FINAL TRANSCRIPT

Thomson StreetEvents℠

ARM.L - Q2 and Interim 2008 ARM Holdings plc Earnings Presentation

Event Date/Time: Jul. 30. 2008 / 4:00AM ET

CORPORATE PARTICIPANTS

Warren East
ARM Holdings plc - CEO

Tim Score
ARM Holdings plc - CFO

Ian Thornton
ARM Holdings plc - Director of IR

CONFERENCE CALL PARTICIPANTS

John Clarke
Brewin Dolphin - Analyst

PRESENTATION

Warren East - *ARM Holdings plc - CEO*

Good morning everybody and thank you for coming along to hear our results for the second time in a week.

So I am going to do a short business update, and Tim will talk about the numbers in the usual way before we go on to answer your questions on what has been going on this quarter.

Business highlights -- let's have a snapshot of the business as we see it today. The highlights for me are it has been a very good quarter for orders which has helped to drive an already record backlog to an even higher level, leaving us overall 33% higher than this time last year. And what I find encouraging about that is of course that future orders do eventually have to come through into revenue.

We have a very strong licensing platform which I will describe shortly and that has been driving some pretty good royalty growth, again I will describe in detail a little later, but that's particularly encouraging in a year when semiconductor growth overall is certainly subdued. Our royalty is -- growth is much healthier than the industry at large, indicating good gains in market share.

Looking forward into the second half, then we can see a very healthy licensing opportunity from our pipeline of opportunities in the second half, probably as strong as it has been for a good number of quarters and we are seeing royalty momentum right across the business. Note because our royalties are reported a quarter in arrears, most of the year for ARM's royalties has already happened. You know, we have got two months more of shipments to go in 2008 from the semiconductor industry and that's ARM's 2008 royalty done.

So, I am very pleased with the momentum in actual shipments of ARM Powered Products, both in our Processor Division and our Physical IP Division.

Talking of our Physical IP Division, the improving results here for the second quarter in a row and we will come on to some of the detail behind that shortly. Back at base, however, in light of the challenging economy that is out there, we have been taking a cautious approach.

We grew our head count as everybody knows quite substantially a couple of years ago. We grew it a little more modestly last year as we tilted towards productivity and that's continued and Tim, I am sure, will be describing how that has helped us push our margins up, get the earnings per share ahead and deliver cash back in the form of dividends and buybacks.

All in all, subject to the wider economic conditions, we are reiterating our full-year guidance which as a reminder we put out in February and again in April and we are maintaining that right now.

So, switching to a little bit of the detail. Processor licensing, I mean, the headline here is that our licensing revenue for Q2 this year is down quite substantially compared with the record processor licensing number that we saw last year and compared with expectations at large, both your expectations and our expectations, so we can't get away from that fact.

However, I'm looking at this number in context and that is why I'm standing here quite relaxed and not particularly worried about it. And the context to me is a few things. First of all, it's the context of medium term trend for our licensing revenue, which as you know we talk about a 5% to 10% per annum on a medium term basis. Well, actually, we are coming off a period of very, very strong license growth for the last several years and certainly if we are going to get to that medium trend we are going to have to have some periods when that growth slips into negative territory.

So I am not particularly surprised at the -- when you consider that in a longer term context. The other context is set against a record quarter 12 months ago for licensing, which of course we said was completely unsustainable and not likely to be repeated for some time until the business catches up with that.

And the third aspect of the context which causes me not to worry too much is that of course we are reporting several quarters now of strong orders, maintaining that record backlog. And there is a little chart there showing the backlog and how it has moved around since the beginning of last year. And of course in the first part of that period as we ate into backlog, this is the back of the Cortex, first generation Cortex licensing cycles, we ate into that backlog and achieved record licensing revenue. Then we had some longer term deals to raise the backlog to record levels and since then we have had more deals for advanced technology, significant deals with strategic customers, which has pushed the backlog further in a positive direction. And that's one of the things that is giving us confidence for the second half of the year and looking forward. So numbers are up there on the slide and in particular about the processor backlog being up over 50% year-on-year.

So there is good momentum actually for processor licensing going into the second half. The opportunity pipeline as I said is probably as strong as we have seen it for some time. Cortex-A9, which was released to actual deliverables out of ARM released to lead partners at the very beginning of Q2, and so as we move into the second half of the year will be available for general licensing and help to push licensing further.

Obviously we see a continuing run rate from our existing product portfolio both of ARM9s, 7s and 11s, but also of the first generation Cortex processors. And of course our engineering people have been working hard over the last several quarters and they have got quite a chunk of work to do for the next several quarters, but we do expect to see the start of lead licensing for the next generation of Cortex products on the way as we move towards the end of the year.

So, can't get away from the numbers but actually the context is quite healthy. And if I step back and look at that licensing over a longer period and look at what it actually does to the business, take a longer term reference here, you know, what we are about doing is selling licenses to people, growing the number of ARM partners, cumulative numbers of licensees shown in yellow on the chart there at the bottom.

Obviously after a few years, it takes them some years to process those licenses before they start shipping products and that is the red bars, the number of shippers. Some of those semiconductor companies who license products from us get bought by the bigger ones and so the slope of the red line is lower than the slope of the yellow line.

But if you look over several years, whilst the licensing number in a given quarter fluctuates up and down from a revenue perspective and also from a number of licenses perspective, over that period of that chart the number of licenses we have sold in a quarter has fluctuated between about 10 and 23. It has been over 20 three times, it has been 11 three times. So it moves around on a quarterly basis all over the place, but the inexorable trend is up and to the right, and the chart on the right hand side shows the effect that this has on royalty and shows that even though the royalty number fluctuates slightly as a result of

market conditions and inventory cycles, again that moves inexorably up and to the right no matter how lumpy the licensing revenue happens to be some years before.

And we thought we would include this chart because it also shows the longevity of the thing. And the darker blue lump at the bottom is about early licenses prior to 2001 and how that has built a base. The wedge of 300 odd, 299 licenses are the licenses sold between 2001 and 2005 and then the very, very thin blue line that you can see on the top is 158 licenses sold over the last two-and-a-half years which have yet to generate royalty. And we see absolutely no reason for those licenses to behave any differently from any of the previous ones in terms of generating royalties for the future.

