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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Texas Instruments Fourth Quarter Year-End Earnings Conference Call. At this time I'd like to turn the conference over to Ron Slaymaker. Please go ahead sir.

Ron Slaymaker, Vice President-Investor Relations

Good afternoon. Thank you for joining our fourth quarter and year-end 2012 earnings conference call. As usual, Kevin March, TI's CFO is with me today. For any of you who missed the release, you can find it and relevant non-GAAP reconciliations on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor statement contained in the news release published today as well as TI's most recent SEC filings for a more complete description.

Our mid-quarter update to our outlook is scheduled this quarter for March 7. At that time, we expect to adjust the revenue and earnings guidance ranges as appropriate.

Let me start with the market environment. Revenue in the fourth quarter was in the upper half of our range of expectations. We expected the environment to be weak again last quarter and it was. Visibility remains poor and it is difficult to predict our business trends with precision. That said, we expect revenue in the first quarter to be seasonal except for those Wireless mobile product lines that we are exiting.

We continue to believe that inventory levels at OEMs and our distribution channels remain low. Even in this weak demand environment, our strategy is producing strong results. Notably, we generated almost $1 billion of free cash flow in the quarter and almost $3 billion in the year. This is a result of a strengthening product portfolio as more of our revenue comes from Analog and Embedded Processing products, 72% in the fourth quarter. It is also a result of our strategic capacity investments over the past few years that have allowed us to reduce capital spending and will now allow us to maintain capital spending at historically low levels in the years ahead while continuing to have a strong capability for growth.

We continue to return our excess capital to our shareholders, last year returning 90% of free cash flow through share repurchases and dividends. Kevin will provide more on this in a few minutes.

Let me now walk through the quarter's results. Revenue of $2.98 billion declined 13% from a year ago and 12% sequentially. Analog revenue declined 2% from a year ago and 9% sequentially. From a year ago, Silicon Valley Analog and High Performance Analog, both catalog oriented product lines, declined, while High Volume Analog & Logic was about even and Power Management grew. Sequentially, revenue declined in all product lines.

In the sequential comparison, we were encouraged that Silicon Valley Analog performed about the same as the other product lines despite the additional revenue headwind associated with our conversion of a distribution business to a consignment inventory model. We estimate that we are about one third of the way through the consignment program transition for this product line.

Embedded Processing increased 6% from a year ago, mostly due to higher revenue from products sold into communications infrastructure, although revenue from catalog products and automotive products was also higher. Sequentially, Embedded Processing declined 10% with lower revenue in all three major product lines.

Wireless revenue declined 56% from a year ago. Baseband revenue fell to $64 million and was the majority of the decline although OMAP applications processors and connectivity products also declined significantly. Sequentially, Wireless revenue fell 2% with connectivity products down, OMAP even and baseband revenue up.

Our Other segment revenue declined 7% from a year ago and 25% sequentially. From a year ago, the decline was mostly due to the expiration of transitional supply agreements, although DLP revenue also declined. Revenue from custom ASIC products and royalties increased.

Sequentially, revenue declined primarily due to the seasonal drop in calculator revenue. Revenue from DLP products and custom ASIC products also declined while royalties increased. The sequential revenue was also impacted by the non-recurrence of $60 million of business interruption insurance proceeds associated with the 2011 Japan earthquake.

Turning to distribution, revenues – or resales grew 4% from a year ago and declined 2% from the prior quarter. Distributors reduced their TI inventory by several days in the quarter to a little below six weeks.

Now Kevin will review profitability and our outlook.

Kevin P. March, Chief Financial Officer & Senior Vice President

Thanks Ron, and good afternoon everyone. Let me start by walking through some of the charges and benefits in the quarter that were included in our reported results. Acquisition charges in the fourth quarter were $88 million. We recorded charges on the restructuring charges/other line of our income statement of $12 million associated with the previously announced planned closure of several older factories. Together, these acquisition and restructuring charges negatively impacted EPS by $0.06 in the quarter as we had expected and included in our guidance.

Additionally, we also recorded charges associated with our Wireless business restructuring that we announced in November. At that time, we expected the associated charges to be about $325 million. Charges were higher than we had expected, at $351 million. We had expected the EPS impact of this charge to be $0.21 and this was the amount we included in our mid-quarter guidance. It actually came in at about $0.23. Combined, these three charges round to $0.28 of EPS in the quarter.

Finally, we had a discrete tax benefit in the quarter primarily associated with additional U.S. tax benefits that we received from manufacturing related to the years 2000 through 2006. This tax benefit and the associated interest was not in our outlook and provided a $0.15 benefit to earnings per share in the fourth quarter.

So let me summarize the impact of the charges and the discrete tax benefit. Reported earnings per share was $0.23. The net of these items I just discussed was a negative impact of $0.13. Since most of you excludes these items from your submissions to First Call, the non-GAAP earnings per share would round to $0.36.

Gross profit of $1.45 billion was 48.5% of revenue and decreased 17% sequentially. The decline was mostly the result of lower product revenue through a non-recurrence of $60 million in business interruption proceeds associated with the Japan earthquake was also negative factor.

