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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments Second Quarter 2012 Earnings Conference Call. 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. Thank you for joining our Second 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 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 to 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 11. At that time, we expect to adjust the revenue and earnings guidance ranges as appropriate.

Let me start with the market environment. Revenue in the second quarter landed in the middle of our guidance range with sequential growth of 7%. Orders grew and backlog expanded, although at a slower pace overall than in the first quarter. Also there was a clear down shift in our order momentum in the month of June. Even though we believe inventory of TI products is low at our OEM customers and distributors, both are reluctant to place new orders and commit to backlog given the uncertainty in the overall economic environment.

This, combined with lead times that are largely below six weeks, has resulted in our window of backlog coverage narrowing. Although backlog for July and August has filled in consistent with a typical third quarter, at this point our visibility is somewhat reduced for the month of September. This could reflect a range of reasons and potential outcomes. On the one hand, customers could be anticipating their own businesses to slow. On the other hand, customers may simply be waiting until the last minute to place orders given short lead times.

Regardless, as a result of this increased uncertainty, we are being more cautious ourselves in planning for the third quarter and are currently expecting a below seasonal quarter with revenue at the middle of our guidance range projected to be about even with the second quarter. If customer demand builds as the quarter progresses, we are well positioned with short lead times, strong inventory, and available manufacturing capacity to support a higher level of shipments.

Let me now walk through the second quarter's results. Revenue of $3.34 billion declined 4% from a year ago and grew 7% sequentially. Analog revenue grew 13% from a year ago and was up 7% sequentially. The growth from a year ago was due to the acquisition of National Semiconductor and therefore the inclusion of Silicon Valley Analog revenue in the second quarter that wasn't included a year ago. The sequential growth was primarily driven by growth in Power Management.

Embedded Processing revenue declined 15% from a year ago with both communications infrastructure and catalog products down. Sequentially, Embedded Processing grew 8% primarily driven by strong growth in communications infrastructure. Wireless revenue declined 39% from a year ago, primarily due to lower baseband revenue. Sequentially, wireless revenue declined 8% due to lower OMAP revenue. Baseband revenue ticked up a few million dollars to $90 million in the quarter, although we expect to step down to about $50 million in the third quarter as we continue to wind down this product line.

Our Other segment revenue declined 4% from a year ago and grew 16% sequentially. From a year ago, revenue declined due to the expiration of our transitional supply agreements from previously acquired factories in Japan and China. Sequentially, revenue growth was driven by higher demand for DLP products as well as the seasonal increase in calculators.

In distribution, resale sequential growth of 7% matched the pace of TI's overall revenue growth. Distributors reduced inventory levels by a day and are holding a little less than 6.5 weeks of inventory. Most are waiting until there are clear signs of higher end demand before they are willing to carry more.

Now Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone.

As I have done in the past couple of quarters, let me start by walking through some of the charges in the quarter that were included in our reported results. Acquisition charges in the second quarter were $104 million. In the prior quarter, total acquisition related charges were $174 million, consisting of $153 million in acquisition charges and $21 million in costs of revenue. In addition, we also had restructuring charges of $13 million in the second quarter compared with $10 million in the first quarter In total, the EPS impact of these charges was $0.06 in the second quarter compared with $0.10 in the first quarter.

Gross profit of $1.65 billion was 49.5% of revenue and increased 8% sequentially. Recall that in the first quarter we benefited from about $65 million of insurance proceeds that helped gross profit and gross margin. Operating expenses of $936 million declined about 4% from the first quarter. At 28% of revenue, operating expenses have moved back into the 20% to 30% range that we target over the course of a cycle. Our second quarter results included a cumulative adjustment for a revision in our annual tax rate as well as a $10 million discrete tax benefit.

Net income in the first quarter was $446 million or $0.38 per share on a GAAP basis before charges. 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 $8 million. If you don't make this adjustment, you'll likely calculate EPS to be $0.01 higher than we have reported.

Let me make a few comments on our cash flow and balance sheet. Cash flow from operations was $675 million, up $226 million from the prior quarter. Capital expenditures were $146 million in the quarter, up $43 million from the prior quarter. I should note that year-to-date, capital spending has been about 4% of revenue as we benefit from having pulled ahead fab spending through opportunistic purchases over the past few years.

We used cash to repay an additional $200 million of our outstanding commercial paper in the quarter, bringing the remaining balance of this obligation down to $500 million. We also retired $375 million of maturing debt that we assumed in the acquisition of National Semiconductor. We used $300 million in the quarter to repurchase 9.6 million shares of TI common stock and paid dividends of $195 million.

We increased our inventory by $32 million in the quarter, although inventory days declined to 101. Orders of $3.41 billion in the quarter increased $174 million or 5% sequentially. TI's book-to-bill ratio was 1.02 in the quarter.

Turning to our outlook, we expect TI revenue in the range of $3.21 billion to $3.47 billion in the third quarter. At the middle of this range, revenue would be about even with the second quarter. We expect earnings per share to be in the range of $0.34 to $0.42. We expect the third quarter EPS results will be negatively affected by about $0.07 of acquisition and restructuring charges assuming the company's marginal tax rate of 35%.

For the year, our estimate for R&D expense has been reduced to $1.9 billion from our previous estimate of $2 billion. Our estimate for capital expenditures is unchanged at $700 million and our estimate for depreciation is also unchanged at $1 billion. Our estimated effective tax rate has been reduced to 26%, down from our prior estimate of 28%.