So, the message is that licensing can be lumpy in the short term but in terms of building a platform for royalty growth going forward, lumpiness doesn't matter. And over the years we continue to grow that pile, now over 550 licenses, nearly 100 companies paying us royalties on a regular basis, and that includes all the leading semiconductor companies there are out there. We have recently started dealing with a few OEMs as well, sort of very strategic market leading type OEMs, which helps to drive more semiconductor licensing as we design our technology into those OEMs' products.

So moving away from licensing to royalties now, looking at what has been driving royalties, I think it is worthy to note that the semiconductor industry as a whole, Gartner's estimates for the year right now are four-and-a-bit percent for growth of the semiconductor industry as a whole, ARM's royalty revenue up 27% overall. That is obviously indicative of market share gains.

And when you peel down into the table at the detail, you will see those market share gains are clearly happening across a wide range of applications. So ever present in mobile, what's happening there is increasing amounts of ARM technology per phone. I will talk in a moment about that. But very encouraging to see across our other market segments very healthy growth, clearly demonstrating growth in market share, most strongly in microcontrollers, and I will talk about that in a little while.

So moving to the growth framework that we have laid out before several times. Now, how do we grow this business going forward? It's about selling more ARM technology into new applications away from our traditional spaces, it's about increasing penetration of ARM technology within our traditional spaces and one of the ways of doing that in our traditional spaces is with Physical IP.

So the first of those at the moment which really comes down to growing ARM outside of the wireless space. The chart on the right at the top is showing the number of licenses that are being driven by different applications and you can see the green bit at the top is mobile, and that's about 20% at the moment.

So most of the licensing activity that's going on right now is being driven by non-mobile, which for me is a very good leading indicator of our penetration outside of the mobile space going forwards.

If we look at shipments as they are happening day-to-day then as I had on the previous chart, microcontroller is very strong, also enterprise and home. And right now that non-mobile growth is nearly 40% year-on-year. It's because OEMs are standardizing on use of the ARM architecture. They are going to a variety of different ARM partners for their products but they are standardizing on one architecture, and we are continuing to gain share against those other architectures.

I mentioned microcontrollers, and the slide here, we are pulling up a graphic that we showed at our Analyst Day just over 12 months ago where on a sort of traffic light, red/amber/green basis, we laid out the micro -- potential microcontroller partners. And this chart we have updated with the today snapshot is really very encouraging progress. On the top we have ARM partners using ARM for microcontrollers, that's green; orange are ARM partners who have microcontrollers but do not use ARM; and red is microcontroller companies who do not necessarily use ARM at all.

And that's what the picture looked like 18 -- or less than 18 months ago, about 14 or 15 months ago. The picture in the middle is what it looks like today and you can see nothing but an inexorable drift from the red and orange boxes into the green box. So, that is hugely encouraging for us. We have now got over 20 people in the ARM partnership selling ARM based microcontrollers

including iconic microcontroller names now like Zilog which is really encouraging for us. And we are seeing a few new trends. Microcontrollers, it is a distribution business, so we are seeing companies like Arrow getting to think about, well, with this new business model, maybe we can do our own microcontrollers, so Arrow licensing Cortex-M3 to do their own thing. And the good news is, I can tell you we are expecting more activity on this slide over the next several quarters, certainly in the second half of this year.

Switching to mobile; driving our growth within mobile. Now, this is a story about increasing the penetration of ARM technology per handset. And I have stood here before and talked about the number of ARM microprocessors in smart phones before. That's a teardown of the new Apple phone up there at the top -- multiple ARM microprocessors there. And it's an example, and obviously that's not us saying it; that's Semiconductor Insights who have pulled that thing apart and identified the products.

The net-net is that if you look across the whole phone space, then the number of ARM microprocessors per mobile phone is continuing to steadily increase and that is a driver for us in the right direction. We are now up to 1.8 ARM microprocessors per phone.

Within the mobile space, further good news, significant growth in Bluetooth to report this quarter. ARM has been in Bluetooth for a long time but we are now seeing some new ARM partners come to the party with their Bluetooth products and that is driving up our volumes in Bluetooth. Legislation around the world, encouraging people to be a bit more safe when they are driving around in their cars using handsfree equipment, that's helping to drive the volumes for Bluetooth as well.

Sticking with the mobile space, the Cortex-A8, which I will remind you is a product that we launched just three years ago. It is virtually three years exactly since we launched that product, 35 months ago. And we have got our first Cortex-A8 royalties now, obviously very, very small numbers at the moment but these things have to start somewhere. So we are very encouraged by the first Cortex-A8 products out there.

And looking ahead, we can see further designs out in the future based on the licensing activity of today within this set of results. We are talking about an architecture license with a leading OEM for both current and future ARM technology. So, that means do not get excited about any revenue on this deal because it is all tied up with future technology and the revenue will be recognized over several years, but it is very important as far as we are concerned in terms of securing design-ins with that particular OEM and also in the mobile space altogether.

And we are seeing new players come into mobile and their licensing existing technology, and encouragingly, and I am not going to go on about it this morning, but encouragingly our graphics technology as well, which as a reminder is based on an acquisition we did about two years ago now.

So, a lot of the publicity and noise in the mobile space is about mobile computing and so we thought we would just update you with some of the market highlights going on there over the last quarter and in the last few weeks. This is a quarter, by the way, which includes the Computex show in Taiwan, which is a fairly important event for the mobile computing world.

And over the last few weeks, we have had announcements from Qualcomm about mini-laptop products. At the Computex show, NVIDIA did a big announcement on their new Tegra range of processors based on the ARM11 multi-core product.

We have had even ARM9-based notebooks announced. And the board that you see halfway up the slide there, which is a very light board or plastic, the only metal you can see on that is around the connectors, that is TI's new OMAP development board, which they have got out for mobile computing, and obviously there is a bit of competitive activity as well. Unfortunately we would need a bit more metal on that development board, but expect to see some more announcements in the future.

Now, PIPD. I stood up here at the beginning of the year and we talked about technology catch-up, and we talked about being three years into a four to seven year period for our activity in Physical IP and that at the end of 2007 we had more or less

completed the technology catch-up. We are starting to see some of the benefits of that now because we do have our technology, at least up to the leading edge players, in some ways even ahead of some of our customers' development cycles.

And so now, we have done that technology catch-up pretty much. We can focus our activity on delivering products and, as we said back in February, on business as usual, sales and marketing activity, driving the business much more. And we have now reporting two successive quarters of improvement in overall revenue, and I am encouraged because that is revenue improving both from a licensing and a royalty point of view. But -- and I will come on to some of the numbers in a moment.