It's also informative to compare gross profit margin from the year-ago quarter. In that quarter, gross profit was negatively impacted by $103 million of acquisition-related charges. On the surface, this largely explains the 320 basis point increase in gross margin as a percent of revenue. Yet note the revenue is now $441 million lower and our underutilization expense is $170 million compared with $111 million in the year-ago quarter. If you adjust for the acquisition-related charge and for the underutilization expense, gross margin improved by 270 basis points. I believe this helps highlight the benefit that results as more of our revenue comes from high quality Analog and Embedded Processing products and as we achieve lower exposure to less profitable Wireless products.

Operating expenses of $855 million declined 7% in both comparisons. From a year ago, this mostly reflects lower product development costs and the synergies we've continued to achieve from our acquisition of National, partially offset by increases in sales and marketing costs in Asia. In the prior quarter, it reflects a combination of tight expense control and seasonally lower holiday and vacation time. We also saw the beginnings of savings from our Wireless restructuring.

Other income and expense was $39 million of income this quarter due to the interest on our discrete tax benefit.

Net income in the fourth quarter was $264 million or $0.23 per share on a GAAP basis.

Let me make a few comments on our cash flow and balance sheet. Cash flow from operations was $1.09 billion, up $115 million from the prior year – from the year-ago quarter and down $119 million from the prior quarter.

We made a $280 million contribution to fund our retirement pension plans in the fourth quarter compared with $102 million in the year ago quarter and $20 million in the prior quarter. We also lowered our inventory by $91 million in the quarter. Inventory days increased to 103 days from 100 days last quarter. This is a level that is within our planning range.

Free cash flow was $989 million, up $171 million from the year-ago quarter as capital expenditures declined and down $66 million from the prior quarter. Capital expenditures were $96 million in the quarter, down $56 million from the year ago and down $53 million sequentially. Our capital expenditures for the year were less than 4% of revenue. We believe we can continue to operate at the low end of our targeted expenditure range of 4% to 7% of revenue for several years given our strong capacity position that resulted from our strategic investments of the past few years. As we fill up this low price capacity, the resulting cash flow should be strong.

And as we've seen in the past, we continue to be responsible stewards of the capital, returning to our shareholders any amounts that we don't need. Accordingly, we used $600 million in the quarter to repurchase 20.6 million shares of TI common stock. This was the same as the prior quarter. We also paid dividends in the quarter of $235 million, up 21% from the prior quarter.

Orders of $2.72 billion in the quarter fell by 16% sequentially. TI's book to bill ratio declined to 0.91 in the quarter from 0.96 last quarter. The lower backlog reflects a combination of weakening demand, seasonality and customers' unwillingness to commit to extended backlog in an environment of uncertain demand for their own products and short lead times for our products.

Turning to our outlook, we expect TI revenue in the range of $2.69 billion to $2.91 billion in the first quarter. At the middle of this range, revenue would be down $179 million sequentially. About three quarters of this decline is expected to come from the continued wind down of our Wireless mobile product lines as Wireless segment revenues are expected to decline about $135 million in the first quarter. The remainder of our revenue would therefore decline about 2% at the middle of the range, a decline that is consistent with the seasonal average of the first quarter.

We expect earnings per share to be in the range of $0.24 to $0.32. We expect first quarter earnings per share results will be negatively affected by about $0.06 from acquisition and restructuring charges assuming the company's marginal tax rate of 35%.

We also will have a discrete tax benefit of about $65 million or $0.06 per share that results from the reinstatement of the federal R&D tax credit that was made retroactive to the beginning of 2012. Since this wasn't signed into law until January of this year, accounting rules do not allow us to recognize this tax credit in our 2012 income statement. Accordingly, we will record the 2012 R&D tax credit as a discrete tax benefit in the first quarter of 2013.

I should note that operating expense in the first quarter typically increases, reflecting the seasonal timing of increased vacations and holidays in the fourth quarter and annual pay and benefit increases in the first quarter. These pressures will continue to exist this quarter, however they should be largely offset by savings that are resulting from our Wireless restructuring actions.

For the year, our estimate for R&D expense is $1.6 billion. This is down from almost $1.9 billion in 2012 as we benefit from our Wireless restructuring. Our estimate for capital expenditures is $500 million, well below our depreciation estimate of $900 million. Our estimated effective tax rate is 22%.

Most of our comments today have been focused on the quarter and not the year since 2012 is mostly old news at this point. Let me make a few observations though. Our overall revenue declined $910 million in a weak economic environment. The positive impact of including Silicon Valley Analog slightly more than offset our lower Wireless baseband revenue as we exited that product line. That is a trade-off that we are happy to make and the combination of Analog and Embedded Processing was 70% of our revenue for the year. By comparison, five years ago, Analog and Embedded Processing were 47% of our revenue.

For the year, capital expenditures, even as a percent of depressed revenue, hit a new low and we expect them to stay low. Free cash flow increased to 23% of revenue for 2012. We expect our free cash flow to remain strong in the years ahead as our solid capacity position means that we have almost half of our capacity today available to support future growth while we maintain capital spending at very low levels.

As you have seen in the past, our shareholders will benefit as we continue to return our excess capital to you in the form of share repurchases and higher dividends.