In summary, although our financial results for the second quarter were consistent with our expectations, our visibility into the third quarter's demand has been reduced. We remain focused on strengthening our long-term position in Analog and Embedded Processing while also staying responsive to the twists and turns of near-term demand.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll first go to Jim Covello with Goldman Sachs.

<Q – James Covello – Goldman Sachs & Co.>: Hey, Ron. Thanks so much for the chance to ask a question. I appreciate it. In terms of the utilization rates that you're expecting as you go through the third quarter, I guess that would be the first question.

And the follow-up just so I can go away after that, is there ever a cost benefit analysis that would make sense to shutter some of the strategic capacity? In other words, if the expectation is that it's going to stay dormant for an extended period of time, would it make sense to shutter it and then bring it back on line when the utilization has picked up? Thanks very much.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Kevin?

<A – Kevin March – Texas Instruments Incorporated>: Jim, let me just start on the utilization in the third quarter. I think implicitly we don't normally forecast that, but implicitly with the revenue guidance being flat and inventory being at desired levels of about 101 days right now, I don't expect our utilization level to be going up at this stage and in fact might even decline a little bit as we go into the quarter.

As to the second question on the cost benefit of shutting down the strategic capacity, you may recall that back in January we did announce the closure of two older factories that from a cost benefit standpoint, the economics of upgrading or trying to improve those factories to compete with some of the newer factories we brought online just didn't pay. So the decision was to go ahead and wind the operations in those factories down. That's one factory in Houston, which we expect to close by the middle of next year, and another factory in Hiji, Japan, which we expect to close by the end of next year.

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

Operator: Next we'll go to Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for taking my question. First of all, just looking at the outlook, so flat revenue guidance, EPS up a little bit, sounded like you said utilization down, which might imply that gross margins may be down a little bit. So is the EPS savings here all OpEx, or is some of it gross margins, or is it a split between the two? Could you give us maybe some color on the drivers between gross margins and OpEx into Q3?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Stacy, just for correction purpose, at the middle of our guidance range, our revenue is flat and our EPS is also flat at $0.38 on a GAAP basis.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Pro forma it sounds a little higher though, right?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah, because we have an extra – inside of that flat GAAP EPS, the charges will – think of it more rounding up to $0.07 as opposed to rounding down to $0.06...

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it.

<A – Ron Slaymaker – Texas Instruments Incorporated>: In the quarter. Do you have any other...?

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: I guess on that first question then, does that imply gross margin and OpEx kind of flattish to Q2?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Kevin?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Stacy, I think what – when you build your models and make the adjustments for the various things we were just talking with Ron about, I think you'll see that gross margins are probably going to be a little bit better. We'll have a bit of a better mix we would expect in 3Q. Recall the seasonality of our calculator business, for example, third quarter tends to be the strongest quarter. That has fairly good margins. As Ron mentioned, we'll see the baseband drop to probably about $50 million coming off of $90 million last quarter. And so the remaining revenue that will fill in that gap has slightly higher margins. So between those things, I think you will see the margins probably up a little bit quarter-over-quarter.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. That's helpful. And for my follow-up, so you mentioned I guess limited visibility in September in regard to your customers. What kind of September outlook do you actually have baked in right now to your flat guidance? And where could this go if we had a normal September as we seem to have like a normal July and August for orders right now?

<A – Kevin March – Texas Instruments Incorporated>: Well, Stacy, normal seasonality for us in third quarter is to be up – on average seasonality is to be up 6% quarter-over-quarter. So one could say that if in fact September fills out in a more normal fashion, we might see growth rates approaching that sort of number, but as Ron mentioned and as we've been talking about in the press release, given the profile of the backlog that our customers are scheduled on us, we clearly have less demand scheduled in September right now than we would normally have at this stage in the quarter, and that has caused us to be cautious on our guidance because it's really not apparent to us why that is the case. Again, is it because customers fear their end demand? Or in fact do they just have increased confidence that if their demand goes up, we have adequate inventory that we can meet short lead times?

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

Operator: Our next question comes from Sumit Dhanda with International Strategy & Investment Group.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Hi. Good afternoon, guys. Just a follow up on that last point, Kevin or Ron. Could you tell us exactly what your lead times are? In other words, if you did have – if you did end up seeing that pickup for September, what sort of a last date by which customers need to place orders so it actually impacts your revenues in the third quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Sumit, I guess one way to think about it is, I think we mentioned that the vast majority of our products have lead times less than six weeks, so that would say certainly – and, you know, some of that goes all the way down to zero if we have in-stock inventory. But certainly that would indicate that by the time we get to our mid-quarter update in September, we'll have certainly better visibility as to what the month of September should be looking like at that point.

Do you have a follow-on?

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Yes, I did. And then just along the same lines, any – clearly June orders were significantly weaker than you might have expected. Has there been any pickup or stabilization in July? And then was there any difference in the profile of orders you got, for example, from the distributors versus your OEMs ex your wireless OEMs? Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I'll answer the first part, and, Kevin, I'll let you handle the second part if you remember it. In terms of July, the rate of new orders in July really, Sumit, is consistent with what we saw in the month of June. So we haven't really seen a pickup, but we also haven't seen a further slowdown. So our guidance does comprehend those order trends.

<A – Kevin March – Texas Instruments Incorporated>: And Sumit as it relates to say the distribution channel for example, what we saw in the second quarter was distribution – distributor resales actually increased quarter-over-quarter to about the same rate as TI total sales. So that was consistent. And their inventory dropped about a day, so they continued to hold very lean levels of inventory, which suggests to us that similar to our OEM customers, they're holding only as much inventory as they feel they need to have for relatively short windows of time, 6.5 weeks as I mentioned.

