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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments 1Q 2013 Earnings Conference Call. At this time I would like to turn the conference over to Mr. Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President-Investor Relations

Good afternoon, and thank you for joining our First Quarter 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 risk and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor statements 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 10. At that time, we expect to adjust the revenue and earnings guidance ranges as appropriate.

Business in the quarter strengthened steadily. You will recall that at our mid-quarter update, we narrowed revenue to the upper half of the original range we set in January. In the end, we finished just below the top of our range. This is a healthy environment where customers are maintaining lean inventory levels and are relying on TI's short product lead-times, well-positioned inventory and strong manufacturing capacity to give them what they want when they want it.

As our revenue built in the quarter, it fell through nicely to profit. EPS of $0.32 was at the top of our range of expectations.

As we review our first quarterly report for 2013, I believe it is important to note that TI is now a company firmly rooted in Analog and Embedded Processing. These two areas made up 77% of our revenue in the quarter, a full 500 basis points more than a year ago. This makes us less dependent on any one customer and on any one end market. As we've noted previously, our largest customer is now in the mid-single digits as a percentage of our total revenue.

As more of our revenue comes from Analog and Embedded Processing our market exposure has also expanded favorably. Today, 35% of our revenue comes from the Industrial and Automotive markets, more than from the Communications market and more than from the Computing market. Each of these markets is important and with more balance in the mix of revenue from each, we expect steadier growth and better returns.

The strength of our business model gives us confidence that we can sustainably generate $0.20 to $0.25 of free cash flow for every $1.00 of revenue and then return all of it to shareholders, except what is required to repay debt. You saw that confidence exhibited in the first quarter as we raised our dividend by 33% to $1.12 per share annualized and added another $5 billion of share repurchase authorization.

In considering our performance and valuation, we believe it is important to pay attention to cash flow from operations and especially to the free cash flow we're generating in addition to our income statement and balance sheet. We think free cash flow is important for a couple of reasons. First, over the past few years, net income has lagged the amount of free cash that TI generates and we expect this to continue for a number of years. In fact, free cash flow was more than net income in four of the past five years. In 2012 alone, free cash flow exceeded net income by $1.16 billion.

So why does free cash flow exceed net income and why will this continue? Two primary factors are the amortization of acquisition intangibles associated with National, which will run about $320 million per year for the next six years. Also, depreciation expense exceeds our capital expenditure needs thanks to the strong capacity position we currently have installed and the long life of our manufacturing equipment for Analog and Embedded Processing. In 2012, depreciation exceeded CapEx by $462 million and our guidance reflects about a $400 million difference in 2013. We expect it will be several more years before this gap closes considering that our capital expenditures should remain at low levels.

The second reason we believe free cash flow is important is that cash returns are an important element of shareholders returns. The more free cash we can generate, the more cash we intend to return to our shareholders through dividends and share buybacks. This is an important benefit to our long-term investors. The end result is that free cash flow when considered on a trailing 12-month basis, is an important metric for our investors to assess the value of the enterprise and one that determines how much cash we can return to them. Of course, in the short-term, any quarterly metric can vary significantly with seasonality and other factors. This is often noise and may not correlate with long-term changes in the intrinsic value of the company.

Let me now walk through the quarter's results. I'll note that this is our first financial report based on our updated segment reporting structure. Please see our earnings release for a description of these changes. We have also provided historical information for the new segments on the IR page of our website.

Revenue of $2.89 billion declined 8% from a year ago and 3% sequentially. The largest part of the decline in both comparisons was from our legacy wireless products. Analog revenue declined 2% from a year ago and was about even sequentially. From a year ago, Silicon Valley Analog had the largest decline, mostly reflecting its ongoing conversion to a consignment inventory program with our distributors. Sequentially, growth was greatest in Silicon Valley Analog and High Performance Analog, two product lines with strong exposure to the Industrial market. Growth in these areas was offset by lower revenue in High Volume Analog & Logic and Power Management. Silicon Valley Analog's rate of conversion to consignment at distribution was about the same this quarter as last. So this was not a significant factor in the sequential growth rate.

Embedded Processing increased 4% from a year ago and 3% sequentially with growth in Microcontrollers the biggest factor in both comparisons.

Our Other segment revenue declined 24% from a year ago and 12% sequentially. In both comparisons, legacy wireless products were the biggest factor in the decline. Revenue from these products was $210 million in the first quarter compared with $339 million a year ago and $270 million in the fourth quarter. We expect this revenue to decline throughout 2013 and essentially be gone by the end of this year. Also, in comparing the Other segment's revenue with a year ago, please note that quarter included about $65 million in business interruption insurance proceeds associated with the earthquake in Japan.

Turning to distribution, resales grew 1% from a year ago and declined 3% from the prior quarter. Distributors were able to further reduce their inventory levels as they continue to rely more heavily upon our consignment program.

Now Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone. Gross profit of $1.37 billion was 47.6% of revenue, down 10% from a year ago and down 5% sequentially. The decline from a year ago was mostly due to lower revenue. This included business interruption insurance proceeds in the year-ago quarter that fell through strongly to gross profit in that quarter. Sequentially, lower gross profit mostly reflected lower revenue.

