come last for some time is that the right way of thinking about it?

And the second question is, in a world in which the smartphone market in revenue terms is building up growing very much, I would say 2% or 3%, if Apple do gain meaningful market share in the next two years it's reasonable to assume that even this licensing run rate would contract or the other drivers that we should think about, can we just think there is obviously a super cycle coming up there and Apple getting a lot of share in the [complete process] [ph]? And based on your [Technical Difficulty] these are right way to thinking about it?

Derek Aberle

Kulbinder, this is Derek. I think on the first one, I would characterize it this way, I mean we have -- the dispute we have with this licensee is a dispute over the terms of their agreement, not to just similar to ones that we've had in the past. They've resolved themselves in a variety of different ways historically, some of them, most of them frankly we've been able to resolve through some period of negotiation.

We're still in that phase with this licensee and then you might recall back even just most recently with LG that did escalate even arbitration but, then we were able to resolve it fairly quickly even after the arbitration is to, was resolved. So, I don't think we can predict with any certainty that exact timing, but I don't think it's a full drawn conclusion that this will be something that takes a long time to resolve either. I think it's highly dependent on the circumstances.

I think you might have some, let me try to reframe kind of the second question, our view, I'll give you some data points to support this is that the license business has the ability to continue to grow with the end market. We see end market growth continuing going forward, once we have these disputes resolved, and, I think even if you look at this quarter, we would have seen year-over-year growth in licensing business that you adjusted for kind of all the anomalies of the disputes and some of the one-time payment.

But, if you step back and look longer term at the end market, the units continue to grow in line with our projections last year, unit growth was about 10% in our current forecast, which were holding in calendar 2017 is about 6% unit growth, and you combine that with the moderating declines in ASPs and we still believe, the TRDS independent of any particular OEM. So even if Apple were to gain share is something that we'll grow in the mid-single digits.

And I think the, the thing that's been very positive for us this year is that ASPs probably a moderating even the ASP declines are moderating even more than we expected meaning the declines are less than we would have expected going into the year. And that's largely being driven by strength in China as well as increasing ASPs by many of the Chinese OEMs as they build their businesses outside of China, which are couple of the important trends that we highlighted starting 2 or 3 years ago of why we believe we would see long term growth in the market. So again, if you wrap that all up end market will continue to grow, we think it can continue to grow meaningful. And we think once we get through these disputes we can continue to grow the licensing business in line with that.

Kulbinder Garcha

Thank you.

Operator

Our next question is from Simona Jankowski with Goldman Sachs.

Doug Clark

Thanks. This is Doug Clark on behalf of Simona. One follow-up question to kind of the historical context of disputes with some licensees, I mean putting all of those together is there any generalization or kind of role that you've come to notice as a result of the resolution of these disputes they've either resulted in kind of deflationary to the royalty rate or as in certain cases you've been able to hold those royalty rate constant. I want to know if there is kind of any conclusion that you've drawn from those.

Derek Aberle

Doug, this is Derek. It's pretty hard to answer, in kind of at a high level. I think each individual deal is different, I would say through any of the negotiations and dispute resolutions we -- I think we've been successful historically and obtaining, what we believe is a fair value for the portfolio. Some of those deals have taken different forms and different structures over the years, but I think by enlarge, that sort of the principle that we operate by, it's the same principle that we operated by as we resolved the remaining agreements we negotiated in China over the last couple of years and it's really the same principle that we'll be applying to our dispute with Apple as we look for trying to achieve the right long-term agreement for the company and consistent with the value of our intellectual property.

Doug Clark

Okay. Got it. And then my follow up question is, as we move to kind of the key market product launches particularly upcoming iPhone, have any of the disputes in your opinion had any impact on how share will shakeout from a chipset standpoint?

Cristiano Amon

Hi Doug, this is Cristiano. Look I think we had said, I think the things go back in time that we have planned for multi-sourcing. And I think at this time, I think what we see will continue to be engaged with them on the product side, we feel very confident about, I think the capability of the product, I would argue that generation-to-generation our differentiation is actually increasing. And right now we see continue to receive orders from the CMs. So, I don't think we can at this point identify anything different than what we have been expecting.

Doug Clark

Got it. Thanks.

Operator

Our next question is from James Faucette from Morgan Stanley. Please go ahead with your question.