So it goes back to what Ron was saying earlier. Our customers across the board seem to be carrying very lean inventories, expecting us to be able to meet very short lead times, which we presently have available, and so we should have better insight as to what their final demand will be for third quarter when we get to the mid-quarter update.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, thank you, Sumit. Let's go to the next caller, please.

Operator: The next caller comes from John Pitzer with Credit Suisse.

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Good afternoon, guys. Just quickly on the Wireless profitability for the June quarter, I would have thought that with a better mix of baseband that Op Profit would have been a little bit better. So I'm wondering if you can help me understand what's going on there. Importantly, ex-baseband, what's the break even Op Profit – revenue you need to see for breakeven Op Profit kind of in the OMAP and connectivity?

<A – Kevin March – Texas Instruments Incorporated>: John, the biggest thing driving the profitability or quite frankly the lack of profitability right now in Wireless is the revenue. This is a revenue dependent business that we talked about for a while. There is a large R&D build going on inside that segment as they develop new products for the end markets they're aiming at, and it really has been one that requires more revenue than it obviously has today to absorb that much R&D. It has clearly got our attention and is something we're looking closely into.

As it relates to a breakeven number, I would just remind you that back in fourth quarter that revenues that that segment turned in was actually about breakeven at that point in time if you adjusted for baseband. So that's probably your best reference point. I won't try to forecast going forward. As you probably well know from our conversations here in the recent past, we're looking at the opportunities for that business to expand product offerings into the embedded processing space, and that clearly will have a different profile of needs as we get all that planning worked out.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So, Kevin, just to make sure I heard right, you're saying fourth quarter of last year, the non-baseband part of Wireless turned a profit, a small profit, and that would be the closest proxy?

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

<A – Ron Slaymaker – Texas Instruments Incorporated>: Very good. Do you have a follow on, John?

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, Ron, just quickly, you talk about baseband being down to $50 million in the September quarter. Just relative to your kind of midpoint of flat revenue, are there any broader revenue buckets that are outperforming or underperforming that you can talk to, or is everything coming in kind of flattish?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I would say for the most part flattish, and we don't break the guidance down too much by product area. But as Kevin mentioned, you know, clearly there's a seasonal trend where our calculator business tends to grow third quarter compared to second quarter, so we would expect that of course to occur and be – and probably largely offset the decline in baseband. And then outside of that, you know, certainly collectively flattish, but generally flattish by product area as well.

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

Operator: Our next caller is Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Hi. Thanks, guys. Just to follow up a little bit on the Wireless group, are the R&D cuts in the second half, are those all aimed at Wireless? And then is there some sort of timeline to where we can tell, say, if Wireless isn't profitable by Q1 of next year, that, you know, there could be some changes there? And what are the options if Wireless does not become profitable within a two, three quarter time period of changing the business?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Chris, I don't think anybody said anything about cuts in the second half. I think what we talked about was that we are looking at how to best align the resources to meet the change in market opportunities we see for those products, especially in the embedded processing space. And that can include also reallocating resources to other areas where we have better growth opportunities. And I don't have any numbers for you with specificity as to what a breakeven or how much time that might take and so on. That will all come with time as we decide what the appropriate actions are, if any.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think one of the things you're referencing, Chris, was just the fact that we lowered the guidance. And think of that more as anticipated growth that we had planned overall in R&D will not be in the plan or won't be occurring now, and for the most part, if we hold second half quarterly run rates consistent with where we were in second quarter, then, you know, we would probably be rounding down to that $1.9 billion guidance that we gave for the full year.

Do you have a follow on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Real quick on SVA, it was flat and the rest of your Analog was up. Is there anything going on there, and do you have any outlook on SVA versus sort of the core TI Analog for the second half or at least Q3?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah, there is some stuff going on with respect to SVA, but it really ties more to fourth quarter and first quarter. You'll recall in those quarters we were talking about that we had made some distributor changes. I think in the fourth quarter, we had eliminated one of their traditional distributors and then brought on – brought them on to additional distributors that had previously supported TI in the first quarter, which resulted in some just inventory adjustments in the channel.

So think about first quarter for SVA benefited from some channel fill with inventory, and therefore the comparisons is a little more complex or unfavorable than going into second quarter. So really that's the only difference. If you look from a resale perspective, SVA resales were very consistent with what you saw or what we described for the rest of TI. So, again, it's just more noise associated with the changes fourth quarter and first quarter with respect to distributors.

And Kevin, was there an additional part of the question? Okay. Very good.

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

Operator: Our next caller comes from Tore Svanberg with Stifel.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Thank you, guys. The first question is during the mid-quarter update, you talked about wireless infrastructure or coms infrastructure and automotive actually holding up. Could you elaborate a bit on that comment now, the way you see things now? And is there any market at all that could potentially be up sequentially in the September quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Sure, I can talk about the coms infrastructure. I think automotive we ended up just from a sequential standpoint with second quarter being down slightly. So that shifted a little bit during the month of June from our prior expectations. But coms infrastructure had very strong sequential growth in the second quarter. And it's really more of what we described previously, which is in the North America market, there is a very aggressive build continuing to take place as carriers just try to stay up with consumer demand for data. And so with everybody having smartphones and tablets consuming lots of data, the carrier is under a lot of pressure just to be able to stay up with that demand. Given the strength of our position across almost all of the equipment manufacturers, we're a prime beneficiary of that.

