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Texas Instruments Incorporated	TXN	Q2 2011 Earnings Call	Jul. 25, 2011
Company▲	*Ticker▲*	*Event Type▲*	*Date▲*

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments Second Quarter 2011 Earnings Conference Call. As a reminder, today's conference is being recorded. At this time, I would like to turn the conference over to Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President-Investor Relations

Good afternoon, and thank you for joining our Second Quarter 2011 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 on our website at TI.com/IR. This call is being broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

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

Our mid-quarter update to our outlook is scheduled this quarter for September 8. We expect to narrow or adjust the revenue and earnings guidance ranges as appropriate with this update.

In today's call, in addition to a review of the second quarter's financial results, we'll describe the current demand environment and our perspective of how it is developing as we move into the second half of the year. We'll also update you on the status of our recovery efforts in Japan, as well as the status of our acquisition of National Semiconductor.

I'll start with the demand environment. As a reminder, in April we said that the impact in the second quarter from the events in Japan would be greater than in the first quarter, considering that we would be operating with only partial output at our factories there, that our Japanese customers were still in the early stages of restarting their own factories, and that we and our customers could face potential supply chain disruptions. We also said that we believed underlying demand was strong. In light of the anticipated Japan impact, the middle of our second quarter revenue guidance range that we provided in April was about half the seasonal average for our second quarter. In fact, the quarter developed largely as we had expected. With the exception of weaker demand from a single large wireless customer, our quarter progressed a little better than the midpoint of our initial expectations.

You will recall that we adjusted our guidance downward at our scheduled June update in response to the weaker demand from that customer. Otherwise, we had a lot of positive demand signals in the quarter. These included an increase in our total backlog during the second quarter – our book-to-bill ratio was 1.04. Also, in Asia, where more than half our business is done, distributor resales grew 10% in the quarter. Finally, the situation in Japan is getting better. Not only do we have our own factories back in production, demand from our Japan customers is increasing.

Against this positive backdrop, however, we also see some signs that are less encouraging. For example, we believe that computing and some parts of the consumer electronics markets may not show the typical strength that we might otherwise expect heading into the back-to-school and holiday period. So as a result of this increased uncertainty, we're preparing for a wider range of growth possibilities as we move into the second half. In the third quarter, we're planning for modest sequential growth. However, we'll keep our operations and inventory staged to support higher demand if it develops. This is an environment where we simply need to stay flexible to adjust to whatever develops.

Turning to our second quarter's results, TI revenue of $3.46 billion was about even with a year ago and grew 2% sequentially. Revenue from our core businesses increased 8% from a year ago and grew 5% sequentially. In total, our core revenue was 73% of total revenue in the quarter, up from 67% a year ago and 71% in the prior quarter. The breakout of our core revenue results includes Analog up 5% from a year ago and up 3% sequentially. We believe we gained share this quarter in Analog. Embedded Processing grew 16% from a year ago and increased 12% sequentially. We believe we gained share this quarter in Embedded Processing. Wireless, OMAP, and connectivity revenue collectively increased 6% from a year ago and increased 2% sequentially.

Noncore revenue declined 18% from a year ago and declined 6% sequentially. This was mostly affected by wireless basebands, where revenue fell 45% from a year ago and declined 32% sequentially to $228 million. Baseband revenue fell to below 7% of TI revenue in the quarter, down from 12% a year ago and 10% last quarter.

Turning to our segments, the most significant drivers of Analog growth in both comparisons have been the catalog product areas, including both power management and high performance analog. These areas benefit from the scale advantage of TI's large field sales and applications force, especially in the fastest-growing regions of the world. These are also areas where our product portfolio will be significantly enhanced by the addition of National Semiconductor's strong catalog product offerings later this year when we close that acquisition. High-volume analog and logic, or HVAL, revenue was about even in both comparisons, as it was impacted by the earthquake damage at our Miho factory in Japan.

The biggest factor in Embedded Processing revenue growth in both comparisons is communications infrastructure, where we continued to benefit from deployments in North America of 3G systems, as carriers attempt to keep up with increasing amounts of data traffic associated with higher usage of smartphones and tablets. From a year ago, we also had strong automotive demand, although this slowed significantly on a sequential basis. Demand for our catalog products remained robust in the quarter, growing at double-digit levels on a sequential basis, as we continued to take share across a range of microcontroller and DSP markets.

Our Wireless segment revenue overall reflected the sharp decline in baseband revenue. As we said in June, weaker demand from the same large customer that drove down our baseband revenue in the quarter also affected the core Wireless product line. Fortunately, these products have a more diverse customer base, and we were able to grow this core revenue despite the declines at that customer.

In our Other segment, the revenue decline from year-ago was primarily due to lower revenue from DLP products, lower royalties, and the sale of a cable modem product line in the fourth quarter of 2010. Sequentially, the increase in revenue was due to higher seasonal calculator revenue, which was partially offset by lower revenue from DLP products. DLP revenue was impacted in both comparisons by lost production last quarter due to the earthquake damage to our Miho factory in Japan. When evaluating this segment's profit, please note that we are including earthquake-related costs of about $50 million, and our National Semiconductor acquisition-related costs of $13 million in this segment this quarter.

