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

Other Participants

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Joseph Moore – Analyst, Morgan Stanley & Co. LLC
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Texas Instruments third quarter 2012 earnings conference call. At this time, I'd 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 third quarter 2012 earnings conference call. As usual, Kevin March, TI's CFO, is with me today. For any of you who missed the release, you can find it and relevant non-GAAP reconciliations on our website at TI.com/IR. This call is being broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

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

Our midquarter update to our outlook is scheduled this quarter for December 10. At that time, we expect to adjust the revenue and earnings guidance ranges as appropriate.

Let me start with market environment. Revenue in the third quarter was in the upper half of our range of expectations. That being said, we expected revenue and demand to be weak, and they were. Similarly, our expectation is that this market weakness will carry forward into the fourth quarter as customers respond to the sluggish macro environment and to poor demand for their products. We continue to believe that inventory levels at OEMs and our distribution channels remain low. Although there could be some adjustments to inventory in light of weak demand, we believe this slowdown is being driven by poor end demand, not a broad inventory adjustment.

Even in the weak demand environment, our operations have performed well. We were highly responsive to changing demand and lowered our production loadings accordingly, resulting in lower TI inventory. We remain watchful and ready to respond to changes in demand, up or down, in this uncertain environment. Our lead times are short, our inventory is well positioned, and our factories are highly flexible. We also reduced expenses, as we described at our September update.

EPS was $0.67 last quarter. This was favorably impacted by a couple of items in the quarter that Kevin will walk through in detail. These items include a benefit for taxes that contributed $0.14 to EPS and a benefit for changes that we made to our Japan pension program that contributed $0.08 to EPS. Neither of these items was comprehended in the guidance we had provided. In any event, we delivered a solid EPS result and exceeded the midpoint of our guidance by $0.05, even allowing for these items. We also generated a lot of cash in the quarter, with free cash flow in excess of $1 billion. Kevin will describe how our opportunistic purchases of capacity over the past few years are now benefiting us on this front.

Let me now walk through the third quarter's results. Revenue of $3.39 billion declined 2% from a year ago and grew 2% sequentially. Analog revenue grew 18% from a year ago and was up 2% sequentially. The growth from a year ago was due to the acquisition of National Semiconductor late in the year-ago quarter. Therefore, the revenue comparison only included a week or so of this revenue in the year-ago quarter. The sequential growth was primarily driven by growth in High Volume Analog & Logic, as well as Power Management, offsetting declines in High Performance Analog and Silicon Valley Analog.

I should note that we will soon complete our IT systems integration work at SVA and will begin this quarter to implement a consignment inventory program with distribution on the SVA portfolio. As you will recall, we began to implement a consignment inventory program with distribution in 2008, and our experience has been good in that it creates supply chain efficiencies. In short, it allows the distributors' resources to be better optimized on revenue creation for TI products, as a result of fewer resources being tied up in inventory carrying costs. For TI, we believe it translates to higher share at our distributors. Revenue for products that are on consignment gets recognized as the distributors pull the products from the hub, shortly before they ship to their customers.

This means that, as we convert part of the SVA portfolio to consignment, revenue recognition for these products will slip out about two or three months as distributors work down their existing inventory and then start pulling from the consignment hub. In total, about $100 million of SVA revenue will be impacted as we move these products to consignment support over a two- to three-quarter period. Since we recognize revenue on a sell-in basis to distribution, during this conversion process, the SVA revenue growth will be negatively impacted. Of course this is only a timing consideration and will have no effect on resales. It will have minimal impact on TI's overall growth rate. However, it will have a more meaningful impact on SVA growth over this conversion period.

Embedded Processing declined 4% from a year ago, driven by lower revenue from products sold into communications infrastructure applications. Automotive and catalog products were both up from a year ago. Sequentially, Embedded Processing grew 2%, driven by catalog product, as communications infrastructure products declined and automotive was even.

Wireless revenue declined 44% from a year ago and declined 5% sequentially. Baseband revenue was the biggest factor in both comparisons, falling to $54 million in the quarter. Connectivity revenue declined in both comparisons, while OMAP revenue increased.

Our Other segment revenue declined 11% from a year ago and grew 3% sequentially. From a year ago, revenue declined due to lower DLP revenue, the expiration of transitional supply agreements, and lower calculator revenue. The sequential increase was due to $60 million of business interruption insurance proceeds in the quarter that we discussed in our September update and that was included in our prior guidance. The sequential increase was also driven by higher royalties and calculator revenue. Partially offsetting these increases was lower DLP and custom ASIC revenue.

In distribution, resales were about even with the second quarter, and their TI inventory was essentially unchanged. Distributors' TI inventory remains at just under six and a half weeks.

Now Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone.

As usual, let me start by walking through some of the charges and benefits in the quarter that were included in our reported results. Acquisition charges in the third quarter were $106 million. In the prior quarter, acquisition charges were $104 million. We recorded charges on the restructuring charges and other line of our income statement of $22 million associated with the previously announced planned closure or potential sale of several older factories.

In addition, we had a benefit on this same line of $144 million for a change to a pension program in Japan. Let me briefly explain the pension change. Defined contribution pension plans in Japan have historically provided for both a corporate pension benefit and a government mandated Social Security-type of benefit. The Japanese government has made an option available for companies that provide defined-benefit pension plans to return to the government the mandated portion of the pension plan. Under the rules of this option, the pension liabilities we were required to return to the government exceeded the associated assets. This resulted in a gain to the company, which we recognized in the quarter.