James Faucette

Great. Thank you very much. Firstly Don, I know you touched on [Technical Difficulty] how since the NXPI acquisition was announced or the intension to acquire NXPI, how are your conversation with kind of these opportunity with [Technical Difficulty]? Thanks.

Don Rosenberg

Hi, this is Don. So, on your NXP question to remind you there were nine jurisdictions originally that had to approve, we've -- as I said had four approved the U.S, Mexico, Russia and Taiwan, those that are left are the EU, China, Japan, South Korea and Philippine. We are proceeding in each case by engaging with the regulatory bodies and each to a restriction we are, we think on track in terms of following their processes and as we've indicated, Steve indicated earlier, we expect that the timeline as we've outlined it will continue and we're shooting for the end of 17. And I don't think there is really, there is really much to say about those other regulatory bodies other than that, as I said we're cooperating with them and haven't seen any issues at the moment.

Steve Mollenkopf

James, this is Steve. I would say the discussions with the customers have been good, I mean obviously we have limitations, since that agreed to which we can have discussion given that we are pretty close. I've been pretty pleased with what we are hearing with respect to kind of the industrial logic behind the deal. So some of the -- the, I think the bringing together of the Qualcomm IP roadmap and technology roadmap to the channel of and the broader portfolio of products at auto has been, I think positively received by the customers as far as my discussions. And I think also the, importance of increasing the scale and the channel in the IoT spaces is definitely being validated in terms of our view of the market. And, I think also if you look at the last two quarters of the product business here for us, it really seems to be headed in the same direction, or headed in a way that is consistent with the industrial logic behind the acquisition, which is that, has things get connected, you're going to start to see more overlap in terms of the required technologies across these business. I think that's actually good for the end markets and we've been hearing comments consistent with that from the customer.

So, we're planning for, actually planning for the integration and working through the regulatory issues and moving quickly before the closing at the end of the year, before the end of the year.

Operator

Our next question is from the line of Tim Long with BMO Capital Markets.

Tim Long

If we could maybe switch over to the chip business, George you mentioned in the guidance for MSMs next quarter some product launches and China strength, it's a little bit of more stronger than normal seasonal. So, could you talk a little bit about were, was inventory a little low heading in, China has been a pretty touch end market so far this year, so do you think there is going to be a turnaround in the business there, is there is market share, is it more exports. So maybe talk a little bit about that strength and maybe sustainability and then related to that, I would assume that we might be up for a little bit weaker of ASP calculated in that division in the September quarter? Thank you.

Cristiano Amon

Hi Tim, this is Cristiano. Look I think, it's probably important to understand the trends in China market. China has been a growth, strong story for us and I think we see that continuing. So, first your point about what we thought about the product mix, I think we see the market moving up and we see that consistently, we saw that, the ASP market matures, they pierced on the devices we see higher low freights in the higher tiers than in the lower tiers. And I think Snapdragon 600 and the Snapdragon 800 are doing very well; in particularly the Snapdragon 600 has been a very good story for us. When you ask about the going forward, I would maybe remind you we -- we've said in the past about things like AI Mode in caraggregation now 70% of every single device in China is AI Mode 4G plus is now well understood by consumer as a caraggregation. And we speak things, moving towards higher speeds both on our integrated WiFi as well as cellular leading to gigabit LTE. And I think 5G is likely going to be one of the largest market that China would not want to be behind all the other economies. So, I think the story in China is very good. In your last point about growth, we saw the top ten Chinese OEMs, which I think that we are very well-positioned going aggressively outside China. And I think that is enabling our China business to grow faster than the market. Thank you.

Operator

Our next question is from the line of Ross Seymore from Deutsche Bank. Please go ahead with your question.

Ross Seymore

I have two questions. The first one on the OpEx side of the equation, George, obviously the litigation coming in [to the extent] [ph] so why the spending will be a bit higher in the quarter and the guide? But, the other side of the equation the 5G acceleration, can you talk a little bit about the sustainability of that, is it kind of last for a couple of quarters and then fall-off generally the strategy behind that.

And then, the second question I had was on the NXT deal, the regulatory environment a lot of people have asked about that roadmap. But, I'm receiving a lot of questions with people debating that the price that you paid given the move in the semiconductor market may appear to be low. So, I was wondering if we could just get your thoughts on the price that you guys have agreed upon with NXT.