Operating expenses of $878 million were 10% lower than a year ago mostly due to cost reductions associated with our legacy wireless product lines as well as synergies associated with our National acquisition. Sequentially, operating expenses increased 3% which was mostly tied to seasonal factors such as compensation-related expenses that were primarily offset by savings associated with our wireless restructuring.

Net income in the first quarter was $362 million or $0.32 per share and includes a $65 million discrete tax benefit from the reinstatement of the R&D tax credit which was retroactive to the beginning of 2012. We had previously described this credit as part of our guidance for the quarter. I will point out that as we have eliminated our Wireless segment, a higher portion of the expenses associated with our corporate activities are being allocated to the remaining segments. We are fully on track to achieve the cost reductions that we described in November with our wireless restructuring actions and these gains can be readily observed at the company level. However, profitability in the other segments has been impacted as they now shoulder more of the allocated expense. You will see this in both the comparisons with the year-ago quarter as well as the prior quarter.

Let me now comment on our capital management starting with our cash generation. Cash flow from operations was $360 million in the quarter. We lowered our inventory by $57 million in the quarter. Inventory days declined to 101 days from 103 days last quarter. We are a little below our long-term targeted range of 105 to 115 days that we communicated in February, however, inventory days will likely rise through the remainder of this year as the wireless revenue and its associated inventory, which turns at a faster pace, winds down.

Capital expenditures were $84 million in the quarter and free cash flow was $276 million. Given the noise that is inherent in quarterly cash flow and its components, it is useful to look at this on a trailing 12-month basis to understand our longer-term trends and progress. On this basis, cash flow from operations was $3.32 billion, up 4% from a year ago. Trailing 12-months capital expenditures were $476 million, down 34% from a year ago. And free cash flow was more than $2.85 billion, up 16% from a year ago.

Free cash flow was 23% of revenue for the trailing 12-month period, within our expected range of 20% to 25% of revenue. In the year-ago quarter, trailing 12-month period free cash flow was 18% of revenue. I should note that our capital expenditures for the past 12 months were 4% of revenue. We are operating at the low end of our model and we believe we can remain at this low level of spending for several years given our strong capacity position that has been built as a result of our strategic investments of the past few years. The cash flow that will result as we fill up this capacity should be strong in the years ahead.

And as we've said, strong cash flow, particularly free cash flow, means that we can continue to provide strong cash returns to our shareholders. In the first quarter, TI paid $232 million in dividends and repurchased $679 million of our stock. For the past 12 months, we have paid $856 million in dividends or 30% of our free cash flow. Similarly, we have repurchased $2.18 billion of stock or 77% of free cash flow. In total, we returned 107% of free cash flow for the past 12 months.

As we explained in February, our capital management strategy is to return all of our free cash flow to shareholders, except for what is needed to repay debt. Fundamental to this strategy are our cash management and tax practices. We ended the first quarter with $3.86 billion of cash and short-term investments, with 84% of that amount owned by TI's U.S. entities. This means our assets are productive and our cash, because it is largely on shore, is readily available by the Corporation for a variety of uses, including paying dividends and repurchasing our stock.

TI orders grew sequentially, and our book-to-bill ratio was above one, as our backlog expanded. Customers continue to keep the amount of backlog they have on our books constrained, however, demand has been rising and we've been executing well to support it, despite not having a lot of extended visibility.

Turning to our outlook, we expect TI revenue in the range of $2.93 billion to $3.17 billion in the second quarter. And at the middle of this range, revenue would increase about 6% sequentially, despite about a 30% expected decline in revenue from our legacy wireless products. As for the rest of our revenue, that would result in growth of about 8.5%, at the middle of our range, at a level that is generally consistent with the seasonal average for our second quarter.

We expect earnings per share to be in the range of $0.37 to $0.45. For the year, our estimate for our R&D expense has been reduced to $1.5 billion, down from our prior estimate of $1.6 billion and compared with $1.9 billion in 2012. Most of the reductions from 2012 are a result of our wireless restructuring activity. Our estimate for capital expenditures remains $500 million, well below our depreciation estimate of $900 million. Our estimate of the tax rate remains at 22%.

So in summary, we continue to be encouraged by our strategic progress. TI is now clearly an Analog and Embedded Processing company. We serve a diverse set of customers and end markets, which means we have the opportunity for long-term sustainable growth, with less volatility than in our past. The small amount of legacy wireless revenue that remains is quickly winding down. The combination of our rich product portfolio and ample manufacturing capacity has us well positioned for growth in the years ahead and that growth should continue to drive good cash generation, $0.20 to $0.25 of free cash flow for every dollar of revenue, and we fully intend to continue to return this to you, our shareholders.

With that, let me turn it back to Ron.

Ron Slaymaker, Vice President-Investor Relations

Thanks, Kevin. Amber, 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 our response, we will provide you an opportunity for an additional follow-up. Amber?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first question from Glen Yeung with Citi.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks for letting me ask a question. Kevin, I guess for you, as we think about the allocation of OpEx to the Analog and Embedded businesses as you're moving away from wireless, one, is it sort of going along as you thought it would in Q1 and what's the pattern we should expect to see in terms of Analog and Embedded profitability as we go through the rest of the year?