Turning to distribution, resales grew 2% sequentially. As one would expect, resales declined at a double-digit rate in Japan. Resales grew at a double-digit rate in Asia. The Americas were about flat, and Europe was down single digits. Distributor inventory levels were essentially unchanged on a days basis. At just over six weeks, distributor inventory is consistent with historical levels, and we believe remains appropriate.

Now, Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone.

Let me start by providing an update on our recovery operations in Japan. The good news is that our production loadings were nearly back to full capacity by the middle of June. This recovery was ahead of our plan, thanks to a lot of hard work by our TI teams in Japan and across the world. Our Aizu factory recovered first and has been in production for most of the second quarter. Our Miho factory, the one that was more severely damaged, was shut down during the first half of April and ramped steadily through May and the first part of June.

As we've noted before, this is based on production loadings, or wafer starts, and there are a few months of lag between when we start a wafer and when those products are shipped to our customers for revenue, due to the manufacturing cycle time. As a result, our shipments in revenue in the third quarter will continue to have some impact from this lost production, although to a lesser extent.

Our earthquake-related costs were about $50 million, net of proceeds from ongoing insurance claims. Almost all of these costs were included in cost of revenue, and as Ron noted, were included in our Other segment. This includes costs such as the underutilization expense we incurred from having our manufacturing assets only partially loaded, the recovery teams that we've assembled from across the world, as well as other one-time costs. As a reminder, in the first quarter, these costs totaled about $30 million.

So turning to our financial results, gross profit in the quarter increased $25 million sequentially. The profit contribution from higher revenue was partially offset by lower factory utilization levels and higher earthquake-related costs. The combination of R&D and SG&A increased 2%, or $17 million, from the first quarter. Most of this increase is from continued investment in our field sales and applications engineering force in emerging markets such as China.

We have adjusted our estimate for TI's annual effective tax rate for 2011 to 27% due to lower expected taxable income. Net income in the first quarter was $672 million, or $0.56 per share. 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 second quarter, the amount of net income excluded from the EPS calculation was $10 million. If you don't make this adjustment, you'll likely calculate EPS to be a penny higher than we have reported.

I'll leave most of the cash flow and balance sheet items for you to review in the release. However, let me make just a few comments. Cash flow from operations was $631 million. This is up $115 million from last quarter, mostly reflected in the payment of accrued annual profit share and performance bonuses in the first quarter. Capital expenditures were $276 million in the quarter, up from $194 million in the first quarter, and were mostly attributable to additions to our assembly and test capacity. We used $452 million in the quarter to repurchase 13 million shares of TI common stock and paid dividends of $150 million.

We increased our inventory by $84 million in the quarter. Although some of this resulted from weaker demand by a wireless customer in the quarter, most was planned and primarily due to the company building inventory to help support high customer service levels and to continue alternate factory sourcing for parts that were affected by the Japan earthquake. Although alternate sourcing provided minimal revenue benefit in the second quarter due to manufacturing cycle times, this work will provide TI greater flexibility in future quarters and provide our customers greater assurance of supply continuity. Orders of $3.60 billion in the quarter were about even sequentially. TI's book-to-bill ratio was 1.04 in the quarter compared with 1.06 in the first quarter.

Turning to our outlook, we expect TI revenue in the range of $3.40 billion to $3.70 billion in the third quarter, or down 2% to up 7% sequentially. We expect earnings per share to be in the range of $0.55 to $0.65. Our EPS estimate assumes about a penny impact from continued earthquake-related costs in the third quarter. Our estimates for 2011 R&D, capital expenditures, and depreciation are unchanged.

Before we turn to Q&A, let me provide a short update on our status with the National Semiconductor acquisition. At this point we have completed all of the required antitrust reviews, with the exception of China. We expected China's review to be the last to complete and have not encountered any specific obstacles there. We continue to expect to have the acquisition closed by the end of this year.

As some of you undoubtedly have noted, during the second quarter we issued $3.5 billion of debt in association with this acquisition, with maturities ranging from two to five years. The average weighted annual interest rate is about 1.6% per year, including issuance costs. Earlier this month, we issued commercial paper for $1.2 billion at an annual interest rate below 0.19%, including issuance costs. Combined, this means that we will be incurring debt expense of about $15 million per quarter until we get the National acquisition closed. At that point, we'll update you with new debt expense guidance, as we'll also be paying interest on National's debt.

With these transactions and our cash on hand, we have our finances completely in order to close the transaction once we receive antitrust clearance from China.

In summary, our commitment and progress to becoming a company focused on Analog and Embedded Processing should be clear to all. We have strong positions in both and are committed to making them considerably stronger. Both markets offer us an opportunity for long-term growth, while providing solid returns on our investments. In the near term, there is some uncertainty in our markets. Certain macroeconomic and market signals are indicating early signs of below-seasonal growth as we enter the second half of the year. Yet our business fundamentals have remained strong. During this period, we will remain especially diligent while also being prepared operationally if our customer demand strengthens.