George Davis

Ross, let me start with the OpEx question. Clearly, as you said we are escalating the activity with respect to litigation and so that you will continue to see growth in the spend there. But, on the 5G side and I may have Cristiano add some thoughts on this as well. We are seeing polling of activity by customers. And the number of trials increasing and we feel is very important to be seen and continue to be seen as leading those activities of course and on top of that that just means that the roadmap for 5G is getting pulled in more rapidly.

So, it's not clear to me that this is a one or two quarter type event, I think we are going to see some elevated spending here over the next year to two as we get through these 5G trials and the beginning of commercial 5G launches. I will stop there for a minute and Cristiano if you want to add something.

Cristiano Amon

No. I'm just going to say that I think more and more we see 19 as a reality for 5G commercialization.

George Davis

Great. Thanks. And then, on the NXT deal, I will just reemphasize, our focus is really on the regulatory matters and getting those closed out along with

the integration planning and we are confident we are going to go ahead and close this on the terms that we've agreed to by year-end.

Ross Seymore

Great. Thank you.

Operator

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

Tal Liani

Hi. Few questions, first, puts and takes if you can discuss puts and takes of gross margin of QTL next quarter? And is there anything outside of lower revenue of level in the litigation expense? That's number one.

And then, the second question is, now you lost big QCT business with your largest customer Apple. You lost -- there are some disputes with one of your largest customers on licensing. And the question is, does it will make more sense now to break up the company into two pieces or you are in the same position as before. I want to understand if you think there is any correlation between your ability to maximize the value of each segment separately in light of these disputes and these arguments with customers? Thanks.

George Davis

Tal, its George. What you are seeing in the gross margin effect or really the margin effect that we guided for QTL is really revenue and revenue coming down based on these disputes that we have discussed actually the market is quite healthy, so all the other dynamics are very attractive. And then, the fact that we are ramping spending into that lower revenue for litigation matters. So, its combination of the two just pulled the margin down. It's not like a product business where you have a variable cost as revenue comes down where your cost come down. So, this one where until we get through this period of higher litigation spending and the dispute period, you will see lower than historic but the fundamentals behind the business outside of these disputes are quite attractive.

George Davis

It's also Steve with respect to the business structure, I think we have looked at it pretty heavily in the past and it's still an area that we look at as the environment changes and make sure that we are -- we are making sure that we are putting the business in the right place to maximize value. But, at this

point I think we feel like we have the right structure to resolve this dispute as well as the position the business for the future in terms of the transition into 5G as well as the growth into driving the cellular roadmap into new technology areas or new end opportunities.

So, again, we look at this from time to time, continue to look at it the way to maximize value but I think we feel like we have the right business structure to resolve it.

Unidentified Analyst

Thank you.

Operator

Our next question is from Stacy Rasgon with Bernstein Research. Please go ahead with your question.

Stacy Rasgon

Here are my questions. First, regarding this other licensee dispute, is it safe to say that this other dispute is not with the Chinese OEM given that you have already settled with the large Chinese OEMs, or is that not a leap of logic that it would be appropriate for me to make?

Secondly, given the escalation here and given everything else has been going on, how do we gain conviction that we don't see further contagion, further spreading of this to other customers given this as soon as we bleeding out across the rest of your business?

Derek Aberle

Stacy, this is Derek. As I said in response to an earlier question, we are not going to at this point disclose the identity of the licensee that we have the dispute with. So, not going to comment on that one further.

I think on the question of contagion, if you think about we are working very hard across a number of fronts to really stabilize the regulatory environment and that remains a priority for us. Historically, we've had disputes with licensees large and small going back all the way to even with Nokia where they had 40% to 50% of the market and we are not being as for a period of time and that did not translate into our other licensees stopping payment. That's just one data point. But, as we sit here we are focused on resolving the issues we have, the current dispute with the licensee beyond. Apple is focused on their agreement, the contract dispute under their agreement. We are going to focus on getting those things resolved and I don't think as we

sit here, we have any indication that that this somehow going to result in the bunch of other licensees deciding not to report and pay royalty.

Stacy Rasgon

But, you never have any indication do you?

Derek Aberle

If we didn't ever know -- which you ever know, but I'm saying historically -- if you look at it historically we haven't had that problem as we had disputes, we have been able to work through and resolve them without other licensees necessarily just deciding that they are not going to comply with their agreements. So, I think that's the best we can tell you at this point.