What is particularly encouraging about it though is the licensing activity for royalty looking forward, You can see some Tier 1 players here, one of whom is prepared to let us talk about who they are, and that is very good because that is leading edge technology, 40 nanometer product, and it's a complete Physical IP platform.

There is actually another Tier 1 IDM who doesn't -- who we are not disclosing the name of this morning but we have had a pretty healthy relationship with them over the last 12 months or so. And over successive quarters different pieces of Physical IP have been licensed, and most recently advanced technology. And I hope that we will see some more of that as we go forward.

One of the drivers is about enabling people to build better microprocessor products. And in the last quarter we have seen quite a bit of licensing activity and certainly a lot more discussions with our semiconductor partners on licensing physical IP and processor products together to build better microprocessors.

So, we are pushing forward on the technology development. The catch-up has not stopped. We are carrying on with that as well as doing the business as usual. We are actually testing, working 45 nanometer test chips at the moment from two foundries and we have made our first 32 nanometer deliveries to the lead partner on 32 nanometers.

So, there is starting to be some momentum in physical IP. From a royalty point of view, we are seeing this as well. Royalty revenue in physical IP up substantially, some of that is catch-up, some of it is underlying, very significant underlying portion there. So it is up sequentially and year-on-year and that seems to be happening, in this particular instance, a little bit independently of foundry utilization. And if you are looking at this sort of balance of older technology and newer technology then we are very encouraged by the fact that there is actually some newer physical IP technology that is noticeably shipping now.

And if I look slightly further ahead, a bit of a leading indicator for what technology is being used is when our customers download the front-end views of these libraries, so that they can do their system on chip designs. And during the last period, we are seeing about 50% of that being associated with the new advanced technologies.

So with that I will conclude the business update and hand over to Tim.

Tim Score - *ARM Holdings plc - CFO*

Thanks, Warren. Good morning everyone. Slight adjustment to the microphone. Given that the numbers have been out in the market now for the best part of a week and no doubt some of you are pretty glad you have had a little bit more time to digest them than we usually give you, I'm not, you will be glad to know, going to drill into copious amounts of detail on these numbers, just try and draw out a few themes. And also, on the revenue line, I think Warren has given a good overview of what the revenue dynamics are. So, I will concentrate more on the costs that we have seen, perhaps the costs that we might expect later in the year and going forward, and a little bit on the balance sheet.

So I think from a headline standpoint as you move down the P&L, although I think it's fair to say we haven't really seen much evidence of the macroeconomic environment on our business to date, we do understand the world we live in and we do understand the uncertainty. And in that environment we are continuing to manage costs carefully. And that has come through in the numbers.

Gross margins being higher is obviously a function of revenue mix as well, but OpEx lower than Q1, as I signaled in April. I said that the Q1 OpEx was likely to be probably the highest of the year. We will talk about the balance of the year a bit later. But OpEx was lower and that enabled margins to grow back to 31.5% and the number slightly ahead of expectations that you see there at the profit and earnings line.

And I think it is quite significant, the cash generation that's coming out of this business, GBP26.5 million, that's only the second time that we have had a quarter where net cash has exceeded GBP20 million. The previous time was about GBP21 million, a few quarters ago. So, that's pretty encouraging. It's partly related obviously to revenue growth -- royalty revenue growth. It was also, I think you would have probably noted if you got that far, a good quarter in balance sheet terms. Receivables were well down, DSOs were down, accounts recoverable on contracts were down, and deferred revenues were up. So it was a good quarter for the balance sheet, generally.

We are not going to be generating GBP26 million every quarter, but I think the general trend of net cash generation is up. And as you know from Warren, we are reiterating our full-year guidance. And I think you have read that and I won't go into further details.

Revenue split, I think, as just a general comment, you can see on the green bars on that chart that gradually over time, as you would expect I think with the successful unfolding of this type of business model, royalties gradually to become a larger proportion of total revenue. We expect that to continue. But I think if you are looking at a sort of five year timeframe, the sort of timeframe we talked about at the Analyst Day, the one before last, it is a very gradual change. And licensing is still going to be a very meaningful part of our overall revenue growth, and royalties probably don't get too much beyond the 50% in that timeframe. And of course, a lot of that is driven by licensing expectation growth in physical IP, graphics, and other technologies.

But I just thought I would remind you that that is the general shape of it and of course, that puts upward pressure on the margin, royalty being a 100% margin stream.

In terms of backlog, I think the general point to take away from backlog, we have seen a 30% increase year-on-year. Clearly, I think we are all aware that quite a proportion of that, and you can see it here at around a third, extends in terms of recognition beyond the four quarters. And so, when we look into the second half, it's good that we have a record backlog. And that backlog will contribute a meaningful proportion of second half revenues in terms of licensing in PD and PIPD development systems and services. But it's probably going to be in the 40% to 50% range of the revenues that we are targeting for the second half. And so as important as the backlog as we reflect on our comments and our pretty bullish comments on second half licensing is our comment about opportunity pipeline.

And in terms of -- if you look at the shape of that pipeline, what it means for longer term deals versus short-term revenue bearing deals, and we do see probably considerably more revenue bearing deals in the second half than we have seen in Q2. So backlog is encouraging, it's encouraging for the long term, it's evidence of long-term strategic deals encompassing future technology, but it's only part of the story obviously when looking at second half licensing.

Thus the normal chart, the composition, processors well up and I think Warren has already touched on that, and a lot of that is tied in with the subscription deals we saw at the end of '07.

So, just trying to put the cost aspects in context, you will recall, Warren mentioned it, 2006 was a quite a big year of investment in head count in the group. It was the year where we made actually quite a big uplift in PIPD, mainly in Bangalore, but we also did three small bolt-on acquisitions in that year, which brought in 70 or 80 people into the group. So that was a big year of investment and a step change, and we said at the end of 2006 don't expect a similar step change any time soon, and we are going to move into a period of productivity. Now, obviously, since we said that the general environment has got tougher, and so not only are we going for productivity but we are also going for really cost control discipline and targeted investment.

So, in 2007, we did see headcount growth. We grew heads by about 4% in 2007, but we were able to keep overall OpEx flat, because we did quite a lot of rebalancing of resources and grew our Bangalore design center from the sort of 50 people that were there when we acquired it with Artisan to well over 300 now.

And coming into 2008, the general mindset is the same -- more productivity, more control. We have had specific restructuring activities in the first half. In Q1, it was in PIPD and in Q2, System Design Division is the divisional name for the development system product line business.