<A – Kevin March – Texas Instruments Incorporated>: Glen, the allocation that you're talking about, is the, I think you're talking about the allocation of the corporate expenses.

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

<A – Kevin March – Texas Instruments Incorporated>: And again, just to repeat what I had mentioned a moment ago, because we now have less cost going forward, that corporate cost will allocate to fewer segments, so the burden upon those remaining segments will be up. The cost of the corporate activities does not scale one-for-one with the cost of the actual business operations, so consequently, while it will come down a little bit, it won't come down nearly the magnitude that the inherent costs will come down, as we wind down the Wireless segment.

The result is the allocated costs to the remaining segments will be higher and you can see that incrementally if you look at the segments that we've just published. And on a go-forward basis, those allocated costs will come down a little bit over time, but not significantly. And the result is that as we see revenue growth going on inside the segments, we should see the profitability of those segments continue to improve.

<A – Ron Slaymaker – Texas Instruments Incorporated>: But as Wireless winds down from here, Kevin, will those allocated costs increase further to Analog and Embedded or are they basically at the run rate for the year?

<A – Kevin March – Texas Instruments Incorporated>: They're pretty close to the run rate for the year, that they're going to be at.

<A – Ron Slaymaker – Texas Instruments Incorporated>: All right, Glen. Do you have a follow-on?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: I do. We've had some of your peers talk about growth in the June quarter and basically suggest things are growing but maybe not growing at stellar rates. I wonder if you can talk about your order linearity in the quarter, how you – how that progressed and maybe your view on sort of the steepness or shallowness as it were of the cycle that we're in?

<A – Ron Slaymaker – Texas Instruments Incorporated>: So, Glen, I guess I'm afraid I don't have a lot further to add than what's inherent in the guidance. Other than the decline in legacy wireless, we're expecting a seasonal second quarter for the remainder of our revenue. The microanalysis of the quarter in linearity of revenue or linearity of orders frankly, there is nothing really to be gained there. What I mean by that is we had a typical first quarter profile on both orders and revenue. We declined around Chinese New Year, as we do every year and then it recovered and bounced back again in the month of March, but nothing really unique in the first quarter profile compared with what we would typically expect in a first quarter. Okay, Glen. Thanks for your questions. And we'll move to the next caller.

Operator: We'll go next to Jim Covello with Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Great, guys, thanks so much for taking the question. I appreciate it. What are you guys planning on doing with the factory loadings in Q2 and any thoughts on the factory loadings at this point for the back half?

<A – Kevin March – Texas Instruments Incorporated>: Yes, Jim, as it relates to loadings with the increased outlook that we have, we would expect factory loadings to be higher in 2Q than they were in 1Q. And consequently, utilization charges will, in all likelihood, decline quarter-over-quarter. I expect that the utilization, which was about $150 million of underutilization charge in the first quarter, which was down about $20 million from the fourth quarter, would decline further as we go into the second quarter, on the back of increased factory loadings.

<A – Ron Slaymaker – Texas Instruments Incorporated>: You have a follow-on question, Jim?

<Q – Jim Covello – Goldman Sachs & Co.>: Sure. Ron, I know you guys have taken to using the trend line analysis to think about the industry and underscore that even though we don't know exactly when things are going to recover, it's just a way to highlight how much we're under-shipping sort of where the long-term level is. I think the conventional bear case on that is, hey, long-term demand is broken now and that trend line that a lot of us use, including you guys, isn't relevant anymore. What do you say to folks when they say that, that long-term trend line is broken, therefore that analysis is irrelevant?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Jim, recently we are trying to avoid that discussion. What I mean by that is, we have no unique insight to provide in terms of where we are with respect to that trend line, where we are with respect to the cycle. And so frankly, we are just heads down focusing on trying to gain share in Analog and Embedded Processing regardless of the market environment and be able to generate free cash flow at the 20% to 25% of revenue level that we've described. But, we will leave it to you experts to try to figure out where we are relative to those trends and relative to any cycle considerations. Okay, Jim. Thank you for your questions and we'll move to the next caller, please.

Operator: We'll go next to Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys. First question is just on order trends. It seems like after this quarter the wireless part of baseband will be pretty much de minimis. So if we just continue in this sort of normal seasonal slog, can you just remind us what Q3 normal seasonality is? And will there be or could there be any more depression on your overall sales from wireless in Q3?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think, Chris, we are saying so – in second quarter we are saying the wireless, legacy wireless, will decline to roughly about $150 million compared with $210 million in the first quarter. So there's still $150 million to unwind through the remainder of the year. So, the answer is yes, it will likely continue to be a bit of a headwind, but I think we've quantified it. It gets smaller and smaller as every quarter passes by, which means the end is near on that.