So again, it's – you can say that LTE is starting to come into play a little bit, but really this is mostly being driven by 3G, really WCDMA builds here in the North America market. We see that trend on a secular basis continuing going forward, although once we get really toward the end of this year, you'll see more of the carrier spend start to shift to small cell. Macro doesn't go away, of course, because those base stations are still required. But on the other hand, a bigger part of the carrier spending will likely begin to shift towards small cell where we have an extremely strong position with our system on a chip and we look forward to that. But again that will start here in the North America market. I think it's already begun in some markets like Korea. It will start here in North America late this year and really we think will ramp nicely from there.

So, again, a good secular trend for us there ongoing. I think in the automotive space, the only thing I would say is I think that market as you might expect with economic uncertainty, consumers expressing more concern on where they spend their money, especially on large purchases like automotive. We're starting to see some of that as well as, I assume, other players will as well. Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yeah, just for Kevin, the R&D coming down a little bit for the year, is that sort of as a response to the environment, or have you seen some consolidation programs? Just trying to understand where that's coming from.

<A – Kevin March – Texas Instruments Incorporated>: Tore, that's a little bit of a response to the environment, but it's also on a lowered outlook. Some variable compensation, for example, will be less than it otherwise would have been. So I'd say it's a combination of some temporary and kind of permanent adjustments. The permanent if you will is that the expected variable compensation will be a little bit less than we'd previously planned. And some of the permanent is just realigning some of the programs that we had underway.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Great. Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Thank you, Tore. Next caller, please.

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

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks for letting us ask the question. Can I just ask a little bit about the order linearity between June and July? Because it sounds like June was very bad, but July is back to normal seasonal. And my suspicion is that's probably more about June than July. And so in your response, can you also describe what exactly happened in June?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Let me make sure that you didn't misunderstand what I said before, Glen. July in terms of new orders coming in really is about the same level that we saw in June.

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

<A – Ron Slaymaker – Texas Instruments Incorporated>: So it hasn't picked up, nor has it slowed down. What I did say is that our backlog coverage, meaning orders that are scheduled to ship in the month of July, looks pretty typical. But in terms of new orders, they fell from May to June, and July is running at about the same, just call it daily run rate that we saw for the month of June overall.

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

<A – Ron Slaymaker – Texas Instruments Incorporated>: So not a change one direction or the other, but again it's the combination of what we saw in the month of June as well as what we have seen month to date in July that has led us to give the sub seasonal guidance that we provided.

Do you have a follow-on, Glen?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Sort of as part of that, what exactly did you see in June? Was there any sort of pattern in terms of geographies getting weak or end markets getting weak, or was it just everything across the board?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I would say pretty broad based. I mean, there were some markets that shifted maybe a bit more than others. I don't know so much from an order standpoint. Maybe this is a little different twist on your question, but from a revenue standpoint, probably – let me just kind of walk through the region – regional results. The North American market from a sequential growth standpoint was strongest, followed by Asia, followed by Japan, and then Europe actually was the only region that was down a little bit.

At mid-quarter update, I believe I described that at that point we were expecting some growth out of Europe. So at least from a revenue standpoint, there was a little bit more of a down shift in Europe. Probably no real surprise there. I don't know, Kevin, is there anything that jumps to your mind from a product line standpoint or from an end market standpoint? I would describe it as more broad based, Glen, as opposed to any particular area of weakness that was pronounced.

<A – Kevin March – Texas Instruments Incorporated>: I'd agree. If you look across the whole quarter, you can probably say most of the end markets were up a bit. Auto and TV were down a bit, as Ron mentioned earlier. And the industrial space is probably about flat on a quarter-over-quarter basis, and that's kind of the mix we saw in the major markets.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So, Glen, I think you're describing that as 1A and 1B on your question list, and you still have number two coming, so if you're still there, do you have another question?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: It's a very, very simple one. Do you happen to know what utilization rates were in the June quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: The answer to that is also very simple: Yes. But we do not disclose specifically what our utilization is. I think Kevin said it's – our utilization overall was up slightly second quarter compared with first quarter. Similarly the utilization – the underutilization charges were therefore down a little bit, but frankly as we got into the month of June and saw orders fall off, we changed our loadings. We pulled back on our loadings, and as a result, the underutilization expense did not fall quite as much as we had expected, which you see in a gross margin, which frankly was not quite as strong as we had expected in the quarter as well.

Okay, Glen. Thank you for your questions. We'll move to the next caller.

Operator: Our next question comes from Joe Moore with Morgan Stanley.

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Thank you. Just to keep pushing on this Wireless question a little bit. In the fourth quarter of last year, you had a big high profile tablet win that helped OMAP business and I have that business down – ex-baseband, I have Wireless down a couple hundred million from the last couple quarters, I may be wrong on those numbers, but do you have the types of OMAP opportunities in the next two or three quarters that can get you back to that level? Or is this more kind of waiting for the Embedded business to fill in those gaps to get back to that level?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think it's a little bit of both. I mean, clearly in the tablet space, we have other customer wins that you can assume will be ramping into production using new products, new OMAP products from TI before the end of the year. And just where those go in terms of actual success in the marketplace is still to be determined, but clearly there's opportunity there. And at the same time, you know, as you have heard us say now for several quarters, we're not resting waiting for the tablets or smartphone space to carry us. We are rapidly pursuing opportunities in the embedded space and more horizontal opportunities outside of smartphones and tablets. And those are showing good traction as well. But there's clearly opportunity for growth in smartphones and tablets as well.