Now both of those activities were actually about securing and encouraging profitable growth in those business rather than short-term cost control actions, but they do actually have the benefit of keeping overall costs under control in the short-term, which is good.

I think looking forward into the second half, what we actually said in the earnings release was that I don't expect OpEx to grow by more than 4% in a full year. 4% on GBP151 million is around about GBP157 million. I don't expect it to be higher than that. It could well be a little bit lower than that. It's dependent on how we feel about the business in terms of pace of investment in heads in the second half and that will be tied in to some extent to the overall environment.

And also to some extent, it's actually tied in to our revenue numbers, because quite a lot of the incentive wage remuneration is based on achievement of revenues. And therefore, if we are at the top end or beyond the top end of our revenue expectations, then OpEx will come up slightly with it. And if we are at the bottom end, OpEx will be lower. So, it's a little bit self correcting.

But the general guidance today is the OpEx in the second half is likely to be high than the Q2 number. Unfortunately -- yes, unfortunately -- we are growing this business and we are not magicians, and OpEx isn't going to stay flat forever. But overall growth, you've heard us talk in the medium term about costs growing at about half the rate of revenues, and that's the kind of -- that's the way we look at this business overall because of the royalty growth. And that's difficult to measure in short term periods. But for 2008, I would put a cap on it at around 4%, but we'll see how the second half unfolds in the detail.

And in converting profit into cash, I guess, this is partly a measure of the business model, it's partly an overall report card on your accounting policies in some ways, but generally speaking this is a pretty -- a business that converts profit into cash pretty rapidly. And you can see that in the last 18 months, cash conversion is running at about 115%, 116% of normalized net income which is pretty encouraging and likely to continue. And of course what that means is that, as well as pursuing the investment opportunities and the development of technology that we see in our business, we are also able to increase dividends and continue our buyback program, the summary of which is there on the right hand side.

I have already talked about the cash quarter we have ended. It may appear as though we are religiously managing the balance sheet to GBP50 million. We are not really and we have given the guidance it's going to be around there. I mean, it's interesting in Q2 because we paid the final dividend for 2007 which was GBP15 million and we have the buyback running at GBP15 million, we still ended with GBP50 million. So that's pretty encouraging.

The buyback will continue in the second half and you can see there that even though earnings in the first half against the first half of '07 are broadly flat, slightly up, we are still announcing an interim dividend up 10%, which is obviously more tied into our expectations for earnings growth in the full year and beyond than it is into the first half.

So, in summary, I mean, in terms of the context, just revising slightly what Warren has said, we do have built up over many years, a very strong licensing platform. And we certainly are seeing the benefits of that coming through in royalties across all segments. We can see that the PIPD results are starting to improve. We are still looking at the overall group and the overall environment with quite a disciplined financial hat on. But the model itself, together with that discipline is throwing out lot of cash at the moment.

And looking into the second half, we have a high backlog, we have a healthy opportunity pipeline, those are the sort of key -- those are the key inputs into our H2 licensing guidance. And we do expect strong royalty momentum to continue in the second half, as Warren said, we kind of know most of the data from our licensing partners in terms of their outlook for the year, still a couple of months to go.

And we are reiterating guidance. I mean, I think any sensible company would have to say that it assumes no material deterioration in the environment, because obviously we don't have a crystal ball any more than anyone else. But based on what we see today, in terms of -- including impact on our business, we are confidently reiterating that guidance. Thank you very much.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Yes, good morning. The first question would be on the OEM deals you signed in the quarter. How should we think about those from a revenue perspective and how do they actually work in terms of what the OEMs are getting from you?

Warren East - *ARM Holdings plc - CEO*

Okay. I mean from a revenue perspective, as I said, think about that as -- because of the nature of the products licensed actually, it's revenue over a period of several years. So, not a material impact on short-term revenue on a quarter-by-quarter basis.

And in terms of what people actually get, well again it varies. The one deal that we talked about this morning is actually an architecture license. The other deals are various, actually, from design-only licenses through to design and ability to manufacture chips.

Tim Score - *ARM Holdings plc - CFO*

I mean, typically, you probably recall that when ARM signs architectural licenses, they are typically for an architecture that is already in play. And therefore, you tend to get quite a big revenue bump. This particular deal encompasses current and future and therefore the revenue gets stalled and has to be recognized ratably over the period of the agreement.

Unidentified Audience Member

And then, maybe just a follow-up on the deal pipeline into the second half inside any Cortex-A8 or R4 deals in the second quarter. As we look at the pipeline into H2, would we expect a handful of those sort of higher value application deals to be signed, do you think?

Warren East - *ARM Holdings plc - CEO*

Yes, yes we would. And if we look at the pipeline into the second half, it's not particularly tilted in any direction towards any particular type of product. It's pretty balanced.

Tim Score - *ARM Holdings plc - CFO*

I think the point that Warren made earlier about Cortex-A9 is probably the relevant specific, because it is normal that lead licensing, delivery of technology to the lead licensees, a little period of digestion and then more general licensing by the next tier. And looking into the pipeline suggests that people are girding their loins for that next wave of licensing.

Unidentified Audience Member

A couple of questions on licensing. First of all, on PD, given your comments but given also the current environment, can you maybe qualify the nature of the uncertainty or maybe should I say, how are your customers behaving at the moment? Is there a big difference between say, large IDMs, large fabless companies and maybe smaller companies to start with?

And second, on PIPD, I am a bit surprised that you are not a bit more sort of forthcoming on the future PIPD opportunities, given that you closed on STMicro, which arguably is probably one of the larger opportunity you had in PIPD. So, my point is on PD licensing, have we seen effectively a trough in the second quarter despite potentially your backlog falling?

And second, on PIPD, are we setting a trend effectively with STMicro, is it more of a one-off and the visibility is a bit murky still?

Warren East - *ARM Holdings plc - CEO*

Okay. So, I mean, PD licensing, as I said a few moments ago, if I look over several years, then the number of licenses signed in the quarter seems to fluctuate between about 10 and 20. And we have been over 20 three times and we have been down in the sort of 11 range three times as well.

So I think we are saying revenue from licensing in the second half is going to be stronger, with the cautious guidance that we put out at the beginning of the year, that we are reiterating right now. We did refer to the macroeconomic conditions and talk about the mood of uncertainty affecting people's licensing behavior. However, today we are also talking about bottoms up -- the opportunity pipeline is strong. So we can see a very strong pipeline.