With that, let me turn it back to Ron.

Ron Slaymaker, Vice President-Investor Relations

Thanks Kevin. Before turning to Q&A, let me describe some upcoming changes in our segment financial reporting structure. Beginning with the first quarter 2013 financial report in April, we will transition our segment reporting to align with the company's strategic focus and new organizational structure. The Wireless segment will be eliminated as we have announced that we are winding down investment in these products for the smartphone and consumer tablet markets. Financial results for these products will be included in the Other segment for the remainder of their lives which we anticipate will be essentially completed in 2013.

Financial results for Wireless products that address embedded applications, a strategic focus for the company, will be reported in the Embedded Processing segment. To facilitate making appropriate adjustments to your financial models, we expect to have historical data for the segments available for you in March.

Operator, you can now open the lines up for questions. In order to provide as many of you as possible an opportunity to ask your questions, please limit yourself to a single question. After a response, we will provide you an opportunity for an additional follow-up. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll first go to C. J. Muse from Barclays.

<Q – C. J. Muse – Barclays Capital, Inc.>: Good afternoon. And I apologize if you already covered this. I'm curious if you could talk end-market. I know you've cited low visibility, but would love to hear I guess your thoughts on how you see book-to-bill tracking into Q1 and where you see the recovery coming from.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Well, let's start with the question, the part of your question where you said basically how's it continuing into Q1. And I guess what I would say is, again maybe even before I talk about January, just go back and describe what we saw in fourth quarter with a bit more detail. So fourth quarter revenue declined each month, so obviously that left December as the weakest month of the quarter. Book-to-bill, as we've noted, was 0.91 in the quarter, and therefore as you might guess, the demand visibility is poor.

What we've seen thus far in January is that both revenue and orders have strengthened when compared with December. So that leads us to an outlook that is a little stronger than the fourth quarter book-to-bill and orders might otherwise have suggested. And again as we've said, so if you exclude the Wireless segment, the rest of our revenue we would expect to decline about 2% at the midpoint of our range, really consistent with normal seasonality for a first quarter.

By end-market, I don't have a lot of color. Probably the best takeaway is that what we saw in fourth quarter was broadly weak. I'll walk through a couple of end-markets. Computing clearly continued to be weak in the quarter. Communications was weak. I think we gave you some pretty good visibility directly into what we were seeing with handsets and tablets, but again there are some TI-specific trends in there as we're exiting some of those product lines.

From an infrastructure standpoint, particularly base stations, again I would describe that market as weak with spending levels by operators in U.S., Europe and China all remaining constrained to this point. Consumer would maybe be an area where I would say things are somewhat mixed. TV sales remain weak, generally reflecting the economy. Industrial, same, weak. Automotive inside of industrial would be mixed regionally with sales in the U.S. strong but China and Europe both weak. And those were more what we were seeing by end-market in fourth quarter. I don't really have any end-market color to provide in terms of our first quarter outlook. Do you have a follow-on, C. J.?

<Q – C. J. Muse – Barclays Capital, Inc.>: Yes, that's helpful. As a follow-up, in terms of the R&D guide for the full year, can you discuss what the expected linearity looks like?

<A – Kevin March – Texas Instruments Incorporated>: C. J., I think it'll decline a little bit in the first half as we wind down the Wireless activity. We have some remaining commitments with Wireless customers that we'll have to continue to honor during the first half as we wind that down. And I would expect by the middle of the year it will probably reach its run rate.

<Q – C. J. Muse – Barclays Capital, Inc.>: Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, C. J. Thank you for your questions. And let's move to next caller.

Operator: We'll now go to Ross Seymore from Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi. Kevin, just a clarification to make sure I heard it right. Did you say that OpEx would basically be flat sequentially because the cost savings were offsetting the usual seasonality?

<A – Kevin March – Texas Instruments Incorporated>: We do expect OpEx to increase a bit, but it will be largely offset by the savings from the Wireless restructure that we announced, but it won't be completely offset.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Got you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Follow-on, Ross?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Sure. Just looking in the Embedded business, that's now obviously one of your core businesses, the operating margin in that it seems have been depressed for two years running even though flat revenues seem to be what you guys could deliver. Can you talk about is that more of a gross margin or an OpEx driven phenomenon? And kind of what sort of growth expectations do you have to get the operating margin in that segment back to kind of a historical TI level or a peer group average? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Yes, Ross. In the Embedded Processing, your observation is accurate. It has been operating at operating profit levels below what we have in mind for that business. You may recall that about a year and a half ago, we stepped up pretty significantly the amount of resources that we were putting into that business, particularly on the microcontroller side as it relates to our field applications engineers and other activities to support the growth of that product portfolio.

In the meantime of course, we have seen some of our stronger markets in the Embedded Processing space, namely the communications infrastructure, being weak for the past year, as well as catalog being somewhat weak in this generally slow macro economy. So between the weakness in our two larger markets and the fact that we stepped up the investment a year and a half plus ago, those have combined to cause the operating margins to be at lower than we would prefer to have them operating at. So really going forward, this is all about getting the revenue line back into a growth mode to absorb the cost structure that's in place in that division today.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Ross. Thanks for your questions. Let's move to the next caller.