Do you have a follow-on, Joe?

<Q – Joseph Moore – Morgan Stanley & Co. LLC>: Sure. Thank you. The Windows 8 on OMAP in the wake of kind of Microsoft Surface coming out with their own Windows 8 tablets on a competitors ARM chip, what's your customer's interest in continuing to pursue that market, and is that still a big – or is it a big investment for you guys?

<A – Ron Slaymaker – Texas Instruments Incorporated>: It is an area that we're pursuing. We have Win RT ported over to our OMAP architecture, and we think that will have opportunities not just in the tablet space but also in some of the embedded – embedded opportunities that we're pursuing as well. So, you know, a lot of those embedded opportunities are going to be looking for high level operating systems to run on our applications processor. And the fact that we have the broadest coverage of any applications processor in terms of high level operating systems that are ported and running on our chip is differentiation for TI and opens a lot of doors for us.

So in terms of the customer enthusiasm, I can't speak for the customers other than to say, you know, we are still – we see a lot of activity with those customers in terms of preparing to launch their own products. So we assume their enthusiasm is unabated, and we'll see where it goes.

Okay, Joe. Thank you. And let's move to the next caller.

Operator: Our next question comes from Patrick Wang with Evercore Partners.

<Q – Patrick Wang – Evercore Partners (Securities)>: Great. Thanks for getting me on the call. Just first question, you know, you talked about Europe softening since you gave the mid-quarter update. I'm curious – you know – you've seen a stabilization in that area, and what's your latest read on that?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I'm not following your question. We have seen a stabilization in Europe you're saying?

<Q – Patrick Wang – Evercore Partners (Securities)>: Yeah, I'm curious, when you said, you know, relative to your mid-quarter update the one geography that seemed to have softened a bit that wasn't necessarily surprising was Europe. And I'm just curious, with your more typical month of July if things have stabilized there and you guys are looking for more constructive type of trends going forward. Or is that still an area where it's still softening?

<A – Kevin March – Texas Instruments Incorporated>: Patrick, I'd say it's probably too early to tell. Recall that in Europe it's customary that many of the businesses there take mass vacations during the summer months, especially in August. So typically you actually don't see much resumption of meaningful demand in the third quarter from Europe until you get to the end of August. So it's probably too early for us to comment on that just yet.

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

<Q – Patrick Wang – Evercore Partners (Securities)>: Yeah, I do. It's really about gross margins. If we look at gross margins going forward here, it sounds like you guys are guiding margins up slightly here in the third quarter. But as we look into the back half into next year, what are some of the structural things we should be thinking about in terms of getting the margins back into the low to mid-50s?

<A – Kevin March – Texas Instruments Incorporated>: I think the most apparent one is revenue growth. We've been talking about we did bring on quite a bit of capacity during the last couple of years that we bought for literally pennies on the dollar. And even though it's inexpensive, nonetheless it does still contribute to our underutilization charges in the quarters. So clearly the most meaningful way for us to improve gross margin is to simply continue growing our revenues so that we can absorb that underutilization and it will fall through to gross margin.

In addition to that, we'll just see a continuation of improvement of mix. As we talked about earlier, baseband will drop to about $50 million in we think the third quarter. We still expect that to wind down to essentially zero as we begin 2013. That will be replaced, our revenue that replaces that tends to have higher gross margins. So there will be a little bit of mix inside there, but I think the biggest driver to point to is revenue growth to absorb the underutilization.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Thank you, Patrick.

<Q – Patrick Wang – Evercore Partners (Securities)>: Appreciate it.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Next caller, please.

Operator: Our next caller comes from Doug Freedman with RBC Capital Markets.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Great. Thanks for fitting me in, guys. And in the past, Ron, you guys have been able to offer some color on what's going on in the PC market, specifically the disk drive market. There was a lot of movement this quarter. Can you give us an update on what you're seeing right now?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Sure. I guess what I would say is we saw some growth in disk drives in the second quarter, and that – you know, there probably was still some residual recovery from the Thailand flooding, but certainly going out of second quarter, we think that is now fully recovered. Our view overall is that hard disk drive TAM appears to be softening somewhat, and that very well could just be, you know, the mix of the types of computing platforms that are shipping and many of those not using hard disk drives. They're using solid state memory at this point. I think other than that, I think I described at the mid-quarter that we had seen some mixed signals in the PC space between maybe some of what we were seeing with Analog products, battery management, etcetera, and what we were seeing with hard disk drive. And I'd say that still held through the end of the quarter.

Do you have a follow on, Doug?

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Yes. If you could, could you guys give us an update on how the progress of your recent or not so recent acquisitions, the CICLON, Luminary. I know you've commented on Silicon Valley Analog already. If you could give us – go back a little further and just highlight how well those businesses are working within your portfolio.

<A – Kevin March – Texas Instruments Incorporated>: Doug, you may recall and if others were listening CICLON was supporting the power strategy inside Analog, and I'd say by all indications that has turned out to be quite an effective acquisition and contributing nicely to the growth in the power space.

Luminary was an acquisition that went into our Embedded Processing side of the house and really gave us a capability in the 32-bit microcontrollers that we previously didn't have a strong footprint in. And we're learning a lot in that space. We've got a lot more – a lot more opportunity, a lot more growth to do there. But clearly that brought a lot of knowledge to us and filled in some gaps that we didn't previously have in-house.