Judging the exact timing of when those discussions, which, in some instances, sales cycles go on up to 12 months or so, judging when they are actually going to finish and result in a signed contract is hard. So that is driving some of our sort of overall levels of caution but we are going to point at the opportunity pipeline and say it's good, it's broad, it encompasses lots of products and that's behind our second half confidence.

On PIPD, yes, obviously we are very pleased to be able to talk about the ST transaction this morning. It's great and it has been in discussion for a long time. And we have said before and we will say again, there is a lot of discussions ongoing and as we complete the technology catch-up and as we get our technology in line with the leading edge players and where they are working, then things are looking a lot better.

Two quarters of sequential improvement is very encouraging. It reflects the end of the technology catch-up period and our ability to channel more resource into immediate deliveries. It also reflects some of the operational improvement that Simon was here talking about back in February.

However, it's on a quarter-by-quarter basis and I am reluctant to say yes, we are going to see another new IDM put their name up on the chart in October and another one in December and so on. That's certainly the intention, but I can't promise exactly when these things are going to happen, but all the conditions are right for it to happen.

Unidentified Audience Member

Hello. If we look at the maturity profile of your backlog, 49% of the backlog is to be recognized after 12 months. That was 24%, 23%, if I recall, in Q3 '07. So it's much more long dated. I would suspect this is partly a result of you having signed large subscription or architectural deals, not -- but basically zero per-use licenses in the quarter and quite a few Cortex licenses recently. So, is that an important driver alongside the cautiousness referred to in licensing for licensing revenues having weakened recently, but is that also not a sign that we should see some support going forward in next 12 months? Then I've got a follow-up.

Tim Score - *ARM Holdings plc - CFO*

I think your analysis of it for the first 70% of that question is right. I mean, clearly what happened in 2007 was that three subscription licensees actually renewed. And what happens with a subscription, when you sign it, it goes into backlog based on a multiyear period. And as that period unwinds the backlog shrinks. So, obviously, by Q3 '07, when you are talking about the subscription license impact, the backlog had reduced. And when they renewed of course it went back up again. And so part of the driver of the backlog clearly is these longer term deals and we are not shying away from that.

Having said that, the backlog coverage of license revenue in the second half is at least as high as it is normally. So the backlog itself is larger. Yes, there is a larger forward component which is, in a sense, good for visibility more than 12 months out of a layer of our license revenue.

But I think Q2 revenue is not really about what's been happening in the backlog, it's about what deals closed in Q2. And it would be easy, based on what Warren was saying in answer to the economy question, it would be quite easy and certainly the default assumption may be externally that Q2 processor licensing was down for macro factors.

If you actually look at the detail and you look at the pipeline going into the second half, it's pretty hard to draw that conclusion. It doesn't seem that that is the reason. It literally just seems of, what was the mix of deals that signed in that particular quarter and what deals are going to be signed in Q3 and Q4, which is why I am saying, if you look into second half, backlog's important, opportunity pipeline is important.

Unidentified Audience Member

Yes, so I guess what I was suggesting is the maturity profile of the backlog you have now is probably more supportive of licensing revenue growth going forward vis-a-vis what we have seen in prior cyclical corrections for you guys?

Tim Score - *ARM Holdings plc - CFO*

It is, but when we get into '09 and '10, it's going to be based on what we have currently got, of course, a fairly modest layer of our targets. But obviously between now and then that layer is going to increase. And because of the nature of some of these deals, probably we do have more visibility today of a layer of licensing revenue in one, two and three years' time than we would normally have had.

Unidentified Audience Member

And a second question is on the number of cores per phone. You had a big increase in the quarter, according to your own calculation of course, 1.8 from 1.7. And how should we look at that going forward and the components of it? I mean, I suspect you've been helped by connectivity in particular in that given quarter.

Warren East - *ARM Holdings plc - CEO*

I think we are just going to see that continue to increase. Whether it sort of ticks up 0.1 of a core per quarter or not, as it has done for the last couple of quarters, I don't know. I mean, what we saw last year was a seasonal effect as we got into the Christmas season and phone manufacturers introduced their new and more sophisticated products. There is nothing out there that is telling us that the long term picture we have painted about that driving up through two and maybe to two-and-a-bit cores per phone on average is not going to happen.

Exactly how long it takes, we don't know. Probably it depends on how many low end phones with one processor per phone get tripped and that depends on the rate of signing up new subscribers in developing regions, largely. So watch for that number. If that number increases, then good news. The overall volume of phones will probably increase and the overall ARM volumes will increase but it will hold down the average number of cores per phone.

As far as smartphones are concerned, our estimates for volume increases on smartphones this year, at the beginning of the year, we were rather more conservative than the market at large. I think the market at large has moved into the ARM zone on those expectations over the last six months and we haven't really changed. So we can see more smartphones this year to the tune of about 30% and that's helping drive that number up.

Unidentified Audience Member

Morning, morning. Just a follow-up question on the earlier one about the OEM deals. Particularly, what's the significance that the deal is with the handset OEM rather than the chipmaker, firstly? And then, I guess, related to that, you have been reasonably restrained about Intel this morning. Would you also expect to see them pursue similar deals with kind of handset OEMs, top tier names potentially, any view on that?

Warren East - *ARM Holdings plc - CEO*

Yes, two questions. So on that particular transaction, we are not really disclosing any more about that transaction than is in our earnings release and we have already disclosed. Some handset manufacturers want to have more control over the design of their handset, including the components within it, than others. And it's as simple as that. And the ARM business model offers one that level of control if that's what one wants to do and one has the technical resources available to do it. And that's a question for each and every handset manufacturer. So, sorry, I can't really be very forthcoming about that.

As for Intel, well, they are in the business of selling microprocessor chips and I am sure they would love to sell some of their microprocessors chips into handset manufacturers. They are working on low power versions of their x86 product line. I think by their own acknowledgment, it's going to take them years to catch up with ARM from a technology point of view in terms of applicability for handsets and from a power consumption point of view in particular. That particular story will run and run and is going to keep us occupied for many years. Right now, ARM is the incumbent architecture in smartphones and I don't see that changing in the short term.

Tim Score - *ARM Holdings plc - CFO*

When Warren says it will take them years to catch up with ARM, he doesn't necessarily mean he thinks they will catch up with ARM, because as they move forward, also ARM and its partners will be moving forward. So in a few years' time we will see how the race is going but we can guarantee that both sides will be moving forward as diligently as they can.