Operator: We'll now go to Christopher Danely from JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Hey. Thanks, guys. First question, can you just talk about inventory trends, what you expect the distys to do in terms of inventory and then also what you guys expect to do in terms of your own utilization rates and inventory?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I'll talk about distribution, then I'll let Kevin talk about TI. Again Chris, let me maybe even add some color to what happened last quarter because that will foretell a little bit about what we should see partly going forward. So if you'll note, we said distribution inventory fell by just over half a week last quarter, ending up at a little under six weeks. About one-third of that decline is due to the conversion of SVA over to an inventory consignment program at distribution. And so with that still in the early stages, you'll see a few more days of inventory impact over the next couple of quarters associated with that SVA consignment conversion. And again that would have the effect of lowering each quarter maybe a couple of days of disty inventory. And again, that could be overwhelmed by distributors choosing to start replenishing inventory as they prepare for a stronger market environment should they choose to but that will be the one event that we can foretell. Kevin, do you want to talk about TI inventory?

<A – Kevin March – Texas Instruments Incorporated>: Yes, actually the points that Ron just made about that change in SVA, certainly results from that inventory rather than being on distributors' books winds up being on our books. Our days of inventory were up a couple days in the quarter to 103, clearly well within the ranges where we want to carry it at. As we go forward, we'll continue to carry inventory levels similar to what you've seen us carry this past year, 100, 100-plus days. As we become more and more Analog and Embedded Processing focused, if you take a look at most of our competitors, I think you'll find in their recent quarters, they average between 90 and 130 days of inventories. And you should expect to see us carrying inventory days quite a bit higher than you might have thought about us, say five years ago.

From a utilization standpoint, I think you asked a question on that, Chris, utilization was down in the quarter. We had an underutilization charge in the quarter of about $170 million. That compares to about $146 million in the last quarter. We don't have a forecast for where that goes going forward, but keep in mind that production tends to lead expected shipments and typically we would see second quarter up seasonally. So we would be sure to be staging inventory in anticipation of a normal seasonal 2Q.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So maybe if I can just add a little more color, part of the reason we will carry more inventory as Analog and Embedded grow as a percentage of our revenue is that a high percentage of those products are long-lived catalog devices. They tend to be off-the-shelf. You tend to carry more inventory on those. And by the way, because of the long-lived nature of them, that inventory is much lower risk of obsolescence than say the type of custom products or very high volume products that went to very few customers that would be represented for example, in areas like Wireless. So as that mix changes, we become more catalog oriented in terms of the product profile. By nature our inventory will trend up compared to our history. Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yes. Just a quick one. So you gave us what your core business is doing for this quarter normal seasonality. Can you just go into what you think we should be looking at, assuming we get back to normal? So what we should think of as normal seasonality for TI in Q2, Q3 and Q4 and also what would be the impact of the Wireless business going away on top of that seasonality?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay sure, Chris and I am going to start by giving you average five-year seasonality unadjusted for any outlier years. You can do whatever you want on that. And this already comprehends no Wireless and it does comprehend SVA as part of TI. So it really is reflective of I think the product lines that you are interested in.

So first quarter that five-year average is minus 3% sequentially. Second quarter is up 9%. And don't forget that second quarter also has probably a couple of points of impact at the company level associated with back-to-school seasonality for our calculator product line. Third quarter sequential average is 5%. And then fourth quarter is down 11% and similarly, third to fourth is the back-to-school negative transition associated with calculators. So of that down 11%, probably 3 of those points come directly from the calculator product line.

So I guess all I can say in terms – that gives you the seasonal pattern adjusted for Wireless. Now of course this year overriding that, you are going to have a decline in the Wireless revenue. I don't have a profile quarter-by-quarter of what that decline will look like, Chris, other than generally we would expect, as I said previously, that by the end of 2013, that revenue is essentially gone. Baseband will be, I think the numbers we gave you would put it down sub 1% of TI revenue in the first quarter. Of course, OMAP and the connectivity lines are larger than that, but we would expect that they will be essentially gone by the time we close out 2013.

Okay, Chris. Thank you for your questions. And we'll move to the next caller, please.

Operator: We'll now go to John Pitzer from Credit Suisse.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yes guys, thanks for letting me ask the questions. I guess my first question, Kevin, on gross margins. How much did royalty help the December quarter? And as I look into March, I'm trying to reconcile much better mix, probably less of an underutilization charge with gross margins. And maybe I'm just doing my math wrong relative to the midpoint of your guide, but I can't get much above 47.5% to maybe high 47%. Can you help me reconcile that please?