In terms of third quarter, our historical average is about 5%. And again, I'll put the same caveat on that we always do. There's a wide range about that five-year average and in our case it's minus 2% to plus 18%. But the average is in fact 5%. Do you have a follow-on Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Sure. Can you just give us your expectation on the relative growth rates for either your main product lines or end markets for the rest of the year? Or at least give us the status of those?

<A – Kevin March – Texas Instruments Incorporated>: Chris, I would just say we would expect at least for our segments we're likely to grow at least at the market rate and because we have been pretty successful at consistently gaining market share for the last four or five years in each of our target segments of Analog and Embedded Processing, I would expect that we should be able to turn in maybe growth a little bit beyond what the total market itself grows.

Beyond that, as Ron mentioned a moment ago, we're probably a little bit hesitant to go off and articulate that we have some kind of expertise or special insight as to the market growth or the economy as a whole. Instead we remain focused on really growing share and converting that revenue growth into free cash flow. We target 20% to 25%. We just turned in 23% for the last 12 months and that was in a pretty weak market. So with that in mind we are pretty encouraged as to what this portfolio can do for our shareholders going forward.

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

Operator: We'll go next to John Pitzer with Credit Suisse.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yes, guys. Good afternoon. Thanks for letting me ask a question. I guess, Kevin, as the wireless legacy business goes to zero, what would you expect the profitability to be in the other bucket? Is it the intent to try to get that to breakeven as revenue goes away or how should I think about that?

<A – Kevin March – Texas Instruments Incorporated>: John, I would think that would be profitable because as that wireless goes to zero on its way down it's probably delivering pretty much no profit because we're taking out costs at about the same rate that the gross profit dollars are coming out. But keep in mind what else is in there. We have our DLP technologies in there. We have our custom ASIC in there. We have our calculator business in there and we have our royalties in there. And each of those are relatively low R&D and relatively low SG&A type of businesses so they generate reasonably high margins and attractive cash.

So, the only thing that would be dragging it down on a go forward basis, recall that we also take, we put the acquisition-related charges into that segment which will run around $85 million in a quarter and we also put restructuring charges in that segment, which this past quarter was about $13 million and should run about that same level for the next couple of quarters.

<A – Ron Slaymaker – Texas Instruments Incorporated>: You have a follow-on, John?

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yes, quickly as a follow-on just to housekeeping. Did you give an absolute bookings number and you spent about $680 million buying back stock in the quarter but share count was kind of flat sequentially? Can you just help me understand, was that just stock price driving more options in the money and dilution or was there something else going on?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. John, on the bookings, orders were $2.96 billion in the quarter. That was up 9% sequentially. And that resulted in a book-to-bill ratio, Kevin already said it was positive, but it was 1.03 and that compares to 0.91 in the fourth quarter.

Let me add an additional note maybe or asterisk to the book-to-bill. Keep in mind that we now have 45% of our total revenue on consignment. So consignment by definition runs a 1.0 book to bill. So for the additional 55% of our revenue that's not on consignment, for the total to net out to 1.03, obviously the non-consignment revenue ran well above that 1.03 book to bill. So, obviously we have a book to bill that's fully supportive of the revenue we have forecast for next quarter. Kevin, do you want to handle the back part of that question?

<A – Kevin March – Texas Instruments Incorporated>: Yes, John. On the question of the stock count relatively flat this quarter, in the face of the fact that we repurchased $679 million worth of shares, there are really two things going on there. With the increase in the stock price and just the natural pending expiration of certain stock options, there was an increase in stock option exercise across the employee base and that of course put shares back in the market. At the same time that stock price increased the dilutive share count. So those two elements combined basically held the share count about even in the first quarter.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, John. Thanks for your questions and somebody told me, by the way, that today is your birthday so I don't know how you figured out to do a career as a stock analyst in the middle of earnings season with a birthday on this date but anyway, happy birthday, and we'll move to the next caller.

Operator: We'll go next to Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for taking my question. I had a question on the trajectory of OpEx. So your new R&D guide implies something exiting the year at a run rate of maybe $340 million to $350 million. Is that accurate? Can you give us some idea of I guess what the trajectory of OpEx through the year looks like and how sustainable that run rate exiting the year is going to be going forward? Do you expect that to grow as revenue grow?

<A – Kevin March – Texas Instruments Incorporated>: Yes, Stacy. So just to help everybody else get to a similar conclusion there. We guided R&D at $1.5 billion. We just spent about $420 million, $419 million this past quarter. So you can kind a get to what the balance of the quarters look like.

I would point out that on the wireless restructuring, we mentioned that we are well on our way to the $450 million in annualized savings and the best way to see that is probably to take a look at TI at third quarter, and kind of compare that to where we're at today. You can see the effect on the R&D line as we begin to unwind the Wireless segment. We are probably about halfway through, a little more than halfway through, the savings in the R&D as it relates to the wireless restructuring and so that will keep on going and so the kind of math that you are using when you get to year-end from a seasonal basis probably isn't too far off from what we might expect by the time we get there.

Clearly we will have such things as pay and benefit increases and so on in the year-over-year basis and we'll bump that back up as we move into 2014 but I don't expect that to be all that much in relation to the total cost savings that we had. A similar phenomenon on SG&A is likely to occur although not nearly of the same magnitude. Clearly the biggest spend in the wireless restructuring was in the R&D cost category.