Warren East - *ARM Holdings plc - CEO*

And by the way, it isn't just ARM. It's ARM and ARM's partners. And in the slide I put up, I referred to a couple of our leading partners and some of the product announcements that they have been making. And so Intel, I'd say, they are going to go at it for years. They have the resources, they have the expertise and they have the underlying technology to definitely improve their product line and make it more suitable. As Tim says, it's us driving our roadmap forward as well plus the leading edge wireless semiconductor manufacturers who today have their products based around the ARM architecture who are plowing vast resources into developing their product lines for the future based around the ARM architecture.

Unidentified Audience Member

I have a simple question about royalties. On the embedded side, it seems like there is actually a significant uptick in Q1 -- well, actually both enterprise and embedded, specifically enterprise normally you'd expect some type of seasonal downdraft. Is there any particular up-step of any type of particular product that's really driving that, whether Wi-Fi box or any customer that's really come up?

Warren East - *ARM Holdings plc - CEO*

Yes, well, on the enterprise thing, it is market share issue with some players and it's some new products on Wi-Fi that are coming through. So that overrides any seasonal effect. On microcontrollers and the deeply embedded, then I think that's part of a sort of ongoing trend that we've talked about for a while and it's going to continue happening. I mean, if we look within our system design division numbers at the microcontroller tools sales, then they have been going very strongly for the last several quarters and obviously that's a great leading indicator.

Unidentified Audience Member

On the enterprise side, it's specifically Wi-Fi?

Warren East - *ARM Holdings plc - CEO*

Yes. Ian, do you want to add anything on that?

Ian Thornton - *ARM Holdings plc - Director of IR*

(inaudible -- microphone inaccessible).

John Clarke - *Brewin Dolphin - Analyst*

John Clarke, Brewin Dolphin. Could I just ask two things? One is, could you give us a steer on royalty rates, whether there has been a deceleration in rates or whether they have stabilized, and how you see the position going forward over the next year or two?

And secondly, at what point do you see the percentage of revenues from mobile phones beginning to take a quantum move down as some of the other strong growth areas gain traction? It is something one's been talking about for some time.

Tim Score - *ARM Holdings plc - CFO*

Yes. I don't think I am going to tell you anything you haven't heard before about average royalty rates. I mean, what has happened in the last couple of years is the rate has been on a decline on average but it has bounced around between 5.6 and 6.2. Last quarter it was 6.2, this quarter it's 5.7. Last quarter, it was quite a strong seasonal contribution from smartphones driving the ARM11 share which is obviously, as Warren showed, in the very early stage of its contribution.

This quarter, a very broad based high volume growth in some of the areas where the chip prices are lower and therefore at our fairly standard percentage of chip price brings down the average. We really don't have a crystal ball on it. I mean, my expectation would be -- well, I know we are going to continue to benefit on the upside as smartphones grow and I know that the increased penetration in some of these other areas, particularly microcontrollers, will bring down that average rate. But as you saw in this particular quarter versus the expectations of the market, the overage in volume shipments considerably outweighed the fact that the average royalty rate was 5.7 and the consensus expectations were just under 5.9.

Unidentified Participant

(inaudible -- microphone inaccessible) per device.

Tim Score - *ARM Holdings plc - CFO*

Yes, sorry. Thanks for the advice. So broadly, you can't predict exactly the second half but I would expect it to keep moving around in the range that it has been in for the next few quarters actually.

The mobile phone question -- mobile phones, I mean, there is a royalty aspect and there is a licensing aspect, and Warren has just run through the fact that the majority of licenses currently are being driven by licensees planning to build devices for nonmobile applications.

Now, we said a few years ago that in about 2010, we thought it might be 50% royalties from mobile and 50% from non-mobile. Since we said that, the mobile sector has grown much more strongly than I think anyone expected, And therefore, I think that shape, which we still think will occur over time, evidenced by things like the licensing being focused on non-mobile, is just going to happen very slowly because mobile continues to grow and it's all about the mix of mobile and the smarter phones, which is still a very small proportion of the whole, driving up ARM's mobile royalties. So, it's going to be a long time but that is the direction.

Unidentified Audience Member

Warren, you mentioned in your presentation that you are encouraged by the pipeline for PD licensing in the second half of the year. But can you maybe talk about what's driving that? Is it the frequency of deals you expect to close, is it Cortex-A9 going on open release, is it the new cores you expect to offer in the second half of the year?

And then when we think about backlog and revenues for PD licensing, do you expect backlog to grow consistently through the second half as this pipeline starts to come through? And when do we start to see positive PD licensing revenue growth come back to the business?

Maybe one for Tim, you talked a lot about backlog being up quite strongly in PD. Can you talk about PIPD in your last two or three quarters, what's the general trend in PIPD backlog, and again, looking out next two or three quarters, how do you see that evolving? Thanks.

Warren East - *ARM Holdings plc - CEO*

Okay, so looking at the PD licensing activity, I look simply at the number of opportunities in the pipeline and the aggregate value of the recognizable revenue that each of those opportunities drives. And that's really what's behind our optimism and is -- so it's a comment on the number of opportunities.

Now why should it be better in the second half than the first half? I think, maybe the second quarter, with 11 licenses, is historically, if you look at the trends, it's at the low end of the range. It's within the normal range but it's at the low end of the range. And people can not buy licenses for a whole variety of reasons, it's just timing of projects and so on. And as Tim said earlier, I don't think it's specifically a comment on the macroeconomic conditions.

But the fact that licenses weren't signed in the first half does have something to do with, I'm sure, the fact that there are more licenses or more license opportunities in the second half. It isn't -- aside from the A9 which is a material change in that that product hasn't been available for widespread licensing and will be available for widespread licensing in the second half of the year. But it still takes a while to crank up those sales cycles and get people there, so don't expect a huge bulge of A9 licenses, but there are some opportunities. No, it's right across the piece.

In terms of the revenue, then, the new cores that we are talking about, just doing some lead partner licensing, obviously that's not going to contribute anything to revenue at all. But it should help to keep the backlog up as we move through the second half. So, as Tim said, a key component of the elevated backlog is the subscription licenses renewed last year and the architectural licensing we talked about this morning. Those are all recognized very slowly over multiple, multiple quarters, and therefore that backlog isn't going to decline much as those get used. It will be replenished by some licensing in new technology.

In terms of when we will see revenue growth in processor licensing, we expect the second half, both quarters of the second half to be stronger than the second quarter just reported. When you are looking for year-on-year comparators then we have to remember that we are coming off a period of very strong licensing, and so it's going to be a little while before we see year-on-year comparators. I mean, this quarter last year was an exceptionally high level of licensing and I think it's going to be quite a while before we see licensing back at that level. It's just got to wait for the overall business to grow.