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 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'll provide you an opportunity for an additional follow-up. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll go first to Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys. Kevin or Ron, if you could just give us your rundown on the various end markets. Is it just PC and consumer that's a little weak, or is there anything else that's a little weaker or stronger than seasonal for Q3?

<A – Ron Slaymaker – Vice President-Investor Relations>: Chris, I would say it's – the areas that we've noted below seasonality – and again, this is from input from a few of our larger customers – I would say most of them tend to be Asian-based – are limited to computing and, again, some of the consumers markets. And when I say some of the consumer markets, specifically I would note televisions and maybe some of the gaming areas where we've seen some – and again, when I say softness, it's not necessarily relative to second quarter, but we just haven't really seen the pickup that we might otherwise expect coming into a stronger second half.

If I just kind of walk through some of the other areas – I'll touch on automotive. Automotive, I'll note, actually was up sequentially for TI, but I would describe the gain as slight. So it wasn't a decline. And I think that reflects probably what we're seeing in the broader automotive market, where I think for example in the U.S., we're seeing weaker-than-expected sales. I believe June was the second consecutive month of weaker sales. Really tying more to the overall economy probably and consumer spending, as well as possibly just to the tight supply of cars due to supply chain issues coming out of Japan.

Handsets, the part we're focused on, being smartphones, continues to do well. I think we'll see where the year lands, but at least coming at this point, something like 50% growth compared to last year, and we have a good position there with connectivity and with our OMAP, and a position that is only getting stronger, especially on the OMAP front, as we move forward.

While I'm on that communications side, wireless infrastructure, I'll really just reiterate what I said in the prepared remarks. Most of what has been driving us in first half is basically data capacity expansion in North America. There's growth in Europe as well, but I would describe that growth as at a slower rate. China and India have not really been big drivers thus far this year, but we expect 3G rollouts in those countries to drive better growth in second half. So again, mostly North America, first half.

Industrial, I guess I would describe as steady. Look at the catalog areas, both what – our comments that we had about high-performance analog and power analog. And then I would say also look at the comments we made in catalog Embedded Processing products. A lot of those type catalog devices tie to that broader industrial markets, and I would say very steady results so far.

So I think that's probably a pretty broad sweep. Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yes, thanks. One last question on your own inventory. I think inventory days remained in the low 90s. How do you guys feel about that level of inventory days, especially considering what usually happens in Q4? And then what would be your utilization rate forecast for this quarter?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Chris, on the inventory, if you take a look on the balance sheet and look at the mix of inventory, you'll actually see that our work in process was up more than normal, and – pardon me, our raw material was up more than normal. And that was really a function of making sure that we procured enough raw materials post-Japan earthquake so that we wouldn't have material shortages in our factories.

In addition, you'll see that our finished goods are up some. Part of that's the seasonality, due to the calculator back-to-school sales. And a little bit of that is the – just a planned build inside semiconductor products. But really the work in process is where you see most of the build at. And to a large extent, that's not only a planned build to get ourselves back to customer service levels that we've been trying to achieve now for probably the last year and a half, but that's also the result of bringing up our new factories and dual-qualling parts that were in the Miho factory that was damaged last quarter with the earthquake. So you got multiple effects going on driving the inventory up.

Because of the inventory staging that we actually feel quite good about, if the third quarter wants to turn out to be a little stronger than the current signals suggest to us, we're well staged to be able to meet that growth if customers actually need products sooner.

The inventory for fourth quarter we'll talk about in 90 days when we get out of this quarter and see what that looks like at that point in time.

As to the utilization – I'll just comment that utilization was down a little bit in the prior quarter, in the second quarter versus prior quarter. And that was really a function of we did start adjusting loadings in first quarter, and that continued through second quarter. But at the same time, we also have underutilized capacity, as we've talked about, in the Japanese factories that were damaged. So together those are causing utilizations to be down.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay, Chris, thank you for your questions, and we'll go to the next caller, operator.

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

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks, guys. It sounds like, by the way you're giving the guidance, that visibility is fairly low. So I wonder if you look at where potentially you could see upside, because it sounds like just from a prepared commentary that that's maybe how you're thinking about it. Where would you think that's possible, if at all? And then as part of answering that, you also say you want to stay flexible. I recognize inventory may be part of that. But what else is involved in staying flexible for your customers?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Glen, I would say on the upside would probably be exactly those two areas where Ron had suggested that we're seeing some softness or some lackluster growth forecasts from our customers. That would be in the computing space and in the consumer space, mainly the TV and some of the gaming areas that we're looking at. It's also not out of the question that as these component shortages finally clear themselves up in the automotive space, that you may see a resumption of demand in that area as well.

From an upside standpoint, I already discussed the inventory profiling. But at the same time, we're also just managing not just the inventory that we have, but our overall factory loads, and our overall spending plans as we go into the second half of the year, just to be sure that we don't have spending getting out in front of our revenue growth.

