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PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President & Head-Investor Relations
Kevin P. March – Senior Vice President & Chief Financial Officer

Other Participants

John W. Pitzer – Research Analyst, Credit Suisse (United States)
Tim Luke – Managing Director-Technology, Barclays Capital, Inc.
Uche Orji – Research Analyst, UBS Securities LLC
Glen S. P. Yeung – Managing Director, Citigroup Global Markets (United States)
John Barton MBA – Managing Director & Senior Research Analyst, Cowen & Co.
J. Steven Smigie – Analyst, Raymond James & Associates
James Covello – Research Analyst, Goldman Sachs & Co.
Ambrish Srivastava – Analyst, BMO Capital Markets (United States)
Ed Snyder MBA – Analyst & Co-Founder, Charter Equity Research
JoAnne Feeney PhD – Vice President & Senior Equity Analyst, Longbow Research LLC
Chris B. Danely – Senior Analyst, JPMorgan Securities LLC
Tore E. Svanberg – Managing Director, Stifel, Nicolaus & Co., Inc.
Ross C. Seymore – Research Analyst, Deutsche Bank Securities, Inc.
Craig A. Ellis – Director of Research & Senior Analyst, Caris & Co., Inc.
Tristan Gerra – Senior Research Analyst, Robert W. Baird & Co. Equity Capital Markets
Ramesh Misra – Managing Director & Senior Analyst, Brigantine Advisors

MANAGEMENT DISCUSSION SECTION

Operator: Good evening, ladies and gentlemen and welcome to Texas Instruments' first-quarter 2011 earnings call. At this time, for opening remarks, I'd like to turn the conference over to Mr. Ron Slaymaker. Please, go ahead, sir.

Ron Slaymaker, Vice President & Head-Investor Relations

Good afternoon and thank you for joining our first-quarter 2011 earnings conference call. As usual, Kevin March, TI's CFO is with me today.

For any of you that missed the release, you can find it 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 earnings 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 June 8th. We expect to narrow or adjust the revenue and earnings guidance ranges as appropriate with this update.

In today's call, in addition to a review of the first quarter's financial results, we'll describe the current demand environment. We'll discuss the impact the Japan earthquake has had on demand and on our operations in that country. We'll also update you on our recovery plan and our anticipated costs associated with the earthquake and its aftermath.

I'll start with the demand environment. As a reminder, in January, we said we believe the inventory correction that had occurred in the second half of 2010 was largely complete and that we expected demand in the first quarter to be above our seasonal average. There is much evidence that this did happen. Specifically, orders were strong, re-sales were very strong and our core businesses performed well.

That said, we had two incidents that created noise on top of this strong underlying demand signal, the earthquake in Japan and late quarter, unexpected weakness in baseband demand by a single customer. In fact, during the months of January and February we were tracking consistent with our expectations for above-seasonal demand, which led to us narrow our revenue and earnings guidance ranges at our mid-quarter update around the prior midpoint.

In March, the earthquake in Japan negatively impacted our revenue due to the disruption at many of our customers' Japan factories as well as damage to two of our factories in Japan. This impact, combined with our baseband customer's unexpected weakness resulted in revenue in the lower half of our expected range.
As we have previously explained, baseband is a product line that we are exiting and since our resources there have already been minimized, it has practically no long-term impact on us. The revenue impact from the events in Japan will be greater in the second quarter than in the first quarter, considering that we will only be operating with partial output at our factories there, that our Japanese customers are still in the early stages of restarting their own factories and that we and our customers may face potential supply chain disruptions.

We're working closely with our suppliers to get what we need, but it's too early for us or anyone else to say these issues are resolved. In a few minutes, Kevin will update you on the recovery status of our factory operations in Japan.

The key point is that we believe underlying demand continues to be strong. The earthquake has had an important near-term effect on our business but we do not believe it is disruptive to the underlying demand trends. As a result, we believe that second half will be strong once the short-term impact of the earthquake has passed.

In total, TI revenue of $3.39 billion grew 6% from a year ago and declined 4% sequentially. Revenue from our core businesses increased 14% from year ago and was even sequentially. In total, our core revenue was 71% of total revenue in the quarter.

The breakout of our core revenue results includes Analog up 12% from a year ago and up 1% sequentially. Embedded Processing grew 21% from year ago and declined 1% sequentially. Wireless, OMAP and connectivity revenue increased 10% from a year ago and declined 3% sequentially.

Non-core revenue declined 10% from a year ago and declined 12% sequentially. This was mostly affected by Wireless baseband where revenue fell 21% from a year ago and declined 23% sequentially to $334 million. The sequential decline was well below the seasonal average and the month of March was exceptionally weak, below January, in fact. We believe the decline does not reflect on demand in the broader smartphone market, but instead was the result of weaker demand for this particular line of 3G handsets. Although we don't believe a competitive chip offering will be available until late this year, we do not expect a seasonal recovery in this revenue in the upcoming quarters and in fact, expect that it will continue to decline.

Baseband revenue fell to below 10% of TI revenue in the quarter, down from 12% last quarter. Other non-core revenue fell 2% from a year ago and fell 5% sequentially.

Turning to our segments, the most significant driver of Analog growth from a year ago was High Performance Analog. Power Management and HVAL were both up by similar amounts, although by a lesser amount than HPA. Sequentially, Power was up the most with HVAL about even and HPA down a few points.

The biggest factor in Embedded Processing revenue growth from a year ago was catalog products, with communications infrastructure and automotive products both up strongly but by lesser absolute amounts. Sequentially, products sold into automotive applications were up the most, growing at double-digit levels while communications infrastructure and catalog products both declined.