Let me also address the tax benefit. There were a couple of parts to this. The first was a $90 million discrete tax benefit that was primarily the result of an additional U.S. tax benefits for manufacturing related to the years 2007 through 2011. The second part, a $67 million benefit, was due to lowering our estimated effective tax rate for the year from 26% to 22% and the associated cumulative adjustment. Most of this rate change was tied to an increase in the impact of non-U.S. effective tax rates, a change that should continue to benefit TI in the years ahead. The EPS impact on these items was as follows. The acquisition and restructuring charges negatively impacted EPS by $0.07, as we had expected. The tax items benefited EPS by $0.14, and the changes to our Japan pension program benefited the EPS by $0.08.

Gross profit of $1.74 billion was 51.3% of revenue and increased 5% sequentially. Gross profit resulted from higher revenue, specifically due to the benefit that the $60 million of business interruption insurance proceeds provided to our mix of revenue. Operating expenses of $916 million declined 2% from the second quarter. Other income and expense was $24 million of income this quarter, mostly attributable to gains from an equity investment.

Net income in the third quarter was $784 million or $0.67 per share on a GAAP basis. Again, in the EPS 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 third quarter, the amount of net income excluded from the EPS calculation was $14 million. If you don't make this adjustment, you'll likely calculate EPS to be $0.69.

Let me make a few comments on our cash flow and balance sheet. Cash flow from operations was $1.2 billion, up $526 million from the prior quarter. Free cash flow was $1.05 billion, up $523 million from the prior quarter. Our free cash flow is benefiting from having operations that are already well positioned for future growth. Accordingly, capital expenditures were $149 million in the quarter, up $3 million from the prior quarter. Our capital expenditures year to date are 4% of revenue, at the very low end of our targeted range of 4% to 7% of revenue. We believe we can continue to operate at the low end of this range for several years, given our strong capacity position that resulted from our opportunistic purchases of the past few years. As we fill up this low-priced capacity, the resulting cash flow should be strong.

We used $500 million of cash to repay all of our remaining commercial paper in the quarter. We also issued $1.5 billion of long-term debt in the quarter, consisting of $750 million of three-year notes at a coupon rate of 0.45% and $750 million of seven-year notes with a coupon rate of 1.65%. At the time we issued the debt, these were the lowest-ever corporate coupons for notes of these durations. More than two months later, these records still hold. Given these historically low rates, we are confident that we will be able to generate solid shareholder returns over time by using these funds for general corporate purposes, including share repurchases. We used $600 million in the quarter to repurchase 20.6 million shares of TI common stock. We repurchased more than twice the number of shares we bought in the prior quarter. We also paid dividends in the quarter of $194 million.

We lowered our inventory by $37 million in the quarter. Inventory days were unchanged at 101. Orders of $3.2 billion in the quarter decreased $171 million or 5% sequentially. TI's book-to-bill ratio declined to 0.96 in the quarter from 1.02 last quarter.

Turning to our outlook, we expect TI revenue in the range of $2.83 billion to $3.07 billion in the fourth quarter. At the middle of this range, revenue would decline 13% from the third quarter. Please remember that our calculator revenue typically seasonally declines in the fourth quarter. Accordingly, we expect about a $100 million decline, which would negatively impact the company's growth by about 3 percentage points. Also, the $60 million of business interruption insurance proceeds in the third quarter was the final Japan earthquake settlement, which therefore will not recur. This additionally impacts our fourth quarter growth by a couple of percentage points. We expect earnings per share to be in the range of $0.23 to $0.31. We expect the fourth quarter's EPS results will be negatively affected by about $0.06 from acquisition and restructuring charges, assuming the company's marginal tax rate of 35%. For the year, our estimate for R&D expense remains $1.9 billion. Our estimate for capital expenditures has been lowered to about $500 million from our prior estimate of $700 million. We estimate effective tax rate has been reduced to 22%, down from our prior estimate of 26%.

In summary, our market has weakened, and we expect it will remain so in the fourth quarter as the overall world economy continues to be soft. Especially in this environment, our operations have executed well, as we have reduced inventory and lowered expenses in the quarter. Our business model is now focused squarely on Analog and Embedded Processing, two markets with proven histories of solid cash flows and investors returns. We realize there are questions regarding our plans for OMAP and connectivity products sold into the smartphone and tablet spaces. I can tell you we are actively working on these plans, but at this point in time, we don't have anything new to share with you. Our free cash flow in excess of $1 billion in the third quarter is a testament both to the business model and to the benefits of our opportunistic purchases of manufacturing equipment over the past few years. The benefits to our shareholders of this business model and its long-term cash generation potential are very tangible as we repurchased $600 million of common stock in the quarter, paid dividends of $194 million, and announced a 24% increase in our dividend rate. We remain focused on delivering to this potential.

With that, let me turn it back to Ron.

Ron Slaymaker, Vice President-Investor Relations

Thanks, Kevin. Operator, you can now open the lines up to 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. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And we'll take our first question from Jim Covello with Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Great, guys. Good afternoon. Thanks for letting me ask a question. I mean, I guess the question is kind of a strategic one to start, which is that, understanding that a lot of that capacity you have is very strategic and that it's not going to go obsolete, how much lower would the cycle have to get or how much longer would the cycle have to stay at these depressed levels before the company would think about taking actions to mitigate some of the short-term capacity and maybe put some margin leverage back in the model?