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

Operator: Our next question comes from Vivek Arya with Bank of America Merrill Lynch.

<Q – Vivek Arya – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Thanks for taking my question. I wanted to ask about underutilization charges. Especially what is – is that mostly a cash charge? Is that a noncash charge? And would there necessarily be an uptick in gross margins if you were to just conceptually say shutter 5 or 10% or whatever of capacity? So the question is really what is really the cash drag from these underutilization charges?

<A – Kevin March – Texas Instruments Incorporated>: Vivek, the underutilization charges, there's probably a little bit of cash in there, but these are mostly noncash. You're talking about assets that are depreciated and not being used. These are mostly non-cash. There's going to be some cash because you're keeping of course underloaded clean rooms open, so you're still using utilities and some gases and so on to keep those going. But that's minimal.

As it relates to opportunities, when we described in January that we were closing two of our older factories, the one in Houston and the one in Hiji, Japan, what we talked about is once those factories were closed, they should save us about $100 million in costs on an annual basis once that's done. So that's by the end of 2013. So those are the kind of numbers that you can think about in this area.

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

<Q – Vivek Arya – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yes, thanks, Ron. I'm wondering why your operating margins on the Embedded side is light. Is it mix? Is it more because of the wireless infrastructure business not doing so well? Because your Analog margins seem to have recovered somewhat to the mid-20s, but the Embedded operating margins are down substantially year-on-year.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, what you've got going on, year-on-year you've got revenues down also if I recall. Let's take a look here real quick. Yeah, revenues down about 15% year-over-year. So you've got underlying just R&D and support costs that are still there and revenues down. So that's going to take your margins down. But in the quarter itself, there's probably a bit below what we had expected, and really that's being driven by some new product startup and some inventory scrappage that occurred in that segment in the second quarter.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Thank you, Vivek and let's move to this next caller.

Operator: The next question comes from Craig Ellis with Caris & Company.

<Q – Craig Ellis – Caris & Co., Inc.>: Thanks for taking the question. Maybe I'll just pick up on that last question. If we look at Embedded Processing profitability going forward, how should we think about the rate of growth of profitability or the rate of growth in revenues – whatever you achieve – or are there any projects coming up?

<A – Kevin March – Texas Instruments Incorporated>: Craig, I think you were – you were fading out there a bit, but I think you were asking questions about how to think about the rate of growth in Embedded Processing?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Embedded Processing rate of growth of profitability versus revenue going forward.

<A – Kevin March – Texas Instruments Incorporated>: Right, okay. Similar to Analog, we would expect the Embedded Processing space to grow kind of at historical average, which would be probably in the 8% kind of range over time. In fact, if you take a look inside the embedded processing and where we're aimed at, the 16-bit and 32-bit, those are growing a bit faster than the 8-bit portion of Embedded Processing. So you might see something compounded a little bit faster than that over time just from a market standpoint. And of course our stated objectives are to grow faster than our markets, so we put the resources down to do that.

Clearly with the operating expenses inside that segment being, all things being equal, being fairly stable, any growth of revenue should fall through pretty quickly and improve profitability. So you would expect growth in revenue to occur at a certain pace; growth in profitability would occur at a faster pace just because it's falling through without too much incremental operating expenditure.

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

<Q – Craig Ellis – Caris & Co., Inc.>: Yes. Thanks for that, Ron. On the follow up, we talked a lot about reduction in R&D expense for this year. What about selling, general, and administrative? Should we expect that to be lower than the figure you were looking at in the first half of the year?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, on the general and administrative costs, we already have actions underway that we talked about when we acquired and closed on the National Semiconductor acquisition. You may recall that we talked about by the end of the first year of the acquisitions, that's going to be sometime in the fourth quarter, that we will be removing redundant costs between the two companies such that we should have about $100 million of annualized savings after the end of the first year.

We're actually making pretty good progress on that front. You may or may not be aware, but back when we closed on the National acquisition, we put some pro forma P&Ls out on the Investor Relations website that you're welcome to go take a look at that helps you see what the two companies would have looked like had they historically been combined. And if you go take a look at those, I think you'll find it somewhat insightful to just take a look at 2Q 2011 and compare that to our most recent quarter and you'll see that we're already beginning to see some of the cost synergies of those, of the merger of the two companies coming together showing up in those results.

<Q – Craig Ellis – Caris & Co., Inc.>: Okay, Craig. And Kevin do you happen to have a number on how that SG&A compares year on year?

<A – Kevin March – Texas Instruments Incorporated>: Sure, it looks like the combined SG&A for the two companies on a pro forma basis last year would have been about $478 million and in 2Q we just did $457 million, so we're running about $22 million better on a year-over-year basis.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, very good. Thank you, Craig. We'll move to the next caller, please.

Operator: Our next question comes from Ross Seymore with Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: ...me ask a question. Just one quick clarification from what you just said, Kevin, the $22 million ahead of where you were before. Is that fair to then say you have $3 million more and then you're at your $100 million total with the synergies?

<A – Kevin March – Texas Instruments Incorporated>: We would expect to get the rest of it over the next few months, yes, Ross. And really what's coming down there, as you recall, on our way there we're having to spend a little to save a little, so to speak. In other words, just integrating the IT system just caused us to take on incremental cost just to get there. But I think it's pretty safe to say that we can see on the radar that we'll deliver that $100 million of annualized savings by the end of the year.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Great. And then I guess as my hopefully first main question, just on the disti inventory side of things, what's your assumption for what the channel does inventory wise in your third quarter guidance?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ross, we may have some assumptions, but we don't publicize those just given – you know, distributors will do what they feel they need to do based on their own views of customer demand. But, you know, usually we'll try to provide some insight at mid-quarter update, but not this early as to what we expect those trends to be.