You'll note that our catalog products in Embedded Processing and Analog including both HPA and Power have grown rapidly over the past year. These are products that are typically sold through distribution into a wide array of customers and applications. For example, in Embedded Processing, we're seeing recent strength in a lot of industrial applications, such as motor drives in China, metering applications in Europe, as well as higher demand in security and medical applications.

These are areas where the scale advantage of TI's sales force means that we are identifying an increasing number of opportunities and are working hand in hand with our distributors to ensure these customers' systems are chock full of TI's analog chips, digital signal processors and microcontrollers.

These are also the areas that will be further strengthened by our recently announced plans to acquire National Semiconductor. Adding National's 12,000 analog products to TI's existing analog portfolio of 30,000 products will significantly enhance our portfolio. Having a combined sales force that is ten times the size of what National has today should also significantly accelerate their growth. We expect very good things to come from this combination.

Wireless revenue will increasingly be driven by our core product areas of connectivity and OMAP applications processors. We continue to be encouraged by our design win momentum in both areas. In applications processors, we introduced our OMAP 5 processor in the quarter, a multicore product based on ARM's latest Cortex A15 core. The key to OMAP 5 is that we will again push the envelope on both performance and power efficiency. Many of our competitors in this market try to attain our leadership performance metrics without fully appreciating the critical importance of power efficiency to mobile applications.

We have also continued to win a broad swath of smartphones, tablets, e-readers, personal navigation devices and other mobile computing applications with our OMAP 3 and OMAP 4 products setting the stage for strong OMAP growth over the next few quarters as these programs ramp into production.

In our Other segment, the revenue decline from a year ago was primarily due to lower royalties that were mostly offset by revenue from our transitional supply agreements. Sequentially, declines in custom ASICs and royalties were partially offset by higher revenue from calculators and DLP products.

Turning to distribution, re-sales grew a very strong 8% sequentially. On average, re-sales would more typically decline a couple of points in the first quarter. Although we were able to help distributors increase their inventory at an absolute level, their TI inventory declined by a couple of days given the strong re-sale environment.

Now Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone. Let me start by providing an update on our recovery operations in Japan.

As Ron said, we had two wafer fabs damaged by the earthquake: our recently acquired Aizu fab and our Miho factory. Our operations teams have done a great job responding to the crisis. We will soon be restoring Aizu to full production status and just last week we started initial production in Miho. We expect that Miho will be able to start full production loadings in mid-July, although it will be several months later before we see the revenue effect due to the manufacturing cycle time.

In the meantime, we have identified alternative TI manufacturing sites for 80% of the devices that we manufacture in Miho and we are working with customers on those qualifications. Of course, this transition will take some time to complete.

In addition to the lost output and therefore lost revenue that is associated with this disruption, we are also incurring additional costs. These costs include the underutilization expense we incur from having our manufacturing assets only partially loaded, scrapped inventory, the recovery teams that we have assembled from across the world, as well as other one-time costs.

In the first quarter, these costs totaled about $30 million, almost all of which was in cost of revenue. We recorded this in our Other segment. The situation in Japan will remain fluid as we progress and gather information. We will continue to communicate with you as well as our customers as we learn more.

Gross profit in the quarter declined $141 million sequentially. This included the impact of almost all of the previously mentioned earthquake costs. The remainder of the gross profit decline was mostly associated with our lower revenue. It also includes the seasonal effect of increased holiday and vacation time in the fourth quarter as well as the first quarter's annual pay and benefit increases.

The combination of R&D and SG&A increased $36 million from the fourth quarter. We have continued to increase our investment in our core businesses especially targeted programs in analog and microcontrollers. We've also continued to increase our field sales and applications engineering resources in important emerging markets such as China.

We have adjusted our estimate for TI's annual effective tax rate for 2011 to 28%. This is partly the result of lower expected taxable income, which includes considerations such as our earthquake related costs and certain anticipated acquisition related costs.

Net income in the first quarter was $666 million, or $0.55 per share. In the earnings per share calculation, please note that accounting rules require that we allocate a portion of net income to any unvested restricted stock units on which we pay dividend equivalents. In the first quarter, the amount of net income excluded from the EPS calculation was about $10 million. If you don't make this adjustment, you will likely calculate EPS to be a penny higher than we have actually reported.

When comparing with our $0.78 of EPS in the fourth quarter, recall that the fourth quarter included $0.14 from the combination of a gain on sale and a tax benefit that was primarily associated with the reinstatement of the federal R&D tax credit that was retroactive to the beginning of 2010.

I will leave most of the cash flow and balance sheet items for you to review in the release, however, let me make just a few comments. Cash flow from operations was $516 million. This was down

$714 million from the last quarter. Cash flow reflects lower net income and the payment of accrued annual profit sharing and performance bonuses in the first quarter.

Capital expenditures declined to $194 million in the quarter from $301 million in the fourth quarter and included additions to our assembly and test capacity as well as our analog wafer fab capacity.

We used $771 million in the quarter to re-purchase 21.9 million shares of TI common stock and pay dividends of $153 million.

We increased our inventory by $158 million in the quarter. Most of this increase was planned and supports our goal to maintain short lead times and support high customer service levels. About one-third of the increase was Wireless baseband inventory that resulted from unexpected weak demand from a single customer. We've already taken action to begin to correct the excess baseband inventory.

Orders in the quarter increased 14% sequentially to $3.58 billion. TI's book-to-bill ratio increased to 1.06 in the quarter from 0.89 in the fourth quarter.

Turning to our outlook, we expect TI revenue in the range of $3.41 billion to $3.69 billion in the second quarter, or up 1% to 9% sequentially. We expect earnings per share to be in the range of $0.52 to $0.60.

