

## — PARTICIPANTS

### Corporate Participants

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**Ron Slaymaker** – Vice President-Investor Relations

### Other Participants

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**Patrick Walsh** – Analyst, Credit Suisse Securities (USA) LLC (Broker)

**Joseph Moore** – Analyst, Morgan Stanley & Co. LLC

**Ross C. Seymore** – Analyst, Deutsche Bank Securities, Inc.

**Stacy Aaron Rasgon** – Analyst, Sanford C. Bernstein & Co. LLC

**James V. Covello** – Analyst, Goldman Sachs & Co.

**Tore Svanberg** – Analyst, Stifel, Nicolaus & Co., Inc.

**Shawn R. Webster** – Analyst, Macquarie Capital (USA), Inc.

**Chris Caso** – Analyst, Susquehanna Financial Group LLP

**Romit J. Shah** – Analyst, Nomura Securities International, Inc.

**David M. Wong** – Analyst, Wells Fargo Advisors LLC

## — MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Texas Instruments fourth quarter 2012 mid-quarter update 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

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Good afternoon. Thank you for joining TI's mid-quarter financial update for the fourth quarter of 2012. In a moment, I will provide a short summary of TI's current expectations for the quarter, updating the revenue and EPS ranges for the company. In general, I will not provide detailed information on revenue trends by segments or end markets, and I will not address details of profit margins. In our news release at the end of the quarter, we will provide this information.

As usual with our mid-quarter update, we will not be taking follow-up calls this evening. Considering the limited information available at this point in the quarter and in consideration of everyone's time, we will limit this call to 30 minutes. For any of you who've missed the release, you can find it on our website at [ti.com/ir](http://ti.com/ir). This call is 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 news release published today, as well as TI's most recent SEC filings, for a more complete description.

We have narrowed our expected ranges for TI's revenue and earnings from our previous ranges. We now expect TI revenue between \$2.89 billion and \$3.01 billion, a range that has been narrowed to the middle of our prior range. We expect earnings per share between \$0.05 and \$0.09 on a GAAP basis. In addition to the \$0.06 of acquisition and restructuring charges included in our original guidance for the quarter, EPS also now includes \$0.21 of charges associated with the previously announced restructuring in our Wireless segment. As a reminder, we said the Wireless

restructuring charges would be about \$325 million in total, of which about \$220 million is for severance and related benefits and most of the remainder is for non-cash impairments related to the Wireless business. Most of these charges will be recognized in the current quarter, although some are subject to the outcome of required negotiations in countries outside the U.S. If you are having trouble translating the charge amount to the EPS impact in the quarter, please note that goodwill impairment is not tax deductible. The \$0.21 impact that I identified comprehends this tax treatment.

Operator, you can now open the lines for questions. In order to provide as many of you as possible the opportunity to ask a question, please limit yourself to a single question. I will provide you the opportunity to ask a follow-up question. Operator?

**QUESTION AND ANSWER SECTION**

Operator: Thank you. [Operator Instructions] And we'll hear first from John Pitzer with Credit Suisse.

**<Q – Patrick Walsh – Credit Suisse Securities (USA) LLC (Broker)>**: Hi, Ron, this is Patrick Walsh calling in for John Pitzer. Just had a quick question on the profitability. On a non-GAAP basis, it looks a little better. Curious, is that all driven by Wireless?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: No, actually, the cost reductions that we're – the restructuring that we're doing in Wireless really won't have any significant impact this quarter, as most of the employment reductions are happening late in the quarter. What you're seeing probably translates to about a penny better on a – as you called, a non-GAAP basis, or however you would get there. And what I would say is that's really just we're continuing to generally tighten down on expenses where possible. And that really is just considering the weak environment that we're operating in. So, again, just holding a tight rein on expenses.

Do you have a follow-on, Patrick?

**<Q – Patrick Walsh – Credit Suisse Securities (USA) LLC (Broker)>**: Yeah. As a follow-up, do you think that the Wireless business can get to breakeven in the calendar first quarter? And if so, do you expect to be able to stay breakeven as revenue declines going forward?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Okay. Let me – the answer, or that whole situation is complex. Let me just start with the fourth quarter. I would say that Wireless, clearly, in the fourth quarter will have an operating loss because it will include the restructuring charge. Going forward, I really don't have a date for you on when that loss will go away, as it depends on how fast the revenue declines relative to the costs. I think we said back in our October call that we expect that our baseband revenue in first quarter will be about half of the level that it was in the fourth quarter. So, again, considering the baseband revenues declining and then on top of that how fast the OMAP and connectivity declines occur from a revenue standpoint, will really drive what happens from a profitability or loss perspective.

Okay, Patrick. Thank you for your call, and let's move to the next caller, please.

Operator: Thank you. Next we'll hear from Joe Moore with Morgan Stanley.

**<Q – Joe Moore – Morgan Stanley & Co. LLC>**: Great. Thank you. Let me just follow up on that last question. I mean, what do you see as the tail for the OMAP and connectivity business? It seems like your customer base in the next couple quarters probably doesn't change all that much. So I mean, is there going to be a fairly healthy tail on that business in the next couple quarters?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Joe, that's a good question. I should have clarified that on the prior call. The revenue that's there, which this year for OMAP and connectivity products that are sold into smartphone and tablet applications probably will be about \$800 million total. In the fourth quarter, it will be right around \$200 million. And, again, that's not the entire segment revenue for OMAP and connectivity, because some of that is sold into embedded applications, probably a couple hundred million dollars in 2012. But the \$800 million overall for 2012 that's sold into smartphone and tablets, or the \$200 million in fourth quarter for smartphones and tablets, we would expect to decline through the course of 2013, such that it's gone by the time we enter 2014. And then probably a similar trajectory in terms