Tim Score - *ARM Holdings plc - CFO*

The IPD backlog, I mean, at the end of Q1, PIPD was 19% of the total backlog -- sorry, at the end of Q1, PIPD was 20% of the total backlog, at the end of Q2 it's 19% of the total backlog. The total backlog's up a bit, so what -- obviously, it's slightly down. What you can -- what's actually been happening, Warren referred to it, is post-technology catch-up is a little bit more backlog being freed into revenue. If you look at the opportunity pipeline for PIPD in the second half, I think the prospects for pretty meaningful increase in backlog are quite high based on the number of leading edge technology opportunities that we have in the PIPD pipeline.

Unidentified Audience Member

Just one quick question on the Artisan losses that you reported at the end of your release. Is there potential to take more headcount out of Artisan now that you have completed your catch-up phase effectively. I just was wondering you have invested lot of headcount particularly in India but is there a potential may be to take more US headcount out of that business?

And just a second question just on the Q3 outlook, are you basically saying that you are pretty comfortable with what are the consensus is for Q3, at the moment. thanks a lot.

Warren East - *ARM Holdings plc - CEO*

The Artisan losses that Rob prefers to, which are in note six of the release in the new segment, details you give under I for S are -- there are a couple of things to say about them. One is obviously the physical IP segment takes in all -- pretty much all of the amortizations and intangibles and quite a big part of the obviously the share-based remuneration.

It also -- in getting to that segment analysis you have to do a lot of allocation of costs that sit in the whole group. And while I have been asked questions in recent quarters about the profitability of the physical IP division I've said to you that at the sort of contribution level, PIP revenue less the direct costs, it's actually very profitable. So that's just to put that in context in terms of -- sorry, Rob, was there follow on, you said about Q3 outlook?

Unidentified Speaker

Yes, (inaudible).

Warren East - *ARM Holdings plc - CEO*

I mean in terms of heads -- we -- having made that investment in 2006, we believe and having done the reorganization in Bangalore and having done the restructure in Q1, I think in terms of overall headcount we are pretty much where we need to be. I think there is still going to still be some moving skill bases around to make sure the right people are in the right places to get the job done in an optimal way. I think now off this cost base it is a question of driving the revenue growth to increase the profitability, I think that's kind of where we are. You shouldn't expect any step change up or down in physical IP headcount.

I think in terms of the consensus coming into Q3, clearly in terms of reiterating guidance overall we are not expecting any significant change in consensus, I mean I think we can expect to see some reasonably significant change within the revenue lines based on how licensing royalties and physical IP have moved in Q1 and Q2. But overall we wouldn't necessarily expect significant change.

Unidentified Speaker

Just a [few] questions. The amount of backlog that materialized into sales in first half of this year, was this according to your expectation at the year-end last year? And if not why was that lower?

Warren East - *ARM Holdings plc - CEO*

Yes, pretty much actually. That again is quite a lumpy number, I mean from memory in Q1 the contribution from backlog was about 40% into process or licensing. I think in Q2 it's over 50% which I think is kind of what you'd expect from a quarter where there is fairly a small number of turns in terms of business. But I mean we came into the US saying that somewhere in the high 40% around 50% of target revenue for '08 revenue applicable to backlog i.e. excluding royalties was covered in backlog and it's sort of panning out around that sort of shape.

Unidentified Speaker

And the second one is what has the Infineon announcement changed for you, what are the implications? I remember on your analyst's Day you put Linux quite high up on your slides.

Warren East - *ARM Holdings plc - CEO*

Actually as far as we're concerned it doesn't make a huge amount of difference. We are seeing Linux become more widespread in terms of the use and particularly when we start talking about mobile computing rather than POS smartphones but as for Symbian we'll have to wait and see what Nokia does when they have control over this. But for the time being our relationship with Symbian is unchanged. The activity that we are doing with Symbian is completely unchanged and from what we know so far it is going to remain unchanged.

I think we have the microphone at the back, you need a microphone for me.

Unidentified Speaker

(inaudible) your pipeline conversion and if so how is that trend over the last several quarters?

Warren East - *ARM Holdings plc - CEO*

We do track it and it actually doesn't fluctuate too much on a quarter-by-quarter basis. Looking at the size of the pipeline at the moment as I said before that's what it is driving our confidence for second half licensing. If there is a material change to the conversion rate then it would have to be quite a material change then the license revenue won't materialize like that, but over the last six quarters it has moved around a bit, but not much.

Unidentified Speaker

One thing is probably worth saying just to provide some color. When you look into the pipeline and you look at the shape of the deal with this probably the most likely shape that's going to finish up. It does not always end up like that. In the discussions, in the negotiations for a major license deal it is perfectly plausible that either additional process or technology or increasingly some physical IP technology can come into a combined deal. Now precisely which technologies come into a combined deal can have a very dramatic impact on the revenue recognition characteristics.

So, it's not as simple as looking at what's the pipeline today if that deal closes we know the final answer. It's actually about what's the shape of, and we talked in Q4 about some deals that ended up in subscription deals, but we didn't necessary look as they were going to be at the beginning of the quarter. Very, very dramatic effect on a one quarter view, no real impact on the licensing platform and the royalty progression that Warren went through earlier so just need to bear that in mind that that is a complexity that we have to deal with as we give this guidance.

Unidentified Speaker

A couple of questions firstly regarding PIPD, I mean, when you got into this business, I mean, it was mainly a foundry driven business and things seem to have change and clearly -- I mean there seems to be momentum on the IDM side but the foundry side on the other hand I mean seems to have consolidated and only really one or two foundries are really looking long-term survivors at this point. So, does reduce the licensing pipeline particularly to the 16 or so foundries that you were selling licensing licenses to in the past and a I have couple of follow ups.

Unidentified Company Representative

Okay, when we went into this business as you say it was foundry driven and we said in a four to seven year period we wanted to get a substantial portion of IDMs in the regular habit licensing physical IP from us, as they are with microprocessor (inaudible) so of rebalancing from foundries to a mixture of foundries and IDMs is absolutely our strategic intention with this business.