<A – Kevin March – Texas Instruments Incorporated>: Jim, we don't have any plans to take any more capacity offline than what we've already announced. And what we announced back in the first quarter, in the January earnings release, was that we would be closing two older factories – that's one in Hiji, Japan, and one in Houston, Texas. We expect the factories to close late in the first half of 2013, one of them, and the other one early in the second half of 2013. Right now, our focus is on maintaining the state-of-the-art factories, because, frankly, their cost is quite low, and go ahead and take these older, less economically advantaged factories offline.

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

<Q – Jim Covello – Goldman Sachs & Co.>: Yeah, if I could. I'm sorry if I missed it during the prepared remarks, but factory loadings in Q4 and/or any thoughts about inventory for Q4?

<A – Kevin March – Texas Instruments Incorporated>: The factory loadings in Q3 declined quarter over quarter, and so consequently our underutilization charges did increase. With our reduced outlook for fourth quarter, we're further reducing our factory loadings into the fourth quarter. I won't predict where our inventory actually lands at, but I will point out that we do expect the factory loadings to decrease further in the fourth quarter, which also means our underutilization charge is expected to increase in the fourth quarter as well.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Jim. Thanks for your questions. We'll move to the next caller.

Operator: And our next caller is C.J. Muse with Barclays.

<Q – C.J. Muse – Barclays Capital, Inc.>: Yeah, good afternoon. Thank you for taking my question. I guess first question, was hoping you could provide some color around gross margin and OpEx. And I guess within that, you talked about an effective tax rate for the full year of 22% now. Should we be thinking, therefore, around 32% in Q4? Or if you could provide some help there as well. Thanks.

<A – Kevin March – Texas Instruments Incorporated>: C.J., there's a couple things in there; let me make sure I get to them all. But the tax rate, we expect to be 22% in the fourth quarter. And going forward, starting from that 22% tax rate, as you build your models and you look out into the future for TI and you try to model our earnings, you should tax the incremental profit at 35% and let that fall through to the implied tax rate for 2013. As relates to gross margin, gross margin in the quarter was 51.3% at the company level. But I'll remind you that we did have a $60 million insurance reimbursement that came through in the quarter. So that definitely benefited the gross margin a little bit in the quarter. As it relates to your question on OpEx, we did bring OpEx down in the quarter. I believe overall, we were down about $20 million quarter over quarter. And as we look out into fourth quarter, I would expect we would continue to bring OpEx down, especially in light of a weaker demand outlook that we've given in our guidance.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So, C.J., let me just clarify also, the lower effective tax rate – we made the adjustments in the third quarter that would cumulatively get the year to that tax rate. So therefore, fourth quarter, our expectation is that it would be at that 22% effective tax rate, barring any additional discrete items.

Do you have a follow-on, C.J.?

<Q – C.J. Muse – Barclays Capital, Inc.>: Yeah, one quick one. You talked about the consignment inventory program with SVA. How should we think about, I guess, the impact to revenues from that line item over the next quarter or two as that gets built into the model?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, I don't have a quarter-by-quarter guidance to give you, but what we said was it would be about $100 million in total that will convert over to the program. And at any point in time, the revenue that is converting basically will shift out about two to three quarters. So as we step – I'm sorry, two to three months. And it will move out about two to three months, and we will complete the entire conversion process of that $100 million in two to three quarters' time period.

So again, as we – let's say if in the first quarter, just as an example – please don't take this as specific guidance – if we were to convert $40 million of SVA revenue over to this consignment support, basically that $40 million would not be in that first quarter, or in this upcoming quarter, but would move out to the fourth quarter – I mean, I'm sorry, into the first quarter. And then to the extent that we took additional revenue and convert it over to consignment, let's say $50 million or $60 million in the following quarter, then there would be another $10 million to $20 million, depending upon the actual amount, of additional headwind in that quarter.

So again, during the process in which we're converting, so that two- to three-quarter time period, there will be a headwind in potentially sequential growth and certainly in year-on-year growth comparisons for SVA. And again, the total amount at the TI level will be pretty minimal, but if you're just looking at the SVA product line, it will be a more meaningful impact to that business.

Okay, C.J., thank you for your questions, and we'll move to the next caller.

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

<Q – Joe Moore – Morgan Stanley & Co. LLC>: Great. Thank you. You didn't want to get into the restructuring in Wireless, but can you talk just in general about the operating expense for next year as you think about taking some of the R&D out, focused on some of the big vertical markets and focusing on Embedded. What's the overall impact on your operating expense structure?

<A – Kevin March – Texas Instruments Incorporated>: Joe, as I mentioned in my opening remarks, there's probably quite a few questions on our plans for the OMAP and connectivity products as it relates to wireless handsets and tablets. And we don't have any additional comments to give you on that right now as we're working through those plans, but as soon as we do, we will share those with everybody.

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

<Q – Joe Moore – Morgan Stanley & Co. LLC>: Sure. Then I'll try a separate question. The dividend increase that you did in the quarter, can you talk about what drove the decision to do that and how you think about uses of cash between the buyback and dividend increases and other opportunities?