<A – Kevin March – Texas Instruments Incorporated>: John, on the gross margins, the royalty in the quarter was about $60 million. Going forward, we expect that's probably going to be about $160 million for the year give or take a little bit. On the gross margin outlook and I think you were asking about in your model, keep in mind that I did mention our underutilization charge was up this quarter as we took our utilization down. Even as we readjust the factories in anticipation of a seasonal up second quarter, averages utilization across two quarters really won't change that much. So we wouldn't expect our underutilization charge to really change much 4Q to 1Q. I'm not sure what else you have in your model but that maybe, maybe that helps explain where you're getting to.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: That is helpful. And I guess, Ron, as my follow-up, when you look at the $180 million left in the Wireless in the March quarter, how much of that would you just argue is core versus non-core? And had that stayed as a separate bucket, what kind of operating loss should we have expected at that kind of revenue level?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. John, probably the best I can give you is that if you look at last year, we had for the total segment, we had roughly $1.35 billion, $1.36 billion of revenue. About $150 million of that that was in the Wireless segment will move over into the Embedded Processing segment. So I think that's what you're calling core there. There also just to clarify, there was some OMAP revenue already in the Embedded Processing segment that was addressing automotive but the amount that was inside of the Wireless segment was about $150 million.

I think that ratio is probably pretty consistent with where we were at the end of the year in the fourth quarter. So probably if you use that as a rough starting point for transitioning into first quarter, you would get about the right number. I think we said that $135 million decline, I know when I looked at just on a percentage basis what that represented for the Wireless segment, it was about true for baseband also, meaning I think that translates to a little over a 40% sequential decline in Wireless segment revenue. It was about that same amount for baseband. So therefore, for OMAP and connectivity it would also be about that same amount in terms of the mobile side of those product lines.

Do you have a – I guess that was your follow-on, John. Thank you for your questions. And we'll move to the next caller.

Operator: We'll now go to Glen Yeung from Citi.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks, guys. When you think about the products that are related to Wireless, for example, you may have cross Analog when you're selling Wireless parts. Have those products sort of followed your expectations now that Wireless is falling off? Are they sort of moving along the lines you would have expected or better or worse?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think at this point, Glen, they're probably moving independent of the Wireless actions I guess I would say, which is generally what we would expect. And I think we've talked before even on the conference calls that clearly you can put together a more negative scenario that says yes but OMAP connectivity probably pulls along Analog revenue. I would argue that I think our experience has been we have to win those Analog sockets or those Analog opportunities case by case, and there really is not that much of a direct tie to the OMAP and connectivity business.

And then I think we could even put together a more what I'll call bullish scenario that says a lot of our historical applications processor competitors, we would like to engage with them on their reference designs for Power Management products. But because we were a direct application processor competitor, I suspect there was some hesitancy to what to engage with TI on the reference designs on some of these analog Power Management opportunities. And we have a great capability in Power Management and integrated power management to align with their product portfolios, and I suspect you will find that some of those doors open as we no longer are competing directly with them in the application processor space.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Interesting.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So again, those are different scenarios that could develop. But I would say today, we're not seeing necessarily upside. We're also not seeing things ticking down as a result of our Wireless. I think we're seeing things move independent, which probably is as roughly as we would expect. Do you have a follow-on, Glen?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: I do. Thanks for that answer. With respect now to maybe a bigger picture question on the cycle, and it sort of comes in two parts. One is, you're talking about a seasonal second quarter and at the same time, you're saying visibility is relatively low. So I wonder if you can just address that issue. And can you put that in the context of the overall cycle and comparing and contrasting what we're seeing today versus what we may have seen in the past in terms of the way cycles play themselves out.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Glen, let me just clarify. We have not described our second quarter expectations as seasonal. All I did previously was give the average seasonality, that five-year average for each of the quarters of the year. We did describe our expectations at the middle of the guidance range for the non-Wireless revenue. Basically it computes to a down 2%, which we described as seasonal. But we're not trying to, at this point, make any commentary about our expectations for second quarter.

Okay, Glen. Thank you. And we'll move to the next caller.

Operator: We will now go to Vivek Arya from Bank of America Merrill Lynch.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks for taking my question. First one, can you talk about utilization in your RFAB and other fabs? I think, Kevin, you had mentioned about $170 million or so in underutilization charges. Is there a cash versus non-cash component of these charges?

<A – Kevin March – Texas Instruments Incorporated>: Vivek we won't – I won't go into specific details by factory as to utilization because they fluctuate pretty much every week, every month, ever quarter. But I did mention there was $170 million in underutilization charges, and roughly half of that is non-cash, half of it's cash, give or take a few million either side of that.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Do you have a follow-on, Vivek?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yes. If I were to look at just your profitability, I think in the past you had set a business model of 55% gross margins and 30% operating margins, if memory serves me right. Now that you are exiting the Wireless segment, how should we think about TI's new business model or operating model once the demand environment normalizes?

<A – Kevin March – Texas Instruments Incorporated>: Vivek, I think you should think about it as Analog becomes a bigger portion, Analog and Embedded Processing become an ever bigger portion, you should see more of what we've seen in the past, and that is our ability to generate very, very healthy levels of free cash flow. The result of us being more focused in that area is that our CapEx bill, our capital expenditure bill, will be quite low in part because we have already invested at very low cost in a lot of capacity, and in part because as Analog and Embedded Processing become a bigger portion of our revenue, they actually can use older factories for a longer period of time, and so they require less capital renewal.

In addition, the R&D bill is more manageable in those spaces versus where we've been, especially in Wireless. And so that will free up cash as well. So as we move forward, I think you should be thinking about us as being able to not only continue to generate the kinds of healthy free cash flow that we have in years past, but probably even improving going forward, which frankly is good news for our shareholders because as they've seen us do for many years now, we tend to return the overwhelming majority of that free cash flow to our shareholders in the form of stock buyback and dividends. And I expect that we would continue to do so going forward.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Thank you, Vivek, and we'll move to the next caller, please Jessica.