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

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: I do. I wanted to poke into the Embedded Processing margins a bit. So I get the idea that you're allocating more corporate cost around the other businesses. In this case though you also lumped in I guess the wireless embedded and I just wanted to clarify. I think your plan had had that business at a roughly breakeven OpEx level right now for the wireless piece. Can you give us, number one, is that accurate? If it's not, can you tell us what the OpEx burden of that business looks like? And finally, how big does Embedded Processing actually need to get now before you can start driving margins I guess at historical levels in that business? Are you finished increasing the investment levels there or do we have all we need?

<A – Kevin March – Texas Instruments Incorporated>: Stacy, I'll go ahead and answer that and if I miss something, maybe Ron can speak up also. What we talked about was that the Embedded Processing technologies of OMAP and connectivity, we've operated at about breakeven. Now keep in mind that the portion that we moved from wireless is being added to a portion, the OMAP portion, that was already serving the embedded space in the form of the automotive markets. That was already inside the Embedded Processing segment. So when we look at those and combine those, they are at about breakeven on a combined basis. I won't go into details as to what their OpEx levels are, but just suffice it to say that they are at about breakeven on a combined basis.

On a go-forward basis, to your question as to what should we expect from Embedded Processing, I would characterize the level of investment inside that segment today to no longer require additions of the level that we've been doing in the past couple of years. We are at a point now where we are spending at sufficient levels to invest in product development and now it's all about growing the revenue to begin to absorb the costs that are already inside that segment. So at this point and as you saw this past quarter, that segment did grow and it's grown not only on a quarter-over-quarter but year-over-year basis. So I would expect that we would continue to see some good things out of that segment.

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

Operator: We'll go next to Blayne Curtis with Barclays.

<Q – Blayne Curtis – Barclays Capital, Inc.>: Hey. Good afternoon. Thanks for taking my question. I just wanted to follow up on the trajectory of the OpEx cuts. Should we think about it fairly linear on the R&D side and then can you just remind us what the target is on the SG&A? You said you thought you could bring it down a little bit but does this still get back to where your target is? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Blayne, I'm not sure what you're talking about on target per se. I would say that broadly speaking we have talked about OpEx as a collective cost category to fluctuate between 20% and 30% of our revenues. When we are in a weak cycle, which we are just coming out of right now, we would expect that to be at the upper end of that range pushing the 30% level. And in fact, in first quarter it was exactly that. It was 30% of our revenues. As our revenues strengthen, we would expect that OpEx to work its way down as a percent of revenue and on strong markets get down to the 20% kind of range.

On a go-forward basis, there are still costs to come out, as I mentioned a few moments ago especially out of the R&D line. Do recall that when we talked about the cost savings that we expected from the wireless restructuring, $450 million annualized by the end of the year, roughly 75% of that is going to come out of R&D, roughly 15% of that will come out of SG&A and the balance will come out of cost of revenue. So we would expect to see a little bit more lift out of the SG&A as we get later in the year. And largely this is a timing of the action of certain of our sites around the world that will affect when we'll see those benefits begin to come through the P&L.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Blayne, I would just add that if you compare where we were in first quarter with R&D compared with third quarter of last year before we initiated the wireless restructuring, you will see that we are well ahead of linearity in terms of the reduction. That being said, probably linear assumption from now through the rest of the – over the next three quarters is probably about the best you could do. The end result likely won't be fully linear but that's probably about as good as we could get. I should say, we are still – there is some work we are doing with the Works Council in Europe that could affect the timing of the activity. So there's certainly some uncertainty there just in terms of the exact profile. But we are well on track to achieve the savings and we'll get the remainder out, just whether it's linear or sooner or slower, will lead to report as that happens. Do you have a follow-on, Blayne?

<Q – Blayne Curtis – Barclays Capital, Inc.>: And then just on the drop through of gross margin in the June guidance, it seems like a little bit below your target. Is that just calculators or if you could just talk about the different moving pieces on gross margin? Thanks.

<A – Kevin March – Texas Instruments Incorporated>: Blayne, I'm not sure what you're saying a little bit below our target. We did talk about that through the course of the cycle we would expect fall through – delta revenues to fall through to GPM would be 75% through the course of the cycle based upon our historical experience. In fact, we've got pretty good fall through happening right now if you do the math on the 1Q revenue we just turned in and if you just center up on the midpoint of the guidance that we just gave, I think it's pretty reasonable fall through on that. And in fact, if you take a look at it, it actually makes quite a bit of sense in the context of two things.

Really we've got mix improvement because wireless is coming out and so Analog and Embedded Processing become a larger portion of our revenue. And as I mentioned earlier in the call, we've got the benefit of the fact that our factory loadings will be up on expectations of higher revenue in second quarter. So that will have a favorable benefit to our utilization charges.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So Blayne, I would just, we don't get down to those individual lines, but in terms of your model, charges in second quarter will probably be pretty similar to where they were in the first quarter. Most of the acquisition charge line is the amortization of acquisitions and will stay pretty stable for a period of time. The restructuring, as we continue our work to close those two older factories, the one in Houston and the one in Hiji, Japan, which will take through probably – the second facility will close in the second half of this year. So we probably have a couple more quarters where the restructuring charge will be similar to what you saw in first quarter.