Prior to the earthquake, we were planning for low double-digit second-quarter revenue growth. Because of the earthquake, we reduced this near-term outlook to about half our normal seasonal growth mostly due to a combination of lower output at our Japan factories, lower local Japan demand as well as potential supply chain disruptions. The foregone profit on this revenue would be about a nickel of EPS in the quarter. Additionally, the EPS estimate we have provided includes about $0.05 of negative impact for earthquake-related costs. So in total, the second quarter EPS impact from the earthquake is about a dime.

Our estimates for 2011 R&D, capital expenditures and depreciation are unchanged.

In summary, we're encouraged by underlying demand as evidenced by orders and our trends during the first two and a half months of the first quarter. Although we certainly have a near term operational challenge associated with the earthquake and its aftermath, we're confident that its impact will be confined to the near term and we're looking forward to a strong second half of the year.

Our market position is solid and will only get better as we bring the National portfolio and team onboard later this year. We remain focused on growing our core businesses significantly faster than the markets and we're intent on translating that growth to attractive earnings and returns to our shareholders.

With that, let me turn it back to Ron.

Ron Slaymaker, Vice President & Head-Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. We'll take our first question from John Pitzer with Credit Suisse.

<Q – John Pitzer – Credit Suisse (United States)>: Yeah, guys, thanks for taking my question. I guess, Ron, the first question is given the hiccup on the baseband business this quarter, how should we think about that going forward? I know you said don't expect a seasonal recovery, but when you look at the guidance for Q2, how would you have us model that business?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: John, I would say probably unchanged from what we have told you in the past. Although, certainly, it looks like that guidance has more and more opportunity to come to fruition here, which is basically, we still expect that by the end of 2012, that revenue will be essentially gone and so kind of a linear progression from where we were in first quarter down basically to zero in first quarter '13 would be about the best we could provide you in terms of guidance.

<Q – John Pitzer – Credit Suisse (United States)>: And then, guys, as my follow-up, when you look at the Op profitability on the Analog business, on up revenue operating profits were down almost $70 million sequentially. I'm just kind of curious if you can talk a little bit about pricing in that business currently and also when you look at the weakness in the high performance market, is that expected to rebound in the second quarter and why was Q1 so weak for that segment?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: John, profitability was down – back to the initial comments that I made about our increase in investments in certain projects in Analog and Embedded Processes and a similar story holds in Embedded Processing as well. We have stepped up our spending on product development in those areas. In addition, as I mentioned, we are increasing our salespeople and field app engineers in support of those areas, so actually similar to what we did a year ago in Embedded Processing where we stepped up the investment there. We've done it again this year, stepping up the investment in both those segments.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay, John, thank you for your questions and we'll move to the next caller, please.

Operator: We'll go nest to Tim Luke, Barclays Capital.

<Q – Tim Luke – Barclays Capital, Inc.>: Thanks so much, Ron. As you plan going forward, how should we think about your inventory level? Obviously, it's up a little bit in this quarter, how are you thinking about that trending as you move into the year?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Tim, I will go ahead and take that. We don't normally give a forecast, per se, because that's really more a function of what the following quarter's outlook will be. So we won't give you a specific number, but I would just remind you of what we talked about. We have already taken action to start bringing the baseband inventory down and so we would expect that to decline during the second quarter.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Do you have a follow-on, Tim?

<Q – Tim Luke – Barclays Capital, Inc.>: As you describe the outlook for second half of the year, you say that you expect a quite good second half. Where are the areas that you see the greatest grounds for optimism around the second half? And maybe as part of that, it did look like your book to bill, your order numbers were strong in the quarter and maybe you can give us some color as to where you saw the best lift in the order book? Thank you.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Tim, I don't think we believe it's necessarily going to be driven by any particular market segment. In fact, I think that's part of the reason why we're somewhat optimistic because we see it being pretty broad-based underlying strength.

That certainly happened, you know, as we said in the prepared remarks there was some noise in first quarter, but if you peel back pretty much the isolated events of one baseband customer and a Japan earthquake, underlying business was really pretty strong. In fact, you know, I think, you know, if you look at the baseband numbers, we gave you them pretty specifically. You see pretty much $100 million decline, of which, about half of that was unexpected.

So you know, basically, we had about a $50 million unexpected decline in baseband. We had about the impact of the Japan earthquake on revenue, you know, since it came so late in the quarter was about $20 million, but you need to look at where we were relative to our guidance, you know, we were, you know, below the middle of the range but not very far below, which means areas outside of baseband and outside of the Japan related impact actually ran pretty strong in the quarter.

So again, we have to kind of get through second quarter and some of the noise associated with Japan, but we think that broad-based strength will then become increasingly evident once we get into second half. But again, not driven by any particular area but rather broad-based.

Okay. Tim, thank you, and let's move to the next caller.

Operator: We'll take our next question from Uche Orji with UBS.

<Q – Uche Orji – UBS Securities LLC>: Sure, thank you very much. Kevin, maybe I will just go back to your comments on Japan. With regard to how your customers have reacted to it, have there been any-one would expect subsequent to an event that there would be a jump in safety stocks and people trying to make sure they're not having any stock outs. Do you see any such? And has that kind of stabilized as we look at how demand could trend through the rest of the quarter? And also, while you're answering that, if you could also talk about any adjacent products, like we're hearing about wafer supplies being tight still from Japan if you are exposed to that and if such comment is true?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Uche, on customer reaction to the earthquake, I will go back to what Ron said. We actually saw quite strong demand during the first two and a half months of the quarter that really outside of the baseband and direct Japan impact, continued through the quarter.