Operator: We will now go to Jim Covello from Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Great, guys. Good evening. Thanks so much for taking the question. Sort of a couple of big-picture questions. First, excluding the Wireless wind down, so if we just focus on your core business, can you give us kind of the big picture puts and takes of why you might see any different cyclical trends than any of your competitors? In other words, as we hear your competitors potentially start to talk more bullishly about the cycles, is there any reason to think that you wouldn't see the same?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Jim, I suspect very little difference. I mean of course, you have to look at those different competitors and consider how their market exposure compares with TI. I mean of course, somebody that's highly PC-focused is going to have a different dynamic than what TI would. Similarly somebody that has just a very, very high exposure to industrial might have a different exposure than what – or a different profile than what TI would with our more broad exposure. But I think what we often find as we go through this process, and you've probably observed, is that in the end we all probably tend to see the same thing, the same market dynamics, with varying pressures, as I just described. But coming into the quarter, maybe different levels of just subjective impact on those various guidance going forward. Do you have a follow-on, Jim?

<Q – Jim Covello – Goldman Sachs & Co.>: Yes, I mean I guess I'll stay on that topic for my follow-up. I mean the reason I really asked the question is because maybe it's just a tone issue or kind of semantics, but relative to a couple of the other companies that have reported and talked about the industry, you guys don't sound quite as upbeat. And again to your previous answer, I would have expected pretty similar tone and I'm just trying to gauge if there's anything significantly different driving that.

<A – Kevin March – Texas Instruments Incorporated>: Jim, I would just offer that we're respectful of the actual order pattern that we've seen in the last couple of quarters, the book-to-bill of 0.96 in 3Q and 0.91 in 4Q, overall orders declining 16% quarter over quarter. That caused us to be respectful as to what the outlook might hold. But where we temper that a bit, and as Ron had indicated earlier in the call, that despite declining sales and revenues for each of the three months of fourth quarter, we have seen a turn in that direction in January, and January certainly so far is shaping up stronger than what December did. And so for that reason, we're putting our outlook out there and saying we're probably going to be kind of seasonal on the non-Wireless portion of our portfolio.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Jim. Thank you. And we'll move to the next caller, please.

Operator: Thank you. We'll now go to Stacy Rasgon from Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for taking my questions. First, for next quarter's guidance, the Wireless business, it looks like it's falling off maybe – am I doing my math right, $135 million would be 65% to 70% of kind of the total business that you have that's actually going away over the next year? But it doesn't look like the OpEx is falling off nearly that much yet. So I guess the questions there would be, number one, is that math correct? Are you having actually a very big, sounds like a very big step-down. Is it on that magnitude? But is the OpEx falloff actually less than you actually seen the revenue fall off for that business? And then what is the OpEx trend in terms of capturing that $450 million in savings look like after the year? When do we actually have it all in?

<A – Ron Slaymaker – Texas Instruments Incorporated>: So I'll let Kevin discuss the OpEx, but you're talking about a – I may be wrong, but again what we said was the $317 million in our Wireless segment, that will be down $135 million which would be about 43%. And Stacy, I fully realize you may be trying to take a subset of that Wireless segment that ties just to the products that are going away, so.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: That's right. That's right.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And I'm not saying that's not wrong. I'm just reiterating what we said. Kevin, do you want to comment on the OpEx savings?

<A – Kevin March – Texas Instruments Incorporated>: Yes on the OpEx, Stacy, we expect to see that savings feather its way into the P&L over the course of 2013. We saw a little bit in the fourth quarter, probably something in the $10 million range, probably given another $30 million to $40 million or so as we move into the first quarter and continue at that kind of pace until we get to the end of the year. We talked about that by the time we get to the end of the year on an annualized basis, we should see about $450 million worth of cost coming out of most of the OpEx line.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. So, is it fair to – go ahead. Sorry.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I was just going to add, Stacy, I think in first quarter, you kind of have two factors. One is we are exiting these product lines and the other is just seasonality with some of these Wireless customers, which tends to be pretty significant in the fourth to first transition. Go ahead, you had a follow-on?

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: No, I was just going to – just to follow-up on that, is it fair to say then that the hits for the Wireless business in Q1 as a percentage of the stuff that should be going away, you're losing more of that revenue in Q1 than you're losing the OpEx. Is that a correct way to think about this?

<A – Kevin March – Texas Instruments Incorporated>: I think maybe the way to think about that is the GPM that we're losing on that revenue is probably falling away at about the same pace as the

OpEx. That may be a better way to think about it. And so what the result is, is that division by itself, profitability isn't going to be noticeably different than what we just came through until we get the benefit of the rest of the wind down of the OpEx on that in the balance of the year.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And that'll accelerate probably as you move through.

<A – Kevin March – Texas Instruments Incorporated>: As you move through the year.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Stacy. Thank you for your questions. And we'll move to the next caller, please.

Operator: And we'll go to Joe Moore from Morgan Stanley.