Stacy Rasgon

But that's exactly what's happening right now, isn't it?

Derek Aberle

No. That's not what's happening. We have a dispute with Apple and their contract manufacturers and we have dispute with one other licensee.

Operator

Our next question is from the line of Vijay Rakesh with Mizuho. Please go ahead with your question.

Vijay Rakesh

Thanks guys. Just going back on that other licensee, am I need to understand that it went from a partial non-payment to a full non-payment for the next quarter, is that what you are assuming in the guide?

And on the Apple side, with the new litigation that you announced which is non-spend IT, can you give us some timelines from that, how does that stand? Thanks.

George Davis

This is George. I will take the first question. Our guide in Q3 assumed a partial payment which we did not receive and we assume no payment or report in Q4 guidance.

Don Rosenberg

And this is Don. On the -- I think you are referring to the two in the U.S. that we brought, and one recently in Germany. As we've said before the ITC case in the U.S. generally takes about 18 months, so we are hoping it will stay along that timeline. The cases in Germany could go as quickly as one year. But, obviously every case is somewhat different, but that's a good estimate, I would say.

Vijay Rakesh

All right. Thanks.

Operator

Our next question is from the line of Romit Shah with Nomura Instinet. Please go ahead with your question.

Romit Shah

Thank you very much. George just want to follow up on Rod's question regarding the NXT deal, with semiconductor stocks broadly up 30% to 40% since you announced your intension to buy the company. There has been uncertainty more recently on just whether or not you will get the 80% approval.

And I know you are confident but I'm just curious like what's the -- how is the process work if you were to reevaluate your offer price. Would you only do so after the shareholders have voted or does it work differently?

George Davis

Romit, I will just repeat, really our focus is on getting through regulatory and getting prepared for the close of the end of the year. I think everything else here is just speculation and I'm not going to comment further.

Operator

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

Tavis McCourt

I think my question have a couple. First one into to make sure that the closing of the TDK joint venture, did the June quarter have a full quarter of revenues and cost from that, or is that just partial? And then, Derek, I think you mentioned in the answer to a previous question if there were some catch-up payments in the Q3 QTL revenues, can you dimensionalize that or

give us an indication that if you back those out, it would be pretty similar to their Q4 guide.

And then, a question I guess for Steve, I think there was a lawsuit threat by Intel during the quarter related to Windows 10 and X80 simulation and I'm just wondering as it moved beyond a threat and does it change your opinion on that in market opportunity for you? Thanks.

Steve Mollenkopf

On the -- for the third quarter we had a full quarter of the TDK joint venture. It's ever since they are gone, on the catch-up payments they were, for Q3 I don't think we gave a specific number. They were meaningful and I think the way to think about the guide on Q4 is that the midpoint for the QTL revenue guidance, it doesn't have significant amount of catch-ups. So if you kind of look at it, quarter-over-quarter Q3 to Q4 relatively flat based on our guide. But, you are coming off a Q3 that had some meaningful catch up in it.

George Davis

And with respect to the lawsuit and I think it was actually just a press report that I had heard and I think if anything, if I remember correctly wasn't directly toward us, it is probably directed toward the customers and the ecosystem involved in the PC space. We haven't heard anything about that since then. I will say that we are actively engaged with customers who are interested in that opportunity and that opportunity is coming here per the schedule that we gave in the past. So, it's a -- I think it is building some excitement, and we are pretty excited about what we are seeing there.

Operator

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

Steve Mollenkopf

Yes. Thank you. First of all, I just want to thank all the employees for their hard work and maybe I will finish up with four final thoughts. The first one is, given the environment that we are in just want to recognize and thank everybody for the strong results on the product side. It's really an indication of the strategy playing forward and we are pleased to see the results here in the business.

Second one is the timing of NXT, it's on track. And I think building momentum and looking forward to that happening. We mentioned that on the third point that we are -- we believe we have the high ground on Apple

in terms of our legal dispute we obviously ask for some patience in terms of us getting through that. So, we do feel good about our positioning there and hope you will be able to report people or we able to provide status as we report it.

And finally, I just want to acknowledge the team for putting together a great roadmap and consistently showing up not only in the results, but also in some of the 5G excitement.

And with that, I will just close and look forward to talking with you all next quarter. Thank you.

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