I don't think that we can necessarily point to any specific example of where people might be moving to take on more inventory or safety stock but by the same token, I don't know that's an unreasonable thing for us to think that could occur. It's probably a little bit too early though for us to be able to point to any meaningful examples of that.

As it relates to the supply side, that is one of the things that we're mindful of in the second quarter outlook, and as we have talked about before, many semiconductor suppliers, that is suppliers of raw materials to semiconductor manufacturers such as TI and others have the manufacturing facilities in the earthquake zone and in many cases, those particular suppliers have been working to bring their factories back online. We've been working with them as well as other suppliers to try to ensure a continuity to our total supply, but right now, I would say the situation remains too fluid to really be able to give, either from us or anyone else, any certainty as to what that supply situation will look like until we get further through second quarter.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay, Uche, did you have a follow-up to that question?

<Q – Uche Orji – UBS Securities LLC>: I do. Actually, a different question. Ron, and I know you talked about investing in both Embedded and Analog Processing – Embedded Processing and Analog as kind of the reason for the gross margin weakness. Is there any specific change in mix particularly if you look at embedded, you know, where you talked about communications infrastructure as well as automotive being down? Is there anything more significant going on in Embedded beyond just investments that may have resulted in the margins being a little bit weaker?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Not outside of what we talked about. You know, you always have some variation across catalog products or, you know, automotive or comms infrastructure which are the three categories that we discussed there, but I think other than what we discussed in our prepared remarks or put in the release, there's nothing that jumps to my mind that would have been what I would call a mix change.

Do you have anything, Kevin that comes to your mind?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Not in those two segments specifically. I would just say, broadly speaking at the company level, we did talk about the costs of revenue took an impact for the Japan damages cost of about $30 million. We also mentioned that royalty revenue was down a little bit quarter-over-quarter. In addition to that, I did mention in my prepared remarks that the compensation-related costs in our manufacturing areas like the other areas we had the benefit of the seasonal decline for vacation in first quarter offset by pay and benefit increases in the first quarter, so that combination of events all pools together to deliver the GPM results that we looked at.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay, thank you, Uche. We'll move to the next caller.

Operator: Next is Glen Yeung with Citi.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks. Kevin, for you maybe. We obviously now have down gross margins with all the goings on in the first quarter. Can you maybe provide for us the path back to the mid-50s on gross margins? What are the things that need to happen, sort of correcting, for lack of a better term, the issues in Japan and what else do we need to see to get us back to the mid-50s?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Glen, I would first say that we're probably going to be a quarter or two out on that. Keep in mind I did mention that there was about $0.05 of additional impact that we expect in first quarter related to the Japan earthquake – excuse me, in the second quarter and most of that is going to be in cost of revenue. So we're probably in the third quarter before we see a resumption of the gross margins back in the level that we prefer to see them operating at.

And really, you know, I think an interesting point that should be noted that Ron brought up in his comments, 71% of our revenue in the first quarter was our core products and those tend to be products that enjoy very healthy gross margins, so as we move through time and baseband continues its wind down and so on, all of those things will come together and help support more reliable and solid gross margins starting in the second half of the year.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Do you have a follow-up, Glen?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: I do. It's kind of end-market related. You brought it up a little bit, but I just wanted to get your sense as to what you are seeing in a few end markets, wireless infrastructure, automotive and industrial, just what you saw and what you expect to see in those end markets?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay. Let's start with wireless infrastructure. I mean so first quarter we saw things down sequentially there, but I think that is pretty much a seasonal pattern that we would expect to see, you know, what were drivers of the revenue even though there was a seasonal decline was still most of the revenue was associated with North American data expansion. We did see some increased volume in China really in more kind of legacy GSM, 2G type of sales and again we have no change to the outlook you that you've heard us talk about over time, which is, we think we're really at the start of a very long growth spurt that is really going to be based on data traffic, capacity expansion that is going to go across the world. And so on the one hand, you will see CapEx spending increases, especially in the Wireless area, we believe, by the various service providers, but we actually think our opportunity to grow will be actually significantly above those CapEx increases really because we're catching more of the bill of materials via integration.

So just for example, we used to sell DSPs. Today we sell layer one system on a chip. In the future we are going to be selling layer one, two, three system on a chip and really capture more of the customer's system opportunity via that higher level service.

Automotive, you heard us say, was strong. A lot of that was driven by unit sales increases in automotive. I think just in the month of March, they were up something like 17% year-on-year. This is an area that we believe the end market will be impacted by the Japan earthquake, and I don't mean so much end market meaning consumer demand, but rather the automotive manufacturers' ability to supply given various constraints in terms of their supply chain. So that's one we're going to watch, but first quarter was strong, maybe a little more dampened outlook going forward.

And then industrial, I would say good strength, not only in first quarter. Our view is that is a market that is going to continue strong as we move through 2011 and you know, I would say that's across multiple regions, U.S., Europe, but also as you heard me say in prepared remarks, even out of China as they continue to expand not only that local economy, but they're supplying to the rest of the world.

Okay, Glen, thank you and hopefully, that answers your question there. We'll move to the next caller.

Operator: We'll go next to John Barton with Cowen.

<Q – John Barton – Cowen & Co.>: Thank you. Kevin, if you could go back to that $0.05 cost from the earthquake in the June quarter. Just break it out a little bit: underutilization charge, scrap product, restart costs and also your thoughts on those categories what could stretch into September, please?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Yeah, John, we're not going to go any lower than to say right now, we're estimating about $0.05 of cost in EPS and it will be mostly manufacturing related. Obviously, some of it will be in those categories you just described, as well as repair costs and other types of costs associated with bringing the lines back up, but I'm not going to go any deeper than just to say that it's about a nickel or so in the quarter we expect right now.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Would you like to try with another one, John?