<Q – Joe Moore – Morgan Stanley & Co. LLC>: Great. Thank you. I wanted to go back to the Analyst Meeting earlier in 2012, you talked about the trend line analysis and looked at the sort of, we were 19% I believe below the trend line and talked about the potential for catching up. And obviously the weaker macro disrupted that. I believe there was that potential there and it didn't play out. How do you think about that now? How do you think about 2013? Are we still below a trend line? Do you think that there is a catch up? And what can drive that to happen?

<A – Kevin March – Texas Instruments Incorporated>: Well, I would say that history, as soon as you deny the history you usually wind up finding yourself in trouble. And history has taught us that we do tend to go back to trend line. It has been a little unusual as you pointed out, Joe, that we haven't made that move back yet. But I would simply say that I wouldn't try challenging the history. I'd say it's probably going to come to pass at some point, little difficult to call when. What's more important is that operationally we intend to be ready for it. And by that what I mean is we intend to have ample capacity when it comes back and we intend to have ample inventory on hand so that we're able to respond to our customers when they do start seeing their normal demand trends occur and we come back towards that trend line.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And Joe, what I think is really cool about TI's position is we're not sitting here betting our company or betting our future on a particular forecast. We've bought capacity when it was cheap and when it was available, and we are in position to support pretty much any kind of upturn profile you can envision over the next year or so. And if it takes a while longer, so be it. It's fully in the numbers. If it wants to run hard and fast, we're ready to go. So we don't need to go significantly change our capital spending profile to get there. Do you have a follow-on, Joe?

<Q – Joe Moore – Morgan Stanley & Co. LLC>: Sure. Thank you for that. The state of the end customer inventories at this point, it seems like that's been lean for several quarters. You've had a fair amount of inventory on your books. The distribution channel has had enough. And it feels like the customer just hasn't needed to restock. Do you think that dynamic stays in place or is there a catalyst that can get a restocking phase to start?

<A – Kevin March – Texas Instruments Incorporated>: You know, Joe, I think that as soon as customers feel a little bit more confident, have a little bit more sense of certainty as to where things are going, they will probably return to a more, if you will, normal behavior, which means they won't be continually relying on us being able to ship to them inside of lead times. I think our customers generally perceive that as being a somewhat risky strategy if in fact their demand should return. And the big issue I think is just waiting for some of the uncertainty to clear up.

Certainly the macro events of the last year have compounded that, what with the euro headlines, with the China slowdown although it does sound like maybe it's beginning to turn a bit on that front.

And here in the U.S., of course the fiscal cliff, we've only had one part of that dealt with so far. It appears we've got more of that. Once some of that stuff gets behind us, I expect our customers will probably go back to carrying inventory levels that where they control their destiny a bit more rather than relying on suppliers to be able to ship inside a lead time.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And certainly as you said before, any other outcome would be a big bet against history, which tends to repeat itself here. Okay, Joe. Thank you for your question. And we're going to move to the next caller.

Operator: And we'll now go to Ambrish Srivastava from Bank of Montreal.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Hi. Thank you. Guys, on the Silicon Valley Analog, correct me if I'm wrong, seems you are a quarter ahead of what you promised us in terms of getting that business in sync with the rest of the Analog. And if so, is it too early to call that turn? Or do you expect to see that pattern in the following quarters? And then I have a follow-up, Ron.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I'll add a little bit and then Kevin, if he wants to go with it, can as well. I would not describe it as a quarter ahead. Just if you'll recall, we said in the first year we expect that the – we expected that – let me back up. The first year post-acquisition which really ended in third quarter of 2012, we expected that it would continue losing market share which is a trend that it had been on. In the second year, we expected that it would become I would call it market neutral meaning the market share losses would stop but it would probably still be lagging TI's overall Analog performance since we have a much stronger history over multiple years of share gains.

We really did not expect and do not expect SVA to really start having a strong track record of share gains consistent with the rest of TI Analog until the third year. I shouldn't say we do not expect that. I should say that that was what we had built into our initial assumptions and modeling pre-acquisition.

So as you noted from our comments, we have a quarter here where it performed consistent with the rest of TI Analog even despite a pretty strong headwind of that consignment conversion in the fourth quarter. But Ambrish, I would say that is one quarter and even though we found that performance encouraging by no means are we going to declare success. It's an encouraging sign, but we need to see four of those quarters strung together before we start declaring anything for the year. And do you have anything else on that? Okay. Did you have a follow-on, Ambrish?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Yes. Thanks for the clarification, Ron. Just moving over to the Embedded side, could you please refresh our memory, how big is the comm infrastructure within that segment and then where are we from the peak level? And if I remember correctly the gross margin from a normalized level runs about 100 bips higher, 100 to 500 bips higher than the 55% level.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I'll comment on the revenue mix there and then, Kevin, if you have any comments on relative margins so – and compared to where we were. So if you just take the year overall, let me just break out the Embedded Processing revenue for you. Catalog was 55% of the revenue mix and that's the same as it was in 2011. Comms infrastructure was 25% of our Embedded Processing revenue and that's down about 5 points from where it was in 2011. It was 30% of the mix that year. And then automotive was 20% of our Embedded Processing revenue last year and that's up from 15%.