So I think if you take that, if you take and you add to it the guidance we provided on R&D, you should find your gross incremental margin will be very similar to what we described as the historical level or above. So, I think as you continue to scrub that you will probably get a refined answer. All right, Blayne. Thank you. And we'll move to the next caller, please.

Operator: We'll go next to Joe Moore with Morgan Stanley.

<Q – Joe Moore – Morgan Stanley & Co. LLC>: Great. Thank you. I wonder if you could give us – It was in the Analog business, just some end market color on computing, wireless infrastructure, auto, industrial, did any market particularly stand out either in Q1 or in terms of the 2Q guidance?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I surely can do that, but I'll have to do it for TI overall. I don't give those inputs collected by segment. But I'll make some segment discussions maybe as we go through.

So, industrial, which affects both Embedded Processing as well as Analog and we noted specifically Analog SVA as well as High Performance Analog, we are seeing strength mostly driven by the U.S. and China. Europe and Japan both continue to be subdued there. I would have to say, it's like everything else, the customers are operating more or less hand to mouth. They're not giving a lot of extended visibility, but demand there, overall, is clearly rising. Also, as we noted, we are seeing strength in automotive. Most of that is being driven by the U.S. market. Probably the weakest on that front would be in Japan. And then I think for the year, we would expect to see China start to build on the strength for TI as well.

When we look in the computing market, specifically, we continue to see weakness in the PC market. And that's really being driven we believe by, likely by, additional cannibalization of tablets and smartphones. So, we will see where that goes, but that market remains weak.

Consumer, I would describe as mixed. Areas like gaming are weak, TV sales, I would say overall remain weak, but vary by OEM, with the Japanese OEMs probably the ones that are giving up the most in terms of market share.

In handsets or mobile communications, I think even as we talked about in the mid-quarter update, first quarter, we saw overall, I would say a little stronger than what we had expected there, but that varies pretty significantly by OEM. So overall, did a little better for us but not uniformly across customers. That goes across, again, a lot of different products, both the legacy, but it's also some of the products in Analog that we sell into the handset space.

And then finally, comms infrastructure, remained weak for us in the first quarter, that's along the lines of what we described in the mid-quarter update, and that really just is continuing to be driven by constrained operator spending. We don't believe there's an inventory. We think inventory, I'm sorry we don't believe there's an inventory issue, we believe inventories in that space generally remain low, but operators just have not picked up their spending.

So I guess if I were to summarize at least as it applies to first quarter, we saw the PC area and we saw the comms infrastructure area, both below our expectations coming into the quarter and what we would describe or characterize as weak. On the flip side, Industrial was strong, better than we'd expected, automotive was strong, better than we expected, and then some of the mobile handset markets also were.

Okay, Joe. Thank you, and we'll move to your second question.

<Q – Joe Moore – Morgan Stanley & Co. LLC>: Sure. Thank you. Within the wireless segment, the stuff that for you is discontinued, it was a bit stronger than we thought, both in Q1 and Q2. I wonder if you could address, could that tail be longer the back half or is there sort of a pretty finite life where the next-generation of those products comes in and you have a steeper decline?

<A – Ron Slaymaker – Texas Instruments Incorporated>: We believe that we will have that product line wrapped up by the end of the year. So, we have not changed our expectations from the standpoint of the end point there. So obviously, there's always some puts and takes there, but we still expect by the end of the year that revenue will essentially be gone. Okay, Joe, thanks for your questions and we'll move to the next caller.

Operator: We'll go next to Vivek Arya with Bank of America Merrill Lynch.

<Q – Vivek Arya – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Thanks for taking my question. Kevin, you know one more question on OpEx, let me try it a different way. If my model is right, in the last 10 years I think your SG&A has been consistently below their R&D expense and when I compare you to more of the pure play analogs, ADI, Linear, their SG&A expense is 20% to 30% below that R&D expense. So I understand that there are some near-term issues you have to take care of but what will be the trigger for you to lower SG&A below the $1.5 billion R&D expense, as your model becomes closer to what we would think of as a pure play Analog Embedded supplier?

<A – Kevin March – Texas Instruments Incorporated>: I think that to look at our history probably isn't a real good predictor, because our history had a big chunk of wireless in it for an extended period of time, with a substantial R&D bill. So I would offer to you that would distort any historical analysis of TI as a starting point. Beyond that, I think perhaps the biggest thing that's going to be different between TI and other Analog and Embedded Processing players or potentially different, is the fact that we have made a conscious decision and we made it a number of years ago to have a significantly larger sales force than any of our competitors and that's really on the back of the fact that we have a significantly larger catalog of products than any of our competitors and therefore there's a lot more to be sold. And the result of that of course is as we have seen, has been we have actually been able to achieve market share from our competitors over the last few years on the back of a larger portfolio of products and a larger sales force.