<Q – John Barton – Cowen & Co.>: And that goes to zero in the September quarter?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Right now, we can't see that far out with a great deal of clarity so we withhold any kind of forecast on third quarter until we get closer to it.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: We'll probably give you more on that in July. Okay, John, I'll give you one more.

<Q – John Barton – Cowen & Co.>: Back to the book-to-bill, 1.06, where was it tracking before the earthquake and what I'm after there is how much of an increase in bookings did you see as customers tried to give you visibility and/or create safety stock?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: John, I would describe the order trend as strong throughout the quarter. We did see some turn-up in the couple weeks, last couple weeks of March associated with you know maybe customers like you described, trying to provide more visibility, but that was not a big factor. Book-to-bill and our order trends were solid, literally from the start of the quarter all the way through.

Okay, John, thank you, and we'll move to the next caller.

Operator: The next is Steve Smigie with Raymond James.

<Q – J. Steven Smigie – Raymond James & Associates>: Good, thank you. With regard to your comments about a good second half, I'm just curious what would constitute a good second half for you guys? If you were seasonal, would that be a good second half? Would it require somewhat better than seasonal? How should we think about that?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Sure. Do you have a follow-up question?

[Laughter]

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Yeah. Steve, we're already out on a limb trying to talk about in general things turning back up in second half. I don't know that we're sitting here trying to say whether it would be above seasonal, but certainly a seasonal or better second half is what we would characterize as a strong second half and as is kind of in the range of thinking that we have.

Do you have a follow-on?

<Q – J. Steven Smigie – Raymond James & Associates>: Sure. You had an above seasonal Q1, very solid bookings here and you are talking about this good back half and that's sort of in the context of, you know, some discussion of PC weakness out there and high oil prices and debt ceilings and a lot of negative macro data points. Just curious, how you sort of, you know, put those two together, the negative macro data points and your seeming strength. Is it share gains? It is something else? If you could just give some thoughts there, I know you guys aren't economists, but any thoughts there would be helpful.

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Again, I think, Steve, what we're seeing here is just a general broadening of the economic recovery around the world including in the Western economies that you have been watching and surprisingly weak, you know, for a long period of time. That along with the proliferation of electronic devices gives us confidence that there's, you know, going to be quite a bit of long-term growth for semiconductors. I think we talked in the last couple of calls about our interest in the emergence of say, tablet PCs, for example, where our potential content in tablet is more than it is in PCs. So actually that transition from PC weakness to tablet strength, we view positively.

The emergence of the data communications demands that Ron was talking about earlier, puts more and more demand on the networks and we have a lot of content inside those, and we view that very favorably. The fact that automobile sales were somewhat depressed during the last couple of years as people kind of held onto their cash and their cars were getting older, they eventually have to replace them and electronic content continues to go up inside those cars and again, that gives us confidence that semiconductor content is going to be quite attractive as we move into the future.

So no particular area and no debate on some of the macro headlines that you're talking about, it's just broadly speaking, there's underlying demand that we saw even coming through this period where people were a bit rattled with all the headlines you just talked about, including an earthquake, we still saw strong demand.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay, very good, Steve. Thank you for your questions and we'll move to the next caller.

Operator: Go next to Jim Covello with Goldman Sachs.

<Q – James Covello – Goldman Sachs & Co.>: Great, thanks guys. Good afternoon. Thanks for taking the question. On the royalty issue that hit the Q1 gross margins, is that expected to carry over to impact Q2 gross margins as well?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Jim, we don't typically forecast down that low, but we think that royalties will probably run in the – call it the $50 million kind of range on a quarterly basis going forward.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Which is about where they were in Q1, so probably, just looking forward, we don't really see a big transition. Although, Jim, as you know, royalties can always bounce around based on, you know, what happens with our licensees' revenue and things like that, but probably at a level in first quarter that we would expect roughly to hold through the rest of the year.

Do you have a follow-on, Jim?

<Q – James Covello – Goldman Sachs & Co.>: Yes, please, on the production issues out of Japan, is there any risk that, you know, some of the share that you were unable to satisfy or some of the shipments you were unable to satisfy this quarter go elsewhere and are hard to get back, or do you think you can take them back as you ramp up production in other regions?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Jim, I don't think there's much concern on a share shift standpoint. Again most of the products are designed in. It's difficult or undesirable for many customers to want to redesign somebody else in, not impossible, but difficult.

This is a short-term interruption and frankly, we're moving very quickly to qualify products into other factories. So the reaction from our customers has actually been quite good so far. At this point, I would minimize any risk to our share position due to the earthquake.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Yeah, Jim, I would think of it this way. A customer, you know, all the different directions they can put their energies, it's going to be much more expedient for them to work on taking a device that we used to manufacture in Miho and say re-qualify a similar device that we could provide them out of RFAB, than to go back to the design stage and try to redesign a board to use a competitor's device and again, very, very few of these devices, if any, would be pin-for-pin compatible with competitors' devices. They're highly proprietary, and so again, what we've seen is – and what we have encouraged is a pretty intense effort to work with us on getting the 80% of devices re-qualified over into other areas, while at the same time, we're doing our best to recover production in Miho as fast as possible as well.

Okay, thank you, Jim and we'll move to the next caller.

Operator: We'll go next to Ambrish Srivastava with BMO.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Thanks, guys. Any repercussions for lead times? And not just for your products, what are you seeing in the industry? Are there any complementary products where lead times are stretching out? And then I have a follow-up as well.