So that mix is really driven by the disproportionate strength in – I'm sorry weakness – in the communications infrastructure market last year combined with the fact that TI has really high market share in that comms infrastructure market. It's a market we think is going to have just really good secular trends in the years ahead. So even though it hurt us a bit in terms of Embedded Processing share last year, we won't forego our position by any means nor make apologies there. And similarly automotive, just the market was good last year and TI has a, what I'll describe as a building position in automotive.

Kevin, do you have comments then on profitability?

<A – Kevin March – Texas Instruments Incorporated>: Yes as you know Ambrish, we don't actually report gross margin details of the businesses. But at a high level, if you think about how these businesses run, Embedded Processing really has three components that we talked about, the catalog components that are inside there, that tends to be similar to an HPA/SVA kind of business model and you're going to see margins, gross margins probably north of 60%. On the other side you've got automotive products and that includes some legacy products that we have in that portfolio. And you'll probably see those margins somewhere closer to the 50% level. And then comms infrastructure will tend to run in between the two of those over time.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Ambrish. Thank you for your question. We'll move to the next caller.

Operator: Our next question comes from Shawn Webster from Macquarie.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Hi. Thanks for taking my question. On the Analog, you've already talked a bit about the Silicon Valley Analog. I was wondering if you could share with us some of the dynamics happening in the other segments. It looks like for the year or at least on a year-over-year basis the High Volume Logic and the Power Management were relatively stronger than the High Performance. I was wondering if you could give us some color either on market share or market dynamics there?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Shawn, let me just – and most of these will be with respect to the fourth quarter as opposed to necessarily for the full year. But I would say that the HPA decline really was pretty broad-based. So I don't know that I can pull out a particular market or product area. HPA, not quite as much as – well, HPA and SVA I would say combined, they have a common characteristic of being more catalog oriented moving through distribution. They probably have higher industrial exposure than what some of the other two areas would have. So potentially that could come in as well.

HVAL, I would say we saw some impact from a few areas. One is the HDD market being weak. The other consideration in the fourth quarter was consumer seasonality, basically backing down off of what would typically be a stronger third quarter.

And then also in the fourth quarter, we saw automotive being a bit weaker. If you look at the Power Management area, the sequential trend there was really driven, again I'd say pretty broad based but the biggest areas that I would just say were most notable would be declines in notebooks, digital televisions and then also to a lesser degree handsets. Okay. Do you have a follow-on, Shawn?

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Yes. Thanks. On just the housekeeping, on the tax side of things, so you have a tax benefit in Q1 and you have full-year guidance of 22%, does the 22% include the benefit you get in Q1?

<A – Kevin March – Texas Instruments Incorporated>: No, it does not. The benefit in Q1 is a discrete benefit that will be spiked out by itself. It's about $65 million or about $0.06 of EPS. The

22% is the effective tax rate excluding that benefit. So that's the ongoing rate for the year. However I would note that that rate does include now the reinstatement of the R&D tax credit for 2013.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. So, Shawn, just to kind of hint, then when you're looking at your first quarter tax rate in terms of your model, plan on 22%, and then on top of that add in the $65 million benefit. But if you just look at normal PBT and all that, apply a 22% tax rate and then on top of that add in the $65 billion. I'm sorry.

<A – Kevin March – Texas Instruments Incorporated>: We wish.

<A – Ron Slaymaker – Texas Instruments Incorporated>: $65 million discrete tax benefit. That does not spread across the year or anything like that. So the ongoing rate will be that 22% rate.

Okay, Shawn. Thank you for your question. And operator, we have time for one additional caller.

Operator: Okay, we will go to Tore Svanberg from Stifel, Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes. Thank you. So my first question, you talked about disty resales being down 2% sequentially in the fourth quarter. What were TI's sales to disty in the quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Kevin is looking. I don't know off the top of my head.

<A – Kevin March – Texas Instruments Incorporated>: Hold on a second. Our resales were down a little bit also. Actually their resales were down a bit and our sales to them were down a little bit as well with their inventories declining, as we mentioned by a couple days to less than six weeks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yes. So again, inventory declined. We shipped in less than they shipped out but that doesn't necessarily change the growth rate, but anyway down a little bit as well. Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, that's helpful. My follow-on is, I know you can't comment really on bookings by end-market so far this quarter, but could you comment on maybe by region or is this very broad based, whether it's OEM or disty?

<A – Ron Slaymaker – Texas Instruments Incorporated>: In terms of the January trends, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Correct. Yes.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yes. I don't have a regional breakout. I can offer you a consolation prize and talk about what happened regionally last quarter since we haven't discussed that, but I don't have the month-to-date data by region. In this last quarter, this is a pretty weak consolation prize I'll admit, because it's revenue as opposed to bookings. But in the fourth quarter we had all regions down with Asia being down the most, and that would be followed then by the U.S., as well from there, Europe and Japan. Okay. So sorry we didn't have that detail for you, Tore.

Ron Slaymaker, Vice President-Investor Relations

And with that, we're going to close off the call. Before we end, let me remind you that a replay of this call is available on our website. Good evening.

Operator: This concludes today's presentation. Thank you for your participation.