<A – Kevin March – Texas Instruments Incorporated>: Sure. I think the decision to increase is really a function of the emerging model for TI as it continues to evolve, and that is even if you take a look at the most recent quarter, about 70% of our revenues were coming from our Analog and Embedded Processing technologies and business units. And those are areas that not only enjoy relatively robust margins, but because of the R&D and manufacturing nature of those products, produce very robust levels of cash. And as we have been committed to for a long time, we continue to return that cash to our shareholders in the form of both dividends and stock buybacks, and that increase just represents the ongoing confidence of that business model continuing to produce that kind of free cash flow in the future.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Joe. Thank you for your questions, and let's go to the next caller.

Operator: And we'll take our next question from Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Hey, thanks, guys. In terms of the revenue guidance, even if I subtract the impact of – I guess it's about $260 million from all the other things coming and going, you still appear to be guiding substantially below the book-to-bill. Can you just tell us if there's anything else going on in there? And then also, how would that impact what would be normal seasonality in Q1? Or how should we be thinking about Q1?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Chris, I don't know that – I think book-to-bill is one consideration in guidance. Certainly we look at orders; we look at order trends. One thing I would note, that is when we look at order linearity through the course of the quarter, the month of September was the lowest month in the quarter. So that – call it the trend of orders as we moved through third quarter was a consideration.

But, Chris, the other thing I would just say is recall that only about 60% of TI's revenue operates on a traditional backlog and order entry process. We've got about 40% of our revenue that is supported by consignment programs. And so with the consignment programs, we're getting the forecast information from those customers, but it doesn't show up as an order until the customer actually is ready to take the product or for us to ship the product. So, again, orders are part of the story, but they're not the whole story there.

Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yeah, so you guys are guiding for a pretty tough environment in Q4. It's been tough all year. If this environment persists, i.e., if this is the new normal, what would or what could you guys do in terms of capacity and OpEx to shore it up a little bit?

<A – Kevin March – Texas Instruments Incorporated>: Chris, I think Jim asked earlier about any capacity considerations we have, and so I've addressed that one; I won't repeat that one. On the OpEx front, as I mentioned early on also, we will be expecting to take tighter controls on that certainly as we go into 4Q on a reduced outlook. And we'll continue to manage OpEx as we traditionally do to what our revenue outlook is. And so to the extent that the revenue continues to be a challenging environment, we'll continue to manage OpEx in a very tight fashion. I think that's about all I can really give you for color on that right now.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Chris, I mean, again, we talked about the capacity side, but you know, if your mind-set is that Q4 very well might be the new normal, I would just say you're much more pessimistic than TI is about our long-term outlook for our business. I think we view we're going through a rough patch for the economy overall, but by no means do we translate that to the new normal for Texas Instruments.

Okay, Chris, thank you for your questions, and we'll move to the next caller.

Operator: And our next caller is Vivek Arya with Bank of America Merrill Lynch.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks for taking my question. Just one clarification. I'm curious why your operating margins in your Other segment were so high, I think over 50% of sales. Was there anything special in that segment this quarter?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, in the Other segment is where we book these nonrecurring items. So, for example, the gain that we had on the Japan pension plan of $144 million was booked into that segment, and also the recovery we had on the business interruption insurance was booked into that segment. That's another $60 million you saw go in there. So clearly, the two of those combined are going to bump up that operating margin percent pretty handsomely.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Got it. And then the main question is, if I look at your core Analog business, and if you look at the profitability of that business, just apples to apples, how does it compare with what a Linear or an Analog Devices or a Maxim are doing? You think your margins are comparable? If not, why not? I understand that there is a capacity utilization aspect, but what can you do to get close to the profitability of those other companies?

<A – Kevin March – Texas Instruments Incorporated>: Well, I think the publicly reported results of those companies actually show the benefit of the model that we've been trying to develop for TI overall, because they certainly produce very, very high and attractive margins, very low capital intensity, and so generate lots of cash. Probably one of the larger differences between TI today and most of our analog competitors is that we have quite a bit more available capacity than they do. And so clearly our various segments, including our Analog segment, is experiencing portions of the underutilization charge that we've got as a result of that capacity. But we also believe that with our continuing share gains – and I might mention we do believe we have been gaining share again this year in Analog – that we would expect to fill up that capacity. And so that capacity continues to be quite valuable to our strategic plans as we look forward.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Vivek, I would also just add, when you take the products that TI has in our portfolio and if you compare them to any of those competitors that you might choose, I think our margins are probably very comparable, with the exception of underutilization differences here or there. But in general, the margins that we have for comparable products are very similar to that of our competitors, is what I suspect. Because our pricing strategies are similar. It's not our objective to go out underpriced; it's not our objective to overprice. It's basically price the product competitively and then try to win on features and performance and support that we can offer that customer. And I think from a cost standpoint, a manufacturing cost standpoint, we'll put our costs probably up against any manufacturers in the world in terms of Analog.

So I think the bigger difference when you look at our business overall, is just that we are a much larger player than any of the companies that you named. And when your strategy is to, as it is in some of those cases, is to run just a very high gross margin business and be selective only for those pieces of business that support that gross margin, that's a fine strategy for that particular company. But it's going to result in a lower revenue level. Our strategy is to generate a very large Analog business that will generate a very attractive cash flow. And that means we're going to participate in a broader spectrum of business than what some of those more narrow competitors would be. So I would suggest probably that's the bigger difference, and in fact when we go head-to-head with comparable products to those various competitors, margins are probably very similar.