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Yeah, Ambrish, clearly we had to adjust lead times for our customers for deliveries for products that were impacted from our Miho factory. But aside from that, I'm not aware of any others to point out.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: And then my follow-up. Any buyer's remorse after pulling the National deal

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Kevin, do you have any remorse to spending $6.5 billion to buy National?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Frankly, I can't – I'm pretty enthusiastic about us getting that deal closed. When you take a look at the opportunity we have to actually accelerate the growth of the National portfolio, it's pretty exciting. Our incremental cost to accelerate that growth is exactly zero, because we already have the sales force in place. So as soon as we can expose their products to ten times the size of the sales force, we should expect to see a meaningful shift in a fairly short order in the revenue growth of those products.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: I mean there are just not very many opportunities, Ambrish, to be able to pick up a 12,000-product analog portfolio and a very high quality analog portfolio and basically be able to get it at a reasonable market price such as we were able to with this acquisition.

So you know, we've obviously spent a lot of time out meeting with investors and, you know, frankly, the feedback from our largest investors has been very encouraging regarding that acquisition, TI's use of capital for that acquisition and what they believe we'll be able to do with it. So I think they share our enthusiasm for bringing that National team onboard and doing it as quickly as we can.

All right, Ambrish Srivastava, thank you for your questions and we'll move to the next caller.

Operator: We'll go next to Edward Snyder with Charter Equity Research.

<Q – Ed Snyder – Charter Equity Research>: Thanks a lot. In light of that National acquisition and the fact that you're investing, as you pointed out, in field sales and engineering, does that change your dynamic? I know it hasn't closed yet. You haven't got the green light completely, but why add field sales and engineering when you are bringing on National's sales force with their engineers on top of it? Are the growth opportunities that strong?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Actually, it is, Ed. We're continuing on our organic growth, pursuits that we've had all along. Recall that we spent the last year and a half expanding our manufacturing capacity with the idea of rapidly growing organically our own internal portfolio of some 30,000 odd analog products. That has not changed and the expectation for each of those businesses inside our portfolio to have growth rates running 2x their markets has not changed and so in order to do that, we continue to want to add people in areas where we see the actual growth opportunity at.

The exciting part again, for us, is it's incrementally quite easy for us then to add the additional 12,000 products that National's portfolio will bring to us into our sales people's hands and on those same calls now have an even higher probability of walking away with the sale every time they show up at the customer.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Yeah. Just you know, to reinforce because we used to get this question a lot from investors whether our aggressive growth goals for Analog would be purely met organically or whether we would do it via acquisition. You know, our goal in terms of the organic growth has not changed whatsoever and that's basically to be growing 2x the market. So we're continuing to execute the strategy to make sure we deliver on that goal and then what we'll be doing with the National portfolio will certainly be in addition to that.

So Ed, do you have a follow-on question?

<Q – Ed Snyder – Charter Equity Research>: I was going to follow-up to that one. Incrementally, obviously, you have talked a lot about helping out National by adding so many more sales force to their feet on the street, but then you have the National guys helping you guys out, too and that's incremental, to I guess what your organic growth would be then, I expect?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Yeah. It certainly cuts both ways. Great salespeople are hard to find and great FAEs are even harder to find and we're combining these teams together and we're pretty encouraged. We have already got the largest sales force in the industry and it's going to be even larger. So I think the ability to multiply on that from a growth standpoint is clearly in our favor.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: I think, Ed -- you are familiar with National, I know, I forget the exact number, something like 45, 46% of their recent revenue is coming from the industrial market, and that's a much stronger position in industrial and a lot of it comes because of the power management capabilities they have for high voltage type of applications and so they will have relationships with customers and certainly portfolio – what do I call it, lead-in type products that we will be able to benefit from with those customers and you know, hopefully, we'll go in selling microcontrollers, DSPs and other products those customers might be able to take advantage of as well.

Okay, Ed, thank you, and we'll move to the next caller.

Operator: Next to JoAnne Feeney with Longbow Research.

<Q – JoAnne Feeney – Longbow Research LLC>: Yes, thanks for taking my question. Just a little bit more, if we could, on Japan. I'm curious, you've moved, it sounds like, more than you originally planned to other facilities, 80% up from 60%. I'm wondering what percentage of those parts are already qualified, or when do you think they will be qualified?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: JoAnne, I think initially we had indicated that somewhere around 60% or so was available into other factories and we have since been able to increase that to about 80%. Qualification is underway for many of those products already. It's really a function from two sides. One, we have got to qualify it inside the factory we're moving those products into and the second part is the customer has to gain confidence that the parts are actually working as they expect them to work. So that is probably going to be taking us through this quarter and maybe even next quarter on some of these products.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Just another data point I would add is at RFAB these days, we have about 100 devices qualified for production there and we're adding about ten new devices per week into RFAB. If you just go back a month ago before the earthquake or I guess a little more than a month, we were probably adding at a pace of about five new devices per week in RFAB and certainly the acceleration that has happened since then is because of trying to move those Miho products and provide some production alternatives there.

Do you have a follow-on, JoAnne

<Q – JoAnne Feeney – Longbow Research LLC>: Yeah. On the composition side, you had a month or so to look at this. I'm wondering how the composition of your existing inventories matches up against the shortfall out of the Miho facility, whether you will be able to draw down inventories to meet customer demand or whether there isn't a particularly good match there in the inventory set?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: There was already, you know, material that Miho had produced that was in our assembly and test sites and we had finished good material as well. We had a better recovery of wafers than we initially anticipated after the earthquake. We thought more were damaged than we had actually believed to be the case initially. So between those, we've got some inventory to be able to handle our customer demands, but clearly, not enough, which is why we are re-qualling many of those products into other factories. And is also why we had to re-profile the lead times on those particular parts because we don't have enough material on hand to meet the demands of those customers.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay, thank you, JoAnne. We'll move to the next caller.