So that will be your first question and then you still get another one. Go ahead.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Thank you. You're in a generous mood. Calculators you mentioned is a positive outlier for the third quarter. Could you give us an idea how big was that in the second quarter? Did it go up its typical whatever it was, $75 million, and how much does it typically rise in the third quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: It was pretty typical. And I'm trying to remember what typical is. Hang on a second.

<A – Kevin March – Texas Instruments Incorporated>: It did increase about $70 million or so second versus first, and it customarily goes up pretty close to the amount of decrease that we're going to see in baseband in second to third. Baseband was about $90 million in second, and we expect it to drop to about $50 million. That's not that far off from what we typically see the calculator business go up in second to third.

<A – Ron Slaymaker – Texas Instruments Incorporated>: $30 million to $40 million type of increase in calculators typically.

All right. Ross, thanks for your questions. We'll move to the next caller, please.

Operator: Our next question comes from Chris Caso with Susquehanna.

<Q – Chris Caso – Susquehanna Financial Group LLP>: Hi. Thank you. Just want to just take a step back with respect to the third quarter guidance. And typically if we look in the third quarter and we're seeing a sub seasonal third quarter, it's typically because there's some inventory to burn in the channel. When you look at the seasonal businesses, I'd imagine that there's still some seasonal build that's going on that's just more muted than normal. If we were to get toward the low end of your guidance, that would actually imply a bit of a seasonal decline, sequential decline. Could you help me to get there? What potentially could drive that? Is there still some inventory burn going on in the channel? Perhaps there's something going on with pricing or some of maybe the non-seasonal market segments?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Chris, I'd make a couple of points. I mean, I think inventories are low already, so this is not a case where, you know, in second quarter a lot of inventory was built, and now there's potential need to replenish. That's not the situation that we see. We think what happened in second quarter, the growth that came about was not inventory replenishment but was simply customers, for the most part, no longer reducing inventory, and so therefore our shipments necessarily needed to start moving back up to the rate at which the customers were producing their own products. So not inventory build, but rather the end of inventory depletion. And you can see, as we said, the distribution channel at – even at 6.5 weeks of inventory, which it's been for the last couple of – last few quarters – was low already, and yet they did manage to take it down another day as we mentioned in the second quarter.

So, again, I think our third quarter scenario, I don't think the downside case or the lower end of the range case has to do with inventory burning. I think it has more to do with if the macro environment weakens and customers take their own production rates down or down from what they are currently expecting, that could come into play. And of course the upper end of the range just would reflect that customers that today haven't filled in the September orders – you know, just hadn't placed those orders yet because they didn't need to based on where lead times were. And so that would drive the upside case. You know, the middle of the range case is kind of what we see in our backlog now and not making a lot of assumptions that we get additional fill-in during the month of September. So hopefully that helps. Do you have a follow-on, Chris?

<Q – Chris Caso – Susquehanna Financial Group LLP>: Yeah, sure. Just as a follow up on that then, embedded in your guidance assuming the midpoint of the range then, is it fair to assume sort of customer inventory and distributor inventory would be relatively flat quarter-over-quarter in dollars?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Boy. It's kind of what I was saying before. I don't know that we – I guess to some degree that may be the case in that we're not seeing signs of – in the form of backlog, signs of a ramp during the month of September that you might – would more typically expect just given the upcoming holidays. So I guess you would say at the middle of the range there's probably the assumption of flattish inventory, but I don't know that we put a lot of assumptions about customer and distributor inventory into that guidance more so than just thinking about overall demand.

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

Operator: We'll go next to Tristan Gerra with Baird.

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: Hi. Good afternoon. Could you talk about OMAP as a percentage of Wireless in the quarter, and what was the magnitude of the sequential decline and whether you expect some rebound in Q3?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, OMAP I think first half overall is running about 60% of the non-baseband revenue. So in other words, OMAP plus connectivity is kind of a 40% – a 60%-40% split with OMAP being 60% of that revenue and 40% being connectivity. So from there, you can probably get pretty close in terms of what those trends were. But clearly the decline was driven from OMAP. Connectivity was down, but I would describe down a small amount compared to OMAP. Do you have a follow on, Tristan?

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: Sure. Could you give us an update on your pricing strategy for SVA in terms of your target of getting back to the core growth that you have in your Analog business?

<A – Ron Slaymaker – Texas Instruments Incorporated>: You said for SVA?

<Q – Tristan Gerra – Robert W. Baird & Co. Equity Capital Markets>: For your Silicon Valley Analog, yeah.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So I think their pricing strategy is going to be consistent with TI's own pricing strategy in the catalog spaces like High Performance Analog and some of the – a good part of the Power product line, which is we want to be competitive in terms of pricing, but at the same time, those markets, you tend to sell into – not always, but a lot of relatively low volume applications where the focus from the customer perspective is much more on the product specification, the performance characteristics of the product, as opposed to price. These products in general tend to be relatively low priced products, meaning less than a dollar type of ASP. And so as a percentage of the customers' bill of material, it represents a pretty small amount.