Okay, Vivek. Thank you for your questions, and we'll move to the next caller.

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

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, good afternoon, guys. Thanks for letting me ask the question. Apologize if you mentioned this, but given that we kind of view the core revenue stream a little bit different from the Wireless revenue stream, can you talk a little bit about relative to the overall guide for December, kind of how you see Wireless trending sequentially and if there's any significant changes with the components inside of Wireless?

<A – Kevin March – Texas Instruments Incorporated>: John, I think with Wireless, we just recorded – if you think of the three pieces inside there. You've got OMAP, connectivity, and baseband. Baseband just recorded about $54 million in the third quarter, and we expect that to be probably about the same in fourth quarter. As for the rest of Wireless, going into those areas, probably going to be sub-$200 million is what we expect in fourth quarter.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And that's OMAP/connectivity in third quarter were $270 million, so probably dipping more so than the company overall. And even though we don't generally give guidance further out, we've told you for some time that baseband will continue to decline and essentially be gone in 2013. Our expectation is that flat fourth quarter and then probably cut in half sequentially as we roll into first quarter. And at that point we're down below 1% of TI's total revenue. So essentially down to zero.

Did you have a follow on, John?

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah. Ron, just relative to your answer to Chris about the disconnect between book-to-bill in September quarter versus guide in December, I think you said September was the worst month of the September quarter. Just kind of curious as we look in here to October, have you guys found a bottom yet in the business? Or how would you kind of characterize the start to this quarter versus the finish of the last quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Oh, John, I don't, I would say it is running very consistent with the outlook that we've provided. We're not – it's not a big bounce back that would cause us to question the numbers we've given, nor has it deteriorated such to the point that whether we questioned those numbers again. So, again, probably no real trend change in the month of October that would cause us to revisit one or the other.

I guess one thing I could point out, and this is not so much for the month of October, but if you just look back at third quarter, another metric, we look at our cancellations. And cancellations in the quarter actually were down sequentially, and I would say would be down below what we would consider normal levels. So when we take that data and put it together with – we had a small upside in the quarter, it really just kind of points to that view that we have customers and distributors really running lean levels of inventory and continuing to provide us short visibility on orders that they place in the form of backlog. So at the same time, we're in a position where our lead times are short, our inventory is sufficient to allow us to operate well in that environment, but it's the nature of the market environment we're operating in.

Okay, John, thank you for your questions. We'll move to the next caller.

Operator: And we'll take our next caller, Stacy Rasgon, with Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for taking my question. For the third one around Wireless – I know you're not prepared to give any guidance on what you're going to do, but in general I was wondering if you'd talk a bit about how easy it actually is to separate out the embedded portion of OMAP and connectivity from the more traditional Wireless. How easy is it to separate those two disparate R&D organizations? And how does the R&D intensity between those two actually look?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, the separation, certainly from a product standpoint, is fairly straightforward, but as you point out from an R&D standpoint, the engineering teams, that's a bit more of an effort. There are some people devoted exclusively to the Embedded Processing applications of those technologies, as opposed to the Wireless – or the tablet or cell phone applications. And there are some engineering teams that actually cross both areas because there's some commonality. And that's the one that would probably be a little bit more challenging for realignment purposes. As it relates to – on a go-forward basis, the separation or the reprofiling of that business is under way. And, again, we'll report on that when we have a little bit more behind us, in the future.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Stacy, probably one thing I could add, because I think you were just saying – you were asking not specific plans but how does the R&D intensity on the Embedded side compare with the R&D intensity for smartphones and tablets. And the answer is it's less on the Embedded side. What we've found thus far is that OMAP and connectivity for Embedded applications looks a lot like our other Embedded product lines in many ways from an R&D perspective.

So for example, a lot of the R&D that we spend on the Embedded side is focused on creating derivatives, basically looking at different – just, oh, I'm forgetting – interfaces, et cetera, that you put around them, packaging, various qualification options. A lot more in the form of application nodes, software, as opposed to in smartphones and tablets, where you're on a pretty rapid cadence of introducing completely new architecture generations. So that part can slow down, and you focus more on spinning off a derivative product investment. So from that standpoint, R&D on the Embedded side of OMAP and connectivity is a lower investment than what's needed on the smartphone and tablet side.

Do you have a follow-on, there, Stacy?

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. I do. Thank you; that's helpful. Just very briefly, last quarter when it came time to talk about what Q4 seasonality looked like, you actually gave the details of a calculation, correcting for Nat Semi, correcting for baseband roll-off. And I think you even posted the details on the website. Could you give us an idea of what that same calculation actually would look like, just on a historical basis, for Q1?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Oh, for Q1? Sure. It is basically flat. It really is flat. So I think if you just do a five-year average, you would see TI revenue down 4%. But that includes a pretty dramatic drop in the first quarter of 2009, so if I exclude that as an outlier, basically I get TI revenue flat fourth quarter to first. And that holds true for our calculator business, as well as business overall. So we don't have any kind of significant calculator seasonality in Q1 that would affect us the way it does in Q4.

Okay, Stacy – and again, to your point, that's not – if you go back and look at the record books, that's not necessarily a as-reported number. That is including SVA historical revenue and excluding baseband, and we make both of those adjustments really to try to mirror what our current portfolio looks like and what those historical trends might tell you about revenue trends on a go-forward basis.