So all that being said to say that there is no intent to go off and do some kind of significant readjustment to the size of our SG&A bucket. In fact it's a conscious effort on our part to make sure that we have the world's largest sales force. There will be some costs coming out of the SG&A as we wind down the last of the wireless sites, specifically the one in Europe that Ron was talking about earlier and that is subject to finalizing our discussions with the Works Council in Europe. Once that is complete we would expect the SG&A to support that site to come out of our cost and take our SG&A numbers down a little bit but I don't think it'll achieve the kind of ratio that you were alluding to there.

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

<Q – Vivek Arya – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yes. Thanks, Ron. So the second question is on gross margins and capacity utilization. As your mix starts to improve, are you still comfortable with the 75% fall through to gross margin? What are the puts and takes in that? And when you acquired all the capacity I understand the cash cost are low, but when you acquired all that capacity, global growth expectations were already different than what they are right now. So what kind of checks do you have in place to make sure that you are able to utilize all the capacity so it doesn't become a drag on margins in some reasonable period of time? You know the next whatever, two or three or four years?

<A – Kevin March – Texas Instruments Incorporated>: I think I counted maybe a couple questions in there, so let me see if I can remember them all. On the fall through, we remain comfortable with what we've talked about only by virtue of the fact that that's what our history has shown us and that is that through the course of a cycle up and down we averaged 75% fall through on the delta revenue. Interestingly enough in any one quarter, we practically never see that 75% fall through. But across a cycle you'll see that and we don't see any reason why the future would be different than what history has shown us for a number of cycles. So I wouldn't expect that to change in light of the fact that we're beginning to increase our utilization.

As to how much capacity are we comfortable with, once again, the utilization charges that we talk about here, in fact, a lot of that is non-cash and we've talked for several quarters in a row now that it's probably half or less is going to be cash-related and the rest is non-cash. Cash is extremely important because obviously that results in free cash flow for our shareholders which, I believe, when we talk to them most of them say it's quite important in the context of us being able to provide them with dividends and ongoing stock buybacks. So we will remain focused on the benefits of the free cash flow that this strategy employs for us as opposed to trying to make adjustments solely for the benefit of a GPM percent calculation that may or may not benefit free cash flow going forward.

So with that being said, there are no plans other than what we have already announced for changing the size of our installed manufacturing capacity. And those plans that we have already announced were ones that we announced a year and a half ago and that is the closure of an old small factory that we have in Hiji, Japan, and the closure of an old factory that we have in Houston. Both of which will be closed in the second half of this year, or by the second half of this year.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Vivek, interestingly when we talk to our large shareholders, most of which are very long-term in their investment horizon, they describe the idea of buying capacity on the cheap for pennies on the dollar and holding it even if it's a number of years until we need it, as a no-brainer. In fact, I think that reflects their own investment style with stock. So again we feel like we are very well-aligned with our largest shareholders in terms of that strategy and we think we will continue to deliver good returns with that strategy. Okay, Vivek. Thanks for your questions. We'll move to the next caller, operator?

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

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, guys. Thanks for letting me ask a question. On the underutilization charges that you mentioned, Kevin, I think you said $150 million in this last quarter. Any way to give us a clue on what revenue level those underutilization charges will disappear and I fully realize it's more about utilization than revenues. But just to simplify it, any answer on that front would be helpful.

<A – Kevin March – Texas Instruments Incorporated>: I can't give you a specific number on that because it's a mix of the optimal loadings of all the various factories we have around the world. We have more than 20 factories around the world. So I don't have a precise answer for you, but I think a 50,000-foot way of thinking about it is that we have characterized that we believe we have enough installed capacity to support something approaching $18 billion of revenue. So in theory if we went to 100% utilization on that, we'd clearly not have an underutilization charge at that revenue level. In fact underutilization charges never assume that you get to 100% utilization, they assume that you get to something less than that. Again, that varies by factory and I don't have a precise answer for you on that, Ross.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ross, do you have a follow-on question?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Maybe I can get a little closer with this one. Similar to the prior question on when is SG&A going to go down, actually if I flip that around I look at your peer group, the R&D as a percentage of sales for most of your analog peers is significantly higher than where it seems you guys are going to be exiting this year. Again, I know you have the Other segment that you don't have to utilize as much, but do you think you can keep the share gains going at whatever pace they have been with R&D as a percentage of sales being so much below your peer group?

<A – Kevin March – Texas Instruments Incorporated>: Ross, I'd be cautious on the analysis that you're doing for the course – for the segments we reveal on only the revenue and the operating profit or PFO. In fact, when you're trying to do the R&D analysis you're doing it at a company level. And I'd remind you that the comments I made earlier on the call, the level of R&D that we spend in the Other segment is very, very low. So, in fact, the proportion that's being spent in Analog and EP is probably a little higher mathematically than what you're getting just looking at the company level.