Operator: Next is Chris Danely with J.P. Morgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Hey, guys. I know you probably can't answer this definitively, but how confident do you feel that you're incorporating most, if not, all of the impact from Japan and in that vein, are you incorporating any impact from any sort of demand destruction from Japan domestically?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Chris, right now, we have given you our best estimate which we think is – with what we know today, an all-in numbers, if you will, and that is we think about $0.05 impact in the second quarter. As we get further and further into bringing equipment up and actually making sure that it functions as intended, that may change, but right now, we think that's a good number.

The kind of knock-on effect I alluded to in my opening remarks and that is, given that our revenue growth sequentially in the quarter we expect to be about half of what we would normally experience on a seasonal basis, if we run the math on that, we think that's about another $0.05 of earnings forgone from a revenue standpoint in the quarter so between the forgone earnings of $0.05 and the actual expected increase in recovery costs of $0.05, it looks to us to be about a $0.10 impact in the second quarter.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yeah. Do you guys expect any sort of makeup in the second half especially on the gross margin side? In terms of modeling, should we assume that once you get back to the revenue levels you had last year, your gross margins will be the same or similar?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Chris, I will remind you again that $0.05 that I talked about for second quarter costs will pretty much all go through cost of revenue, so that will have a negative impact on our gross margins, but to the extent that that pretty much wraps up the repair costs and the recovery costs, we should expect to see our gross margins begin to move back to levels that you grew accustomed to seeing us at, at those revenue levels.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Thank you, Chris. We'll move to the next caller.

Operator: Next is Tore Svanberg with Stifel Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, thank you. First question: your guidance range is fairly wide, up 1 to 9. I'm just wondering if the variables there are simply Japan, or is there anything else that's behind that range?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Tore, I believe that range is very consistent with what you have seen from TI historically. We will usually start with a range at that level and then try to narrow it as we move into the mid-quarter update, but this is consistent with what we have historically provided at the beginning of the quarter.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Okay, very good. Could you also clarify a little bit more what is happening in the distribution channel? I think you said sell-through was very strong, TI inventory was down and yet, you know, you have done a good job to sort of get the inventories back up. So what exactly is happening there? Are distributors wanting to build more inventory, or – I'm just trying to understand that better, thanks.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: I think, well sell-through was strong and frankly, we had expected it to be strong coming into the quarter. That was certainly part of the characterization we gave back in January that we thought we were coming into an above seasonal first quarter and you know, you only had to go back to their – those distributors' reports and they were talking about order strength in fourth quarter, positive book-to-bill to come away with that type of consideration.

I would say that inventory is about where they would like to have it and frankly where we would like to have them. As we mentioned, days were down a few, but basically in the six-week range for their inventory. That's about where they have historically been, especially if you make adjustment for the increasing amount of distributor inventory that we're carrying on consignment programs.

So consignment moved up a little bit, about a third of our distribution revenue is now being supported on consignment programs and as that continues to move up, and by the way, we will also, as we bring that National portfolio on board, we will move that into consignment programs with distribution as well, but as the percentage of our distribution support that is supported by consignment inventory moves up, then naturally, the amount of inventory that the distributors need to carry would move down correspondingly. So, but again, I would say they're generally right in the range where they would like to be.

Okay, Tore, I believe that's two questions, so we will move to the next caller.

Operator: We'll go next to Ross Seymore, Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi guys, just a question on calculators versus your regular semiconductor business. That's usually up, the calculator side, in the second quarter. Any reason, Japan or otherwise, that that wouldn't constitute the usual 2 to 3 points of sequential growth?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: I think you've got it right, Ross. If you look at calculators from first to second quarter, very typical would be a doubling of their revenue, and there's no reason where we wouldn't expect that same. That could be 2.5 to 3 points of company level revenue growth first to second quarter coming from that seasonal lift in calculator demand.

Do you have a follow-on, Ross?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Yep, different topic though. On OpEx, your OpEx went up about $36 million sequentially. You mentioned about the investments in Embedded and Analog. Is that the majority of that $36 million? Should we think that about that sort of magnitude going forward as you continue to invest, or were there one-time things in that sequential comparison that won't occur again as we go forward?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Ross, the only one-time thing that we point back to is we do our annual pay and benefit increases in the first quarter so there's about two-thirds of a quarter's worth of that in there. So you will see a bit more of that as we go into next quarter as you get a full quarter effect of that. Plus, back to your earlier question about calculators and so on from the seasonality standpoint. You'd typically see our SG&A go up a bit there on marketing costs. So you'll typically see our OpEx move up in the second quarter. I think last year, if you go take a look at that, it's a good way to think about how this year may play out as well.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: The only other point I would make, Ross, is we provided annual – we don't do it for SG&A but for R&D guidance of $1.7 billion and now certainly that could round up or round down to that number, but that would give you also some rough guidelines on that.

Okay, thank you, Ross. We'll move to the next caller.

Operator: We'll go next to Craig Ellis with Caris & Company.

<Q – Craig Ellis – Caris & Co., Inc.>: Thanks, guys. Kevin, any thoughts on the amount of debt that you are comfortable taking on associated with the National deal?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Craig, we talked about we would probably issue somewhere between $3 billion and $4 billion of debt as part of that acquisition. I don't have any more updates for you on that. I still think that's probably a good number frame for modeling purposes.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Do you have a follow-on, Craig?