Okay, Stacy. Thank you, and let's move to the next caller.

Operator: And we'll go next to Glen Yeung with Citi.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks, guys. If I look at the sequential decline that you've provided for the fourth quarter, and I recognize there's some puts and takes in there that we can adjust for, it still amounts to the third-worst sequential decline for TI in the last 10 years. I think it's the sixth-worst sequential decline for the company in the last 20 years. I wonder if you can talk about, in light of those facts, talk about what you think may be different than how things were in the past periods when things got this bad. Is it different? Is it the same? How has the environment changed?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Mr. Sunshine, I'll let Kevin answer your question.

<A – Kevin March – Texas Instruments Incorporated>: Okay, Glen, I think just from a macro standpoint, certainly there's a lot of – if we just kind of survey the global environment, we're looking at the – in the U.S., you got a fiscal cliff that people are wondering what's going to wind up happening. You got a potential change in many people in the national government and lots of discussion about regulatory and tax changes, and that's certainly causing people to kind of sit on the sidelines and perhaps wait and see what the new rules are going to be.

In China, you've got the similar sort of thing, and they've got a once-in-10-year change in their government happening this fall. And you've got to imagine that those businesspeople have a similar perspective, that some of the rules may change with the new government and so therefore they would also be inclined to slow down much the same way as we see here in the Americas.

And then finally in Europe, again, similar. Everybody knows there's a serious debt problem that must be addressed, and that's going to require some meaningful change, certainly in the tax environment and other regulatory elements there. You can imagine a similar sort of thing there. So I'd say that if I tried to compare this environment to some of those doom-and-gloom ones that you just alluded to in the last 10 years or more, these are certainly three examples of things that are probably quite different from any time during those past 10 years.

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

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Yeah, it kind of relates to the first one, because actually in those doom-and-gloom periods, what's interesting is that they don't last all that long, and one – that would argue, actually, that maybe there's a recovery that's coming in the next couple of quarters. I say that, and on the other hand I hear from some of these industrial companies, not chip companies, that we could be in this kind of environment for the next four, five, six quarters. I wonder, when you think about 2013 and how you're shaping the business, the cost structure for the business, are you sort of gearing for a flattish kind of environment just to be on the safe side? Or are you hoping that there's – are you thinking that there's some kind of recovery that's bound to happen given how bad things are now?

<A – Ron Slaymaker – Texas Instruments Incorporated>: And before Kevin answers the question on kind of what we might be thinking about, and costs, et cetera, let me just remind us, if we go back to late fourth quarter – late 2008, early 2009, how many of us as we were going into that downturn thought we were entering into a multi-year period of weakness? And it lasted two quarters and we were back off to the races again. So I think we all need to be aware of how wrong we've been in the past and what that might say about where we are today. Kevin?

<A – Kevin March – Texas Instruments Incorporated>: I think Ron just said that what I'm about to say is going to be wrong.

Let me just say that clearly what we have done, Glen, is anticipate that we're going to grow TI whether or not the economy grows and drags us along with it or we grow because we're able to compete more successfully against our competitors with better product and better manufacturing remains to be seen. But that's why we invested in the manufacturing capacity that we have, and it's already bought and paid for. So even if we do wind up with a flat environment that's unattractive or a very strong growing environment that's very attractive, our manufacturing footprint is taken care of, our CapEx build is basically behind us, and so the results should be either – well, the result, certainly, if we get growth is going to be very nice to not only the bottom line, but certainly to the cash generation that that will deliver for us.

As it relates on the OpEx front, clearly in the near term, we're slowing down OpEx expenditures in light of the revenue environment that we're looking at. And we'll continue to manage those pretty tightly. You may recall that we had talked in the past that the model that we have for OpEx is that in periods of relatively weak revenue growth, our OpEx is probably going to be pushing up towards 30%, and in periods of stronger revenue growth, our OpEx will slide down closer to 20%. We just – we're probably in the mid to upper 20%'s right now, and we'll have to see where we go, but we will be operating with OpEx inside those ranges, and we'll just see where the revenue outlook actually takes us and adjust accordingly.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Glen, thanks for your questions. Let's go to the next caller.

Operator: And 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. Back to the SVA side and the conversion to consignment, can you give us a ballpark of the absolute revenues for SVA? And in your fourth-quarter guidance, are you assuming that that consignment transaction or transition actually hits the revenues starting in the fourth quarter there?

<A – Ron Slaymaker – Texas Instruments Incorporated>: It will begin in fourth quarter. So it will have an impact on revenues in fourth quarter, and that's fully comprehended to the extent we have it in our guidance. Also in terms of the SVA size, first half of this year – I don't have this updated through third quarter, but first half of this year, SVA was about 20% of our overall Analog revenue. So you can scale it from there.

Do you have a follow-on, Ross?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Yeah. Switching gears to the often-forgotten Other category, it seemed like you guys had a couple things going very well in that, with insurance and calculators. Those seemed to be up roughly $90 million, $100 million sequentially. But the whole segment only grew, I think, $18 million sequentially. So it seems like there was a big drop-off in something else. Can you just talk through what happened in the other parts of Other?