In the meantime, again, we have over 100,000 products selling to over 100,000 customers. We actually think that we have plenty of opportunity to continue selling even more of those products to the same customers as well as new products to the same customers or new customers. So we're not worried about the R&D spend being able to give us expansion to our portfolio. We're quite confident with where we're at.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ross, I would just add that, keep in mind the reductions that we are doing are as a result almost wholly due to the wireless restructuring, not Analog, not Embedded Processing. So going forward, we're probably spending at comparable levels in those two segments Analog and Embedded Processing than we have in the past and you've seen our results in the past translating to market share gains. So I don't think there's any issue with our spending level, with our portfolio expansion.

I will just give an example, in Embedded Processing, we took the number of products that we have in our portfolio up by 20%. I think that's a reasonably significant expansion in a single year and reflects what's a pretty aggressive R&D spend there. Okay, Ross. I believe that was your follow-up question. So we'll move to the next caller, please.

Operator: We'll go next to Ambrish Srivastava with Bank of Montreal.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Thank you very much. Ron, you did go through the end market breakdown. I just had a question, I'm trying to reconcile the industrial strength that you saw and you seem to be seeing with we've had a couple of big harbingers of that market, GE as well as this morning Caterpillar come out and put out a very cautionary tone. So in your opinion and looking back, is that kind of factored in with the inventory being low and so you continue to see that market's trending? Or does it take a longer time for that to filter through the order book?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ambrish, I don't know that I can correlate what we're seeing to what those two guys are describing. Frankly, we don't sell a lot of semiconductors to Caterpillar. And I don't mean to diminish that they may be reflecting something that's going on at a broader macro level. But a lot of what we're seeing in industrial, it's almost the same type of trend that you see in automobiles. Automobile unit sales can be flat and we still have a really nice growth opportunity because of the rapid penetration, increased penetration of semiconductors in those markets.

When you go into other industrial markets like lighting and the rapid escalation of LED lighting versus the CFL or incandescent, and I can tell you, we have a much higher semiconductor content in LED lighting than we do in the prior generations, and that's just an example. You can go across smart thermostats compared to the old electromechanical, you can just find one after the other, where we are now selling significant semiconductor content into those industrial markets, where historically we sold very little.

So I'm not giving up hope that we're going to turn Caterpillar into a huge customer someday, but again, not here and now, today. You know things can always change, but we're pretty confident in terms of what we are seeing with our own business. Do you have a follow-on, Ambrish?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Yes, I did, and I hope you can sell a lot more content into those GE turbines as well. My follow-up is on SVA. Last quarter it went in line with the TI core Analog, and this quarter it's up. Could you please just give us some qualitative measure, or quantitative, as to how SVA is performing? And I know it's early in the turnaround, but just also where are we with the consignment that SVA is going through?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Okay. There's a couple things to say about SVA. One, I think the last of couple quarters have been very encouraging in terms of just the relative performance of SVA compared to the rest of our Analog business. It has been, compared to the other three businesses that we have, it's right at the top over those two periods. Now, those are only two quarters out of a year, but keep in mind, our expectation for year two was that SVA moves up to market level growth, meaning we don't lose market share through those businesses, but we expected it would probably lag the remainder of our Analog businesses, where they have been gaining share historically. So really good results for the last two quarters. Still a lot of work to be done. We are not putting a fork in it yet, but it's feeling really good thus far.

Status of consignment, is I think as we described back in third quarter, we expect – we had a total of $100 million basically to convert over to consignment. We've done about a third of that in each of the last two quarters. So we are about two thirds of the way through. And our expectation is that for the remaining one third, it will probably take two more quarters to get through that consignment changeover completely. So two thirds of the way through, one third to go over the next two quarters. Okay, Ambrish. Thank you. And, operator, I believe we have time for one additional caller.

Operator: We will go to Tore Svanberg with Stifel, Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes. Thank you for squeezing me. First question, I know you don't want to talk about linearity, but could you at least talk a little bit about what the puts and takes are for your guidance range?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Not really, Tore. I mean there are so many variables, any one of which that can affect whether things are going up or down, but suffice to say it's hard enough to get the total right without trying to go public on all of the individual assumptions. So obviously, we look at it at that detailed level, but in terms of our public guidance and comments, we will just keep it at the total. Okay, do you have a follow-on question? That was pretty easy.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, no thanks. This is for Kevin, you're guiding for CapEx to be $500 million, I think you just spent $83 million, so should we model a pretty steep increase in the second half? And if so, what's that for?

<A – Kevin March – Texas Instruments Incorporated>: Yes, well, we are holding to $500 million on the CapEx forecast and we expect that probably most of that will be for wafer fab equipment with – excuse me, for assembly and test operations with the balance for wafer fab equipment and that's really just a question of making sure that we've got enough capacity for the volumes that we are actually producing. Keep in mind that level there, there's a little bit of capacity expansion but to a large extent it's line rebalancing, and just making sure that things are, as demand on certain flows change, that we can rebalance the line to handle those demands. I'm comfortable that we will remain inside that CapEx forecast this year of $500 million.

Ron Slaymaker, Vice President-Investor Relations

Okay, Tore. Thank you. And I think at this point we'll give you back a minute of your time. Thank you for joining us. A replay of this call is available on our website. Good evening.

Operator: Thank you. That does conclude our conference. You may now disconnect.