<A – Ron Slaymaker – Vice President-Investor Relations>: Glen, one thing I would comment, just on the factory loads, and we've talked about this for some time, but maybe one positive consideration that came out of Japan was the fact that we're now getting more of our parts qualified in more factories, which just gives us more degrees of freedom. When demand wants to upside, we're not limited to a particular factory and how much headroom we might have in that one factory. We have more opportunity at more factories, and in this case, with three of the factories being new factories, clearly we have a lot of headroom for upside support there as needed.

Do you have a follow-on, Glen?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: I do, and it's kind of switching gears. Thinking about the opportunity in PCs that you see for OMAP, I wonder if you can give us a sense as to how important you think that opportunity is. And maybe put it in these terms: If you only had that opportunity for OMAP, just that PC opportunity, do you think it would be substantial enough for you to continue to work on OMAP going forward?

<A – Ron Slaymaker – Vice President-Investor Relations>: Boy, Glen, that's a tough question to answer, because we don't even envision that at all. I mean, clearly mobile is our priority with OMAP. We're highly focused on the smartphone space and the tablet space. And frankly, we're probably not pursuing as aggressively just the idea of OMAP somehow, or ARM trying to work its way into a standard PC. Probably the opportunity we would view would be more just to the degree that tablets cannibalize into the lower end of the PC space or into the netbook space. Clearly that's opportunity for OMAP.

But that is such a significant opportunity for us, and one where we are, to some degree, in the driver's seat from the standpoint of the penetration that we have and the value proposition that we have with OMAP. And it probably, in our mind, makes a lot more sense for us to focus on that than to go try to penetrate a mature market, such as the PC, with OMAP.

So I realize that probably wasn't as direct of an answer as you would have liked, but it really reflects our priority, which continues to be smartphones and tablets. And then we are pushing OMAP into other spaces, such as e-readers, GPS devices, things like that. But those certainly probably would be a higher priority for us than chasing down the traditional, more mature PC market.

Okay, Glen, thank you for your questions, and let's go to the next caller.

Operator: We'll go next to Cody Acree with Williams Financial.

<Q – Cody Acree – WFG Investments, Inc.>: Thanks, guys. Ron, maybe you can talk a little about the linearity in the quarter. I guess what's really changed? Or has there been a significant amount of change since the June update? I guess when did you start to see the issues in computing and consumer?

<A – Ron Slaymaker – Vice President-Investor Relations>: So if we look at linearity, actually the quarter was, from an order standpoint, highly linear. Each month, really, probably within plus or minus of a point, was linear in the quarter. Revenue built sequentially as we moved through the quarter. But orders were highly linear. Now, what I don't know, Cody, off the top of my head is what is a typical linearity for orders in the second quarter. I think what changed, and I'll let Kevin make some macro-related comments if he would like. But more bottoms-up is we just started in the dialogue with customers in computing and, as I said, in some of these consumer spaces, they didn't just come in with the kind of new order ramp for really looking into third quarter that we might otherwise have expected.

Kevin, do you have any more macro-related comments?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Yeah, I think that what's changed in that area has really been a lot of the headlines that we're seeing with European and U.S. debt issues, and that's causing some of our larger customers to be, in the computer and consumer space to have concern that that may cause anxiety among consumers and dampen demand. And so that's a bit of a change from what we saw 30 days ago or even 45 days ago. And really it's just a reaction to a lot of unfavorable headlines as it relates to debt and what that may mean to domestic demand in both Europe and the U.S.

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

<Q – Cody Acree – WFG Investments, Inc.>: Sure, Ron. What is your confidence, then, that what we're seeing in consumer and computing isn't really a leading indicator of weakness that starts to become more systemic throughout your other segments?

<A – Ron Slaymaker – Vice President-Investor Relations>: Well, I think, again, we just haven't seen signs of it elsewhere. To the degree that it's macro and wants to spread, I don't think we have any direct visibility into that. But we certainly have not seen signs of that to this point. So what we're seeing signs of, again, is not weakening, it's just not the typical turn-up that you might expect seasonally in some of those other areas.

Okay, Cody. Thank you, and we'll move to the next caller.

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

<Q – John Pitzer – Credit Suisse (United States)>: Hey, guys. Good afternoon. Thanks for letting me ask the question. Ron, I guess my first question, what drove the strength in the distribution Asia resale? And I guess my question is, are you seeing sort of softness in computing consumer this quarter because there was an inventory build of TI-specific parts in the June quarter?

<A – Ron Slaymaker – Vice President-Investor Relations>: That's an interesting question, John. I don't know that we have perfect visibility. When we look at the TI component inventory out there, we really maybe look at it in three different buckets. One is what we have at distribution. Distribution now supports about 40% of our revenue. You heard me say we're just at over six weeks of inventory, which feels very appropriate. So we'd say distribution inventory is fine.

The next bucket would be OEMs where we have consignment programs, and by definition that's fine, because we're managing that inventory, we keep it lean, we keep it fast turning. And if you put distribution plus consignment together, you end up a little north of two-thirds of TI's total revenue. So for more than two-thirds of our revenue, we have good visibility, and we feel good about the inventory levels that are out there.

For the remaining one-third of our business, I would describe – we don't have direct visibility. But at the same time, we're not aware that there are significant inventory issues out there. So we feel in general pretty good about inventory, but your question is a good one, which is once something moves past our distributor, and is into their customers, we lose direct visibility, and we don't really know what the inventory trends are out there. But again, we're not aware of any specific inventory issues.

Do you have a follow-on, John?

<Q – John Pitzer – Credit Suisse (United States)>: Yeah, the follow-on's for Kevin, just around profitability. Kevin, how I do think specifically about gross margins in the September quarter? For me to kind of get to the low end of the EPS range, I've got to take a pretty healthy hit to gross margin. And conversely, despite the weaker revenue outlook, you haven't cut R&D outlook. I'm kind of curious as to why. And what would you need to see to actually adjust the R&D outlook down?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: So John, on the gross margin, I'm not sure how you're building your model there, but I would remind you that in the second quarter, we had about $50 million of net costs attributable to the earthquake in Japan, and almost all of that cost went against the gross margin line. Next quarter, we indicated we've probably got another penny's worth of cost that we expect in the third quarter. And again, that would go against the gross margin line. So I'm not really quite sure how you're building your model that would be driving the gross margins down. In fact, it seems it would go a little bit different just for no other reason we don't have the same kind of overhang on earthquake costs that we did this quarter.

As to the R&D spend, R&D is really – these are long-term kind of spends. These aren't the sort of things that you tend to swing around too much in short term. And so as you've watched us for a lot of years now, when we set our R&D spend budget for the year, we rarely fluctuate much more than $100 million plus or minus around that budget that we set at the beginning of the year. And that's really because the whole intent of R&D is you're spending not for this year's revenue and sometimes not even for next year's revenue but for revenue beyond that. So I would not anticipate making changes to this year's forecast for R&D. We'd have to see something – the similar drama that we saw come out of '08 and into early '09 for us to really change our spending plan on that front.

<A – Ron Slaymaker – Vice President-Investor Relations>: You don't see that on the horizon, right, Kevin?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: I do not.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. Thank you, John. Let's move to the next caller.

Operator: We'll go next to Srini Pajjuri with CLSA Securities.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Thank you. Ron, you mentioned that there was some impact on OMAP from Nokia being weak. I'm just curious, if you look at the OMAP and connectivity business, what percent of that is still Nokia, and how should we think about it going forward?

<A – Ron Slaymaker – Vice President-Investor Relations>: Srini, I don't have – I can't tell you what percent of OMAP or connectivity is any particular customer. But just to reiterate what we said previously, is that our OMAP and connectivity customer base is much broader than our baseband customer base, where to a large part we're building that product for a single customer. So we feel good about the diversity of that revenue, and frankly it's getting even more diverse as we – especially in the OMAP space – have a lot of new design wins that are basically in the pipeline of moving from development into production, let's say over the course of the next year. So again, it's a more diverse customer base, but I can't break it out any finer for you than that.

Do you have a follow-up, Srini?

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Yes, Ron. And you classified about 27% of your sales as noncore. We obviously know what's going to happen to the baseband business going forward. But just curious as to what your strategic plans are for the remaining 20% of the noncore business. Thank you.

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Yeah, Srini, the rest of that business is made up a variety of products. For example, our calculator business is in there. That enjoys great market share, especially in the North American education market. And that's a market that will continue to grow, although at probably very low single digit kind of growth rates. Our DLP business is in that area, and that also continues to do very well in front projection and has some very interesting emerging growth opportunities, particularly in Pico projectors and other types of application of that nature. Our royalties are also in there. We don't really expect much growth in that area. We have some other business; our custom ASIC is in that area. That's what I would characterize as a kind of very slow growth sort of area. And there's a few other miscellaneous types of things.

So overall, if we look at the noncore products area, minus baseband, because we've already talked about baseband will run its way to zero by the end of 2012, so minus baseband, the remainder we're expecting to probably grow in the – call it the 2% kind of range over the years, into the future.

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

Operator: We'll go next to Uche Orji with UBS.

<Q – Uche Orji – UBS Securities LLC>: Thank you very much. Maybe, Ron, let me reapproach the OMAP question again. I think it was a few quarters ago when you talked about rolling out product and being able to come back and retake share. Obviously we're not seeing that this quarter. Can you talk about what the outlook is for that business, especially now that 4460 has been launched and that is probably one of the fastest-performing product in its category right now. What is your sense as to the design pipeline and how we should think about growth for the apps processor business? Thanks.

<A – Ron Slaymaker – Vice President-Investor Relations>: Uche, I think we feel really pretty optimistic about the outlook for growth in OMAP. We are doing very well with a range of different customers and a range of different product. I think we've told you before that in the case of OMAP 3, we had something like 50 – more than 50, actually – different OMAP 3-based handsets in the market. And that was a handset count, I think, at the end of 2010.

And what I can say is with OMAP 4, our design-in rate has been even higher, in fact higher than any prior OMAP generation. So there are a few customers that we publicly talked about because they have publicly announced their product. In the tablet space, that would be RIM with PlayBook. In the smartphone space, the LG Optimus 3D product is OMAP 4-based. We've also launched OMAP 5 in February of this year. So again, we have a great pipeline of products and product technology, but even more importantly, we have a great pipeline of design wins in the smartphone and the tablet space.

And then as I said previously, that we will watch them develop over time, but areas like e-readers, GPS, personal navigation systems, things like that, find OMAP to be just a great type of media processor, application processor for their space as well. So we think it has a good growth outlook from a revenue standpoint, and we're certainly investing accordingly.

Do you have a follow-on, Uche?

<Q – Uche Orji – UBS Securities LLC>: Yeah, a slightly different question on the wireless and wired -the comms infrastructure in China. Any comments you can make as to the rollout in the second half of the year? Not just China, but just in general. And also, as you jockey for position with the PLD guys, in your ASIC business versus PLD, what is your sense as to who is winning that contest right now? Because I remember at your last Analyst Day you kind of talked about how your ASIC business will probably come back into that space. So any comments around the possible rollout in the second half, specifically on China, and then the ASIC business outlook? Thanks.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay, so I would say in terms of China and India, I probably don't have a lot more granularity to provide other than what I have, which is just that we expect them to drive incremental growth in second half of this year. So we are well positioned in those markets as we are just in comms infrastructure, base station equipment, across the world. So as those systems deploy in those regions, we will clearly be a participant.

Our – question, the PLD versus ASIC, there's actually a step beyond both of those, which is system-on-a-chip, where we take the functionality that historically would have been in a standalone ASIC, or a standalone FPGA type of device and basically integrate it onto our DSP for a much more optimized system. And I think when you start thinking about base stations and TI's content participation, going forward, think more system-on-a-chip – so for example, 4G-related, 4G type of systems. We already have system-on-a-chip for these systems. And that will mean that our content will be higher, and frankly our content will ramp earlier to that higher level, than what it might have historically. But again, we have great position, DSPs, and now surrounding that DSP in a single chip implementation, the logic that gives us more of a system-on-a-chip functionality.

Okay, Uche, thank you. And we'll move to the next caller.

Operator: We'll go next to Tore Svanberg with Stifel Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Thank you. So it looks like the baseband business was sort of the main delta in the June quarter, so how should we think about that business now in the September quarter?

<A – Ron Slaymaker – Vice President-Investor Relations>: Tore, probably the best I can say is what you've heard us say before, which is kind of take the $228 million we were at in the second quarter, and straight-line it down in a linear fashion to zero by the time you get to first quarter of '13. We realize you're going to have quarters that are above that, quarters that are below that. But really that's probably about the best forecasting approach we can provide you.

Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yeah, that's fair. My second question is on linearity, but maybe not as much bookings last quarter but just trying to understand how bookings have fared so far in this quarter. Are we off to a fairly normal start?

<A – Ron Slaymaker – Vice President-Investor Relations>: I would say it's similar to – it reflects the environment that we described for you and the outlook that we've provided. So in other words, we have not seen, in the first three weeks of July a big ramp in orders that would be reflective of a strong back-to-school or holiday season in consumer or in computing. But is kind of that more lukewarm type of a signal that we previously described for you.

Okay, Tore. Thank you, 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., Inc.>: Hi, guys. Thanks for taking my questions. Can you tell me – give me some feeling for how much lost production from Miho in Q3 might be baked into your guidance? And do you feel like, had that fab been completely online and running, could you have sold everything that you ordinarily would have been making out of it?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Stacy, I would say that the lost production in this quarter is about, as we've talked about, about a penny's worth of earnings.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: That's lost production, or that's costs?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Pardon me, pardon me. That's cost. There'll also be some lost revenue, just because we can't sell the material until we get towards the end of the quarter, as it comes out of the factory towards the end of the quarter. And we don't have a quantification for what that would be right now because clearly the outlook has changed, and versus what we were trying to do to give color 90 days ago when we were coming into the second quarter.

As it relates to the overall second quarter lost output, we had estimated it would cost us around $0.05 worth of lost revenue, would be about $0.05 worth of earnings, in second quarter. And that's pretty much about what it turned out to be. We had estimated that the incremental cost would be about $0.05 in second quarter, and it came in closer to about $0.03 net of an insurance settlement that – ongoing insurance settlement we were able to achieve.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay, Stacy, thank you. Do you have a follow-on?

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: I do. Just regarding what you're seeing in auto right now, do you think, I guess, the weakness you're sort of indicating for now, is that just more supply constraints where if somebody else isn't shipping a part, then the car doesn't ship and nobody who is sending parts into those cars ships anything? Is that the kind of weakness, or is it more demand-driven? And what are your expectations for that market, I guess, as we move into Q4 of the year? Do you think it all normalizes out?

<A – Ron Slaymaker – Vice President-Investor Relations>: Stacy, I don't know that we have a great answer or visibility into the why of auto. I know car sales are down, I know – or weaker than expected. I know part of that – a large part of that – is supply chain-related. And if they can't get a critical component from somebody else in the supply chain, then they sure don't need the parts that we would sell into it. How much of it is the consumer nervousness, just based on kind of what Kevin talked about previously, going on at the macro level, there very likely could be some of that as well, but what we know is supply chain has impacted that.

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

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

<Q – James Covello – Goldman Sachs & Co.>: Thanks so much for taking the question. A lot of good ones have been asked already. But you guys referred to share gains in Analog and Embedded Processing. Is there any incremental color you can give on specific sub-segments or end markets where you think you picked up some share?

<A – Ron Slaymaker – Vice President-Investor Relations>: I don't know that I can do it real broadly. But if you take Embedded Processing – and again, it's always a little difficult at this point because we haven't seen everybody else's results to be able to really extrapolate. But clearly the strength of our position in comms infrastructure and the results that we're publishing here in that space, says that's clearly a contributor for TI gaining share in Embedded Processing.

But I actually think it's more broad than that. I mean, if you look at the catalog areas, we grew double-digit levels in catalog Embedded Processing revenue, and probably the main driver of that was on the microcontroller side. And that's a sequential number. So it probably stands to reason that we're gaining share in catalog microcontrollers. And catalog DSPs, probably, as well. So I think both of those areas are important for us.

I think when you get into the Analog space, let me just leave it at kind of where I described before. I think when you talk about the broad catalog space, and that includes both power as well as the broader HPA market, I think you probably would have to say that catalog and therefore product sold through distribution, products that really leverage the fact that we have probably four times the number of salespeople as our closest analog competitor out there identifying opportunities and designing in our product, that would probably be the theme, I would say, for market share gains. I don't have enough data at this point to take it down into, is it amplifiers or specific products segments. But probably the more broad catalog category would be the theme.

Do you have a follow-on, Jim?

<Q – James Covello – Goldman Sachs & Co.>: Yeah, helpful. A couple of your competitors in particular were pretty vocal this quarter about you guys being somewhat aggressive on pricing. I mean, is that kind of an isolated situation? Or is that something that was more strategic on your part as you begin to fill up some of the fab capacity? Thanks.

<A – Ron Slaymaker – Vice President-Investor Relations>: Jim, I think every time a competitor loses share to TI, we hear the pricing complaint coming back to us. I don't think we're doing anything different on pricing than what we've done historically. Frankly, our sales guys and gals are aggressive for pursuing new design wins, but that doesn't mean that we're out aggressive on pricing.

We just fundamentally believe that when it comes to analog, when it comes to embedded processing, pricing is pretty far down the list of customer considerations when they're picking a supplier for a particular component. And things that – first and foremost, the performance of the product, the match of the product to the customer's system needs, the amount of support that TI can provide, in the form of applications engineers, in the form of the kind of factory capacity that they see TI bringing online compared to our various competitors. Those are the considerations that drive customers' decisions to select TI versus a competitor.

Absolutely we have to be – we have to keep our pencil sharp on pricing; we have to be competitive on pricing. But it's not pricing that's causing TI's share gains. So again, it's not the first time I've heard that. I'm sure it won't be the last time I've heard that one.

Okay, Jim, thank you, 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 – Bank of America Merrill Lynch>: Thanks for taking my question. The wireless operating margins came down in the second quarter, which I assume is due to the baseband declines. Two questions. If baseband continues to decline, would that continue to be an overhang on Wireless margins? And just longer term, I wanted to understand that if you do see growth in Wireless, but it comes at much lower margins than Analog and Embedded, does it still make sense to invest in this business?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Vivek, let me just address that question on the margins. The operating margins were down in Wireless on a quarter-over-quarter basis. And in part that's just the gross margin dollars that leave that P&L with the lack of revenue that we have on the baseband.

But another part of it is, as Ron indicated earlier, we are seeing an increasing number of design wins across that portfolio of products, and a larger number of customers. And to support those design wins, we're also increasing our staff level to make sure that we're providing adequate support. So you got really two things going on under there. One of them is the baseband revenue decline and its associated margin coming out. And the other is the fact that we're increasing our support of customers as a result of us actually winning additional design wins.

As it turns to looking into the future, we said for quite a while that the non-baseband portion of our Wireless segment needs to grow and grow rapidly in order to get a certain amount of revenue base that makes sense to the financial model. And I can tell you that the leaders of – or that particular set of products is very focused on that. And frankly, with the design wins that they have been successful in getting at lately, it is increasingly encouraging that we may in fact begin to see more favorable results, and certainly in time for when the baseband business finally winds down completely.

I won't try to predict any decision as to the question you asked about when does it make sense to stay in or stay out. I won't try to go there. I would just simply point out that once again with the design wins we've got going there, we have been adding additional resources to support those. And we're quite encouraged that we should start seeing that turning into meaningful revenue growth in the not-too-distant future.

<A – Ron Slaymaker – Vice President-Investor Relations>: And Vivek, I would just add, the gross margins that OMAP and connectivity run at are fully consistent with Texas Instruments. And so what Kevin's describing is really more tied to the level of investment that we're making on operating expense as opposed to a disconnect between those product lines' gross margins and what TI would see, for example, in Analog or Embedded Processing.

Do you have a follow-on, Vivek?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yes, thanks. Just a quick follow-up on a slightly different topic. I think you mentioned that third quarter, some of the conservatism that you have is around consumer and computing. Could you remind us how much exposure you have to those areas? And how much do you expect to grow or decline versus your prior expectation? Because I'm trying to reconcile your cautiousness versus the inline to stronger guidance that we saw from Intel and AMD. Of course I understand your consumer trends are very different.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. Vivek, I can give you – I will give you this data in a second – the FE. Let me comment, though. I think even our friends at Intel talked about lower units than what they had previously been expecting. But for them, it was translating to a richer mix. I suspect for TI, we're probably more sensitive to units than mix, given just the type of products we sell in as opposed to their microprocessor business.

Okay, if I just look at first half of this year, I'll walk down all the end equipment areas and give you what percent of TI's revenue. Communications is 41%. Computing, 23%. Industrial, 14%. Consumer, 10%. Automotive, 8%. And education will be 4%, and that is primarily our calculator revenue. Let me give you a sub-breakout of computing, because not all of these will necessarily apply to what – our outlook. So PCs, of that 23% – I'm sorry, these will sum up to the 23%. PCs in first half '11 are about 9%. Storage, hard disk drives, et cetera, 6%. Servers, 1%. Monitors, 5%, which is really the DLP front projector revenue. And printers would be 2%. So hopefully that helps.

Operator, can we move to the next caller?

Operator: We'll go next to C. J. Muse with Barclays Capital.

<Q – C. J. Muse – Barclays Capital, Inc.>: Good. Good afternoon. Thank you for taking my question. I know you guys don't guide to gross margin, but it looks like at the midpoint, it's roughly up 50 bips, and I guess the question I have, is that entirely due to the roll-off of one-time charges from Japan, or is there also a mix issue here?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: C. J., I won't get into a whole lot of specifics. I will comment that clearly the roll-off of the cost drag for Japan is contributing to what our expected outlook would be. Beyond that, I won't get into any further mix discussion on that. I'll just leave, and we'll report on that in 90 days.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay, C. J., do you have a follow-on?

<Q – C. J. Muse – Barclays Capital, Inc.>: Yeah, just for housekeeping, can you tell me what the actual share count was exiting 2Q, and should we be modeling 27% tax rate for all of fiscal '12?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Yeah, C. J., the diluted share count, the average diluted share count for the second quarter, was 1-1-8-0, so 1.18 billion. The actual end-of-period share count, basic share count, was 1.155 billion. Those were the shares that we actually paid dividends on.

As to the tax rate, yeah, the revision we've given is a 27% tax rate, which we believe that the tax rate should apply for the entire year, including the balance of the year.

<A – Ron Slaymaker – Vice President-Investor Relations>: And I think our prior tax rate guidance, Kevin, was 28%, but it's probably more rounding up to 28%. It was 27.5% or change, something rounding up to 28%. Is that correct?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: That's correct. And similarly we're rounding down to 26% (sic) [27%] (56:02) right now.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay – to 27%, you mean?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: 27%, yeah. Right.

<A – Ron Slaymaker – Vice President-Investor Relations>: So in reality, the delta is probably a few tenths of a point in the tax rate, but we our guidance is not that granular.

Okay, C. J. Thank you. And we'll move – operator, I think we'll have time for one more caller, please.

Operator: And we'll take our final question from Ross Seymore with Deutsche Banc.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hey, guys, thanks for squeezing me in. A gross margin question, and we'll look backwards, so maybe, Kevin, you can talk a little bit more about it. If we looked year over year in the second quarter – I realize you have charges this year and even a little higher depreciation – but the gross margin is still down a good 2, 3 points. Can you just walk us through quickly what is the cause of that?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Sure. Ross, I think the highest-level look at it – because you're right, it's probably down about 3.5 points versus a year ago – and the single biggest driver is the cost of the earthquake damage that we talked about. That's probably about a point and a half of that delta. Utilization is probably about another point. Keep in mind that we brought on additional capacity during this period. There's probably about half a point or so attributable to just slightly lower revenues and another half a point attributable just to year-over-year changes in pay and benefits, and raw material costs, such as commodities and so on.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: So mix doesn't have any implication at all?

<A – Kevin March – Senior Vice President & Chief Financial Officer>: Not enough to really make a difference. These are the larger moving pieces that are going on inside there.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Got you. And I guess for my quick follow-on, Ron, I think on the mid-quarter update, you talked about the disty resales you hope to be up mid-single digits, and I think you said they were up 1% or 2%. Is that just splitting hairs to notice any difference there, or is there something going on?

<A – Ron Slaymaker – Vice President-Investor Relations>: Resales were up 2% sequentially. And off the top of my head, I don't recall specifically what we were saying mid-quarter. If you're saying mid-single digit, that could say they were a point or two off. But I don't recall that number, and I don't recall the variance. And Kevin's sitting here shaking his head. So neither one of us can help you on that one, Ross.

Ron Slaymaker, Vice President-Investor Relations

Okay, so with that, thank you for joining us. A replay of this call is available on our website. Good evening.

Operator: And again, that does conclude today's call. We do appreciate everyone's participation.