<A – Kevin March – Texas Instruments Incorporated>: Yeah. On a – certainly the business interruption was up. You're talking on revenue, so that's the business interruption insurance that went through the revenue line, driving it up. And that was offset by DLP being down and ASIC being down on a sequential basis. Those are the three main moving parts inside there.

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

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: I think that actually was my follow-up. I'll take a third one if you want.

<A – Ron Slaymaker – Texas Instruments Incorporated>: No, I was just testing you. Thank you very much, Ross. We'll move to the next caller.

Operator: And we'll take our next caller, Tore Svanberg with Stifel Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes. Thank you. This one's for Kevin. Kevin, if I take out the insurance proceeds, the gross margin was still up sequentially, yet your production was down. So are we just looking at an improving mix here?

<A – Kevin March – Texas Instruments Incorporated>: Yes.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: That's very good.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. That was easy. Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes. And this one's for you, Ron. You mentioned that what you're expecting in Q4 is basically customer demand being down, yet you're giving a very wide range. So what are some of the moving parts here as far as your customers are concerned? Because again, you're saying there's no inventory adjustment, this is just true demand. So I'm just wondering why the wide range.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah. That's pretty straightforward, Tore. And it has to do with lead times are running short. This isn't a case where if lead times were on average 12 weeks we would come into the quarter with the quarter pretty much fully booked. In this case, lead times are very short, and so there really is a – based upon our backlog, the backlog is not the full story. So things could turn out better than what we have at the middle of our guidance range, or they could turn out worse, and that's why we give a range of revenue guidance. But especially in an environment like this, where there's just a lot of moving pieces going on with the overall economic situation, as Kevin pointed out, and our backlog visibility is running short, as are our lead times.

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

Operator: And we'll go next to David Wong with Wells Fargo.

<Q – David Wong – Wells Fargo Advisors LLC>: Thank you very much. If we back out the effect of the accounting changes, do you expect that your Silicon Valley Analog performance is going to be better, the same, or worse than the rest of your Analog over the next few quarters in terms of year-over-year growth?

<A – Ron Slaymaker – Texas Instruments Incorporated>: David, I think what we've said for – in general, that our assumptions, when we were basically running our own internal calculations on the potential financial returns of that acquisition, our assumptions that we built in were that in the first year, SVA would continue to lose market share, as it had been pre-acquisition. In the second year after the acquisition, we expected that we would have it running market neutral. So possibly less than TI's overall Analog business, but at least running neutral with the market from a market share standpoint. And then in the third year is when we expected to have it growing faster than the market and consistent with TI's own Analog business. So our expectation is that we will do that, if not better. Certainly the first year it lagged the market. We're coming into that period where, again, if you look probably more from a resale perspective where it's unaffected by the consignment conversion, then we would expect that we have SVA growing consistent with the overall market. But also, as you point out, when you look at with that conversion there will be some – it will grow at a lower rate than what resale should show.

Okay, David, thank you. And do you have a follow-on question?

<Q – David Wong – Wells Fargo Advisors LLC>: Yes. Following your announcement of your strategic plan for OMAP and connectivity, do you reckon any of your current OMAP or connectivity business is associated with end-of-life buys?

<A – Kevin March – Texas Instruments Incorporated>: David, we don't have any plans for end-of-life buys. We're going to support customers on whatever products they want to order, and that's the way we'll deal with that, which is typically how we'll deal with these things. When we, in the past, have changed internal resource focus for other opportunities inside our portfolio, we've continued to honor whatever our customers want on the old product, and we'll continue to do that on this one as well.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, David, thanks for your questions, and we'll move to the next caller.

Operator: And we'll take our next question from Ambrish Srivastava with BMO.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: I actually had one quick one, Ron. I don't think you talked to end markets. Were there any end markets -

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ambrish – I can -

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: were showing signs of stabilization? Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ambrish, you were not – I could not hear you. If you could maybe pick up your receiver and repeat your question.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Ron?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yes, that's much better.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Okay, sorry. I actually had picked up my receiver – probably some issue at my end. My question was I don't think you went into the end markets or geographies. You talked about Wireless, but, what's going on with the specific end markets? Are there any that are showing signs of worse deceleration, or any geography that is getting worse or better? Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Ambrish. I can walk through it. What I would say is the weakness is pretty broad based, though, with very few exceptions.

If we look at the industrial market, I think you've heard from other companies that have reported as well, the industrial market is weak. It affected TI revenue, especially in areas such as Silicon Valley Analog and High Performance Analog, and I think from a regional standpoint, this shows up especially in the U.S. and European regions.

Automotive I would describe as mixed, where U.S. sales of automobiles, so end sales, continue to grow, but if you look at regions like China and Europe, they're declining. If you look at TI's revenue, our automotive revenue in Embedded Processing was even. And our Analog automotive revenue increased a small amount.

Moving over to wireless infrastructure, I think as we talked about even at the midquarter update, that revenue was weak for TI, a combination of lower purchases by carriers and even adjustments of inventory as a result from OEMs in that space. I think as it affects TI, WCDMA continues to dominate the air standard demand overall. And TI plays there strongly. Although you're seeing probably growth, and you've seen this probably in some other companies' reports, on the LTE side, although I would say that that spending is a bit volatile or erratic quarter to quarter. And, again, we play on both WCDMA as well as LTE. From a regional standpoint there, I would say China continues to be weak, as well as slowdowns in the U.S. are contributing to the weakness as well.