However, if I look at what's going on in the foundry part right now then we are continuing to sell licenses to foundries. It's true that the foundry world is sort of bifurcating into those who are going with the leading edge technology and those who are not making those leading edge investments. But if you go and talk to those foundries who are not making those leading edge investments they are not giving up, they are seeking to differentiate their product and service offerings in other ways and as they are doing that then they are throwing up opportunities for continued licensing of physical IP at the older geometries but rather than be at the high level and talk about licensing a library you have to get into the functions and features and functionality of the actual physical IP products that are being licensed. So, right now I can't -- I can buy this sort of high-level argument but we don't really see that trend happening. You had some follow ups.

Unidentified Speaker

Regarding I mean, you talked about this Intel and I mean, this whole business of notebooks, and mobile computing pocket size notebooks. I mean you clearly seem to have some level of design wins there. Do you see your application based in that market sufficient to be able to see you gain some traction versus the (inaudible - accented) which is being fairly successful in that market? That's the first question and secondly (inaudible - accented) you've talked about potentially going towards the 40% EBIT margin operating profit level. I mean what is it that could move you from these levels you've been hovering around for the last many years. Move up towards those levels, is it, I mean, substantial revenue growth or is it something it's going to be a change in your expense structure or something which is going to take you to those levels?

Unidentified Company Representative

Shall I deal with that first?

Unidentified Speaker

Yes.

Warren East - *ARM Holdings plc - CEO*

No, structural change, I mean a stable currency environment would help. You know, the dollar not weakening by 40% over the next five years like it has over the last five would help. I mean, if it stayed flat, it's literally driven more by the dynamic of as I said being able to grow our cost that broadly half the rate of revenues and why we are able to do that because of the royalty growth driver that is being driven off investments as already being made and R&D that's already been expensed.

Clearly we're investing in new technology to license but actually if you look at the relative contributions of that against the platform that's already there and the royalties that are going to flow from it, it drives that sort of margin profile. So, nothing structural, you are going to see steady head count increases in the ARM business, you are not going to see the current portfolio of businesses. You're not going to see step changes in head count. But you are going to see good revenue growth, a lot of it driven by royalties.

Unidentified Speaker

So, it is not driven by a different exchange rate expectation that is (inaudible)?

Unidentified Company Representative

It's driven by two dollars to the pound. Anything stronger and that's a bonus, anything weaker might slow it down a bit.

Unidentified Speaker

Okay, the Intel mobile computing question. That of course if I look at the applications available for a PC today and compare them with the applications available for platforms that traditionally used ARM architecture then there is a much wider range of applications available for the PC. However, we are not talking about a snapshot today we're talking about development for the future.

If you look at our Analyst Day slides from this year and we set the mobile computing opportunity in context in terms of -- versus the numbers of smartphones, the numbers of PCs. Both of which are substantially more than people expect -- sort of those sort of in-betweeners type of products to be right now. No, I think the applications developers will follow the volume opportunities and right now it's about Internet applications, Internet applications have to be rewritten no matter what the architecture is to reflect different screen sizes, different bandwidths of Datapipe speeding the particular products. And so you are seeing development of other Internet applications.

Linux and other big operating systems are available for the ARM architecture same as they are for the X86 architecture that I've used a Linux machine with normal Microsoft Office type applications seems to work perfectly well as far as I can see and I think if those platforms are successful then we will see application development happening and you know why do I think that can happen? Well look at what is happening today.

In the Apple space for instance where the iPhone where those guys who made a big fuss about their developer community in launching their development kits and for free of charge you can download a version of the development kit and hundreds and hundreds of developers have done so. And actually hundreds and hundreds of developers have paid money and created applications and the Apple folks were up there talking about the applications when they launched their new version of the iPhone just the other day. And so we have seen the developer community respond and write applications for the new platforms and I'm sure that we will see them continue to do that.

Unidentified Speaker

Just going back to PIPD just to understand, I mean Warren I remember that you said when you both (inaudible) that there would be some kind of domino effect i.e. when large IDM would buy it would be followed by many others because well, herd mentality I guess. So what I'm trying to understand is twofold, one, (inaudible) one IDM that has bought now three PIPD licenses in a row. What has been the sort of thinking behind buying these three licenses as been -- is that been like one design center and then a second one or is it driven by a specific application and second do you stick to this domino effect now that STM sort of followed the first (inaudible) idea?

Unidentified Company Representative

Yes, yes. Absolutely I continue to believe in the domino effect. I think when I talked about it whenever you are recalling and I talked about it several times, we were simply talking about the parallel between people's behavior over microprocessor licensing and physical IP licensing and we're looking back with the benefit of hindsight on the microprocessor licensing that we've seen. And as it happened then how it was hard to discern domino effect until after the dominoes had fallen over. So we're drawing a parallel and saying that's the sort of behavior that happened then it will probably happen with physical IP as well because the economic drivers and the like are very similar.

On the basis of what we've seen so far we know the semiconductor industry is a small world out there and people do talk. And we've talked qualitatively about the number of discussions with IDMs building over the last year, or 18 months we've talked about the quality of those discussions improving and I'm sure that part of that is due to the domino effect and people talking.

It's really too early on the basis of just announcing this morning about a deal with ST. This had been so much of domino effect on the basis of that one deal but I continue to believe in the domino effect unfolding over the next several years.

Warren East - *ARM Holdings plc - CEO*

And I suppose the key change now relative to the conversations in the past as you now have the technology that is appropriate to enable the dominos to start going down whereas before we were in the technology catch-up phase it was in a sense theoretical. And we were -- our discussions were about what was going to happen in the future now there are about -- okay we can now look and feel your technology and compare with our other options. And I think we are in a different place now.

Unidentified Company Representative

Silicon evaluation and physical IP and silicon proof is really important and remind you what I had on the slide there that we are now testing 45 nanometer silicon, we have now delivered real 32 nanometer products from ARM into lead foundries and there will be 32 nanometer silicon this year.

Unidentified Speaker

Just to understand, now that this year has taken one 40 nanometer license if they want to I mean, do they need to license more 40 nanometer IP from ARM for any other designs or can they apply that as many (inaudible - accented) they want?

Warren East - *ARM Holdings plc - CEO*

Well in terms of the of the products they've licensed today then they can apply that across multiple designs but as with any other physical IP when you get into it, this specific products having different functions and features and so on and there's plenty more 40 nanometer physical IP products available for ST and others to license.

Unidentified Speaker

Thank you.

Unidentified Speaker

We're wrapping up.

Unidentified Speaker

Yes, I think (inaudible).

Warren East - *ARM Holdings plc - CEO*

So, no more questions. Thank you all very much for coming and we'll see you again beginning of next year.