<Q – Craig Ellis – Caris & Co., Inc.>: Yeah. You talked about lead times, pretty clear message there. As you look at pricing dynamics, especially in high volume analog and power management, any change to pricing over the last month or two especially since the quake?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Craig, pricing pretty much across the board is trending normally. So, you know, I don't think we have seen anything that we would say is first of all, abnormal to begin with, much less that we would correlate to the quake.

Okay, Craig. Thanks for your questions and we'll move to the next caller.

Operator: Next is Tristan Gerra with Robert Baird.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Hello, Tristan.

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: Hi. Good afternoon. Could you give us an update on the market share you believe you have with OMAP 4 and in terms of the market share gains that you expect over the next few quarters, is that relative to previous OMAP products, or it is relative to the competition and if so, why do you think you were gaining share in that space?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay. So I don't have a share number for you specifically, but there's probably lots of third-party people that make their living at trying to make that assessment, so I guess I would just reference you in that direction.

In terms of gains that we're making and what gives us confidence that we will see share gains, it's as simple as looking at the pipeline of wins that we have underway. To some degree, Tristan, it depends upon how you define the market. I don't mean that cute.

What I mean though, is that our view of mobile computing and the opportunity there is a pretty broad definition of the opportunity. So it includes tablets and it includes smartphones, but it also includes areas like data terminals. You know, the guy that, you know, in the brown truck that delivers a package to you that pulls a little data terminal out and records the delivery and has you sign on the pad, we view that as an OMAP, a potential OMAP application and in fact, we have wins in that space.

So again, a very broad definition of the opportunity for mobile computing and by no means does that diminish our enthusiasm for OMAP in smartphones and in tablets. In fact, I would say both of those are must-win areas, but we also have a much broader definition where we're going to be able to take that same OMAP technology and put it into a lot of different areas: e-readers, personal navigation devices I mentioned previously, are all areas where today we have OMAP design wins in that pipeline that I'm referring to that, you know, these aren't, you know, demo projects that somebody did at a trade show. These are production programs that we have in development for customers that will be going into production in 2011.

And so, you know, there's always uncertainty as to how much success a particular product will have out in the marketplace, but in terms of the quality of the customers, the size of the potential opportunities, we are quite confident it's going to translate to very solid market share gains for us in that market.

Do you have a follow-on, Tristan?

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: Quick follow-up on the production for RFAB. Any type of guidance in terms of production we can expect from RFAB by the end of this year and also, how would that compare with the peak potential output from that same fab?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay. Tristan, you know, what I would say today is the revenue amount coming out of RFAB is still relatively small. We have said all along that we are capable today from an equipment perspective of ramping RFAB up into about a $2 billion production level and that we will pace that based upon market demand. Certainly, events such as we've had in Japan have resulted in somewhat of an acceleration there, but I don't have a specific number to be able to say, we will be at this dollar value or this percent utilization other than it's ramping nicely, maybe even ahead of plan based on, you know, the added motivation of getting those Miho devices qualified over there.

Okay, operator, I believe we have time for one more caller.

Operator: We'll go next to Ramesh Misra with Brigantine Advisors.

<Q – Ramesh Misra – Brigantine Advisors>: Hi guys, thanks for squeezing me in. Ron, very roughly, what was your percentage of revenues from Japan? And longer term, do you expect that to change? In other words, are you seeing customers in Japan looking to diversify their supplier base from being heavily Japan-centric to something that's a little more balanced?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Okay. Our percent of revenue from Japan last year was about 10% and to the question of are we looking – do we believe customers will look for more diversified supplier base, I don't believe so. I think our – I shouldn't say I don't believe so. What I mean is I think it's way too early for customers to be going through that. They're focused on bringing their factories back into operation in that earthquake zone. I don't think at this point they're trying to figure out whether they should be there or whether they should be someplace else. That can happen and probably very likely could happen later, but I haven't heard of customers re-evaluating their location status.

<A – Kevin March – Senior Vice President & Chief Financial Officer>: I would just point out also that the output from Miho is not just sold into Japan but it is sold around the world. So there's not a direct connection between Miho or Aizu factories and the actual revenue we gain in Japan.

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: One thing I will mention as a longer term benefit for TI is, you know, it's always – there is cost to our customers, there's distractions to our customers to re-qualify a product from one fab to another fab, but as we have said before, because of the supply disruption out of Miho there has been an intensified effort on behalf of the customers to go ahead and help us internally multi-source those products into other fabs and that's something that, just from an operational and logistics perspective, we'll benefit from over time having the same devices in production at multiple fabs and having those customer qualifications already in place just always provides us a different level of flexibility.

Okay, Ramesh, do you have a follow-on question?

<Q – Ramesh Misra – Brigantine Advisors>: Okay, that is helpful. A very quick one. On your mid-quarter update, you said you felt that the PC business had bottomed and begun to rebound. Are you still seeing that and I guess broader PC including the mobile?

<A – Ron Slaymaker – Vice President & Head-Investor Relations>: Yes, Ramesh, that, in fact, is correct. I think what we said was earlier in the quarter because there had been a chipset recall, we had seen disruption in that business but that as we moved later into February as that other supplier basically got back on-line and moved forward, we had seen even at the mid-quarter update, recovery in our PC-related business and I would say that did continue through the month of March. So that business is continuing well at this point.

Okay, and with that, we'll wrap up. Thank you for joining us. A replay of this call is available on our website. Good evening.

Operator: Ladies and gentlemen, this does conclude today's discussion. We appreciate your participation.