If you look over in computing, probably no surprise there. There's a lot of weakness both on the commercial side as well as public spending. Don't know the impact of Windows 8. Don't know the impact that tablets are having on cannibalization. All I know is our revenue as we sold into that space generally was weak, including in the peripheral space. So meaning hard disk drives and printers. Probably one area of exception would be in our Analog battery management products. That revenue actually was up in PCs and in notebook chargers. But in both cases, that really is due to share gains from TI as opposed to strength in the market.

Probably the last area I would mention would be consumer. There we're seeing seasonal growth, really being driven by gaming and audio type of products. Backlog visibility there, especially into the back half of Q4, is pretty short. And we expect fourth quarter to see seasonal declines, again, driven by those same areas.

Okay, your question on the geographic split – U.S. was down, Europe was down, Japan was down. The one area that grew was Asia. And of course Asia is large enough to offset all those other areas, because about two-thirds of our revenue ships into Asia.

Do you have a follow-on, Ambrish?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: I actually did, Ron. Thanks, actually. Thanks a lot for the details. Just trying to tie back inventory and what we're hearing from the industrial guys. So for instance Caterpillar is now talking about their dealers reducing inventory. How does that – and I've been also of the view that inventory has been lean in the channel, and maybe I'm wrong as well, because now that starts getting flushed back into the system. Does that then translate into inventory getting elevated again specifically in areas like industrial? Any perspective would be helpful there, Ron. Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I'm sorry, Ambrish, you said some of these players are saying their inventory, their end product inventory, needs to be reduced?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Not any player. I'm specifically referring to Caterpillar, which said that their dealers are reducing inventory, something to that effect. So my question is inventory has been low, but now with demand decelerating the way it is, is the six, six and a half weeks at the risk of getting elevated over the next quarter or so?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, I understand. Let me first of all say when we're talking about inventory, of course, we're referring to inventory of TI components. Generally even at our OEMs, much less for customers that purchase through distributors, we don't have a lot of downstream visibility into their end products and into their inventory. To the extent – I think distributors are trying, just like TI is, to really stay on top of the demand trends and make inventory adjustments on a real-time basis so that they do not get into an excess situation.

I think over the last few quarters, you've heard us talking about distributor inventory holding at about or just below six and a half weeks, I think for three quarters now. So – and clearly revenues have been shifting around, and we've had a few surprises in that environment. So I guess what I would say is I think distributors, OEM customers, TI ourselves, we're all trying to just really keep aligned with end demand to avoid inventory going one way or the other. There's just a lot of sensitivity there. So hopefully we do that going forward.

Okay. And, operator, I think we have time for one final caller.

Operator: And we'll take that final caller, Doug Freedman with RBC.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Great. Thanks, Ron, for squeezing me in – putting the pressure on. I'd better make it a good one. When I look at your comments about just the conversation you just started as far as inventories and what's going on, you do have a high consignment turns that you guys execute to. How well is your product output lining up with the customer demand? Such – how long can we continue to provide these low lead times before you end up with a mismatch to a forecast that drives some extension there?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, I think our goal would be to do it for an extended period of time. Now, that doesn't always work through, but one of the things you see is that we're running – what – 101 days of inventory? If you compare that back to early 2009, I believe we were in the mid-70s or so in terms of days of inventory. So we are carrying a different level of inventory, and part of that is because our portfolio has changed. We are much more about standard or catalog products these days, where off-the-shelf availability is important.

And by the way, the risk of that inventory is also lower, because we have lots of different customers that we can sell into with these same products, and typically these are very long-lived products. So, again, just the risk of carrying that inventory is lower. So I would say that's probably our biggest consideration and protection against what you just described, as well as keeping our factories primed to go and flexible up or down.

Do you have a follow-on, Doug?

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Yeah. I guess my follow-on is really looking at those factories. And I might try to steal Ross's follow-up as well. When you look at your factories in Q4, how many shutdown days do we have? And is there an expectation that you're going to have to keep some shut down in Q1? And then my Ross's follow-up really is just looking at your forward guidance, you basically have offered us enough numbers on the Other and the mobile group. I'm coming up with about 8% to 9% declines sequentially for Embedded Processing and Analog, if you were to guide by group. Is that computing properly?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, I don't have – other than the information we provided for you on Wireless, I don't have a – I'm not going to break the guidance down segment by segment, so that's – those kinds of assumptions are what you guys get paid to do.

In terms of shutdowns, obviously when our utilization goes down and runs low, there are a lot of different methods that we use to maintain the efficiency of our factories, so – and shutdowns and idling and scheduling vacation or holiday times and breaks are part of what we do. But I don't have anything to sit here and discuss publicly in terms of how we will deal with it, other than those are usually part of the mix.

Okay, Doug, thanks for your questions.

Ron Slaymaker, Vice President-Investor Relations

Before we end this call, let me remind you that we have an upcoming investor meeting on November 1 at our Silicon Valley Analog facility in Santa Clara, California. At this meeting, our Analog manager, Brian Crutcher, and his management team will update investors on our strategy for growth in Analog and our execution progress. So if you have not already registered for this meeting, please do so or contact us if you need additional information. Of course, if you are unable to attend the meeting, we will have it webcast live and available on our website.

With that, let me thank you for joining us. A replay of this call is available on our website. Good evening.

Operator: Again, that does conclude today's conference, and we do thank you for your participation.