So customers for these products tend not to be hypersensitive on price. They're more focused on getting the right type of product. And I think with the strength of the product line and portfolio that SVA has, the product – the focus is much more on getting the word out, getting the support out to a much broader range of customers, and making sure of course we're competitive on price. We're certainly not going to go out and try to position the product line so that it's not competitive.

And frankly that was part of the issue in terms of that revenue growth before, was reaching for higher levels of gross margin. Sometimes the pricing out of National was not competitive in the marketplace, and you saw their market share loss as a result. You know, the strategy shift is just make sure you're competitive, but again make sure we're winning products based on performance and support considerations as opposed to pricing.

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

Operator: Our next question comes from Romit Shah with Nomura.

<Q – Romit Shah – Nomura Securities International, Inc.>: Thanks. Hey, Ron, just looking at your sales guidance this quarter, it seems a little bit worse than what some other companies have reported thus far in July. If I look at Intel, they guided up 6%, which is a couple points worse than what they normally do in Q3. Xilinx, if you look at their core business being down a couple percent, that's also maybe one or two points worse than what they normally do in Q3. Your third quarter flat, I think is about 6 to 7 points below what you normally do. So I'm just kind of curious what is it about this environment that's hurting you guys a little bit more?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Romit, my guess – first of all Intel probably has a different type of seasonal pattern. They certainly are much more narrower in terms of their end market exposure. So I'm not sure that we can do much of direct comparison there. And then I think similarly, Xilinx, if we were just looking at our coms infrastructure trends, they might be different than what we see for overall, and clearly they're going to have a much stronger part of their mix tied to coms infrastructure. So I think of all the companies – at least the ones that you have named, our exposure is probably much broader than any of them.

And the second point is, you know, we really are operating in a more uncertain environment. And as we said, this is a question not of the backlog is painting a very clear story and it's a negative story; this is more a question of we don't have all the backlog visibility that we would normally have, and so in that type of environment – and I think a lot of from what I have seen from other companies, that is not unique to TI and I suspect there's probably just different means by which different management teams will choose to extrapolate what they see going forward. And so I don't – you know, we have given you what we have given you. We explained the basis for it and what we have done. And I guess I just need to let you sort it out in terms of how that compares to our other semiconductor peers. Okay. Do you have a follow on, Romit?

<Q – Romit Shah – Nomura Securities International, Inc.>: Yeah, does the fact that Q3 being 6 to 7 points below seasonal, does that have any bearing on how you guys think about the December and the March quarters?

<A – Kevin March – Texas Instruments Incorporated>: No, too early for that at this time, Romit. I'd also add just to remind you that there's still – one of the things – even if we did have a seasonal growth, we still have the unwind of baseband going on. So that's a $40 million sequential headwind 2 to 3Q. So if you adjust for that, it might not be down quite as sharply as you say, although they're still down versus what a seasonal number might suggest. That seasonal number of 6% is actually ex-baseband and refitted for the inclusion of National.

<Q – Romit Shah – Nomura Securities International, Inc.>: Okay. Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Romit. Let me also just say, you know, as we said before, if this market wants to lift on us versus the guidance we provided for

Q3 or frankly even going into Q4, you know, we have inventory position, we have manufacturing capacity. You know, I think you'll find our ability to flex up and support higher level demand should it arrive, that flexibility is pretty high. So we really don't need to overly stress about what the outlook in Q4 will look like. We'll work it as it comes toward us.

Okay, Romit. Thank you for your questions, and operator I think we have time for one additional caller.

Operator: Okay. Our final question will come from David Wong with Wells Fargo.

<Q – David Wong – Wells Fargo Advisors LLC>: Thank you very much. You talked about in the past about how with Silicon Valley Analog, you've got a bigger sales team and more field presence. Are you seeing any effect of this on design wins for the Silicon Valley Analog products? And if so, do you expect the growth of the SVA division to actually accelerate past your other Analog divisions at some point in the future?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think that's a reasonable expectation, David. As you are implying in your question, right now it's more measured in customer interest and in design wins. And those then will be precursors to actual revenue growth that will occur later. But we've long said our assumptions coming into this acquisition was that the share losses that National had experienced pre-acquisition likely would continue into the first year of the acquisition, and then we would hope to have the revenue stabilized and running consistent with the market. And then for the next year and then in year three basically have it trending faster than the market consistent with our own Analog growth.

So that would imply over the next couple years you could see a faster acceleration in SVA growth compared to TI's own revenue just as it's coming kind of from a hole to moving consistent with our own revenue growth. And I'll also say those assumptions that I just talked about were what we built into our financial returns and financial assessment on the acquisition. Our internal goals of course are much more aggressive than that. And we're confident at this point that just based on traction with customers, interest with customers, the design in rates, that we're going to be able to do better than that. But we'll report it as it comes. Do you have a follow-on, David?

<Q – David Wong – Wells Fargo Advisors LLC>: Yes. Your EPS guidance, does that assume any improvement in gross margin in the September quarter? And if so, is this mix related, or is there some other factor that helps margin?

<A – Kevin March – Texas Instruments Incorporated>: David, we mentioned early on in the call that there's some improvement inside there given that really the EPS is about flat quarter-over-quarter, revenue is about flat quarter-over-quarter at the midpoint. So there's a little bit of improvement in there because we'll see the wind-down of baseband at lower margin being replaced by the calculator business at higher margin.

Ron Slaymaker, Vice President-Investor Relations

Okay, David. Thanks for your questions, and thanks all of you for joining us. A replay of this call is available on our website. Good evening.

Operator: That does conclude today's call. Thank you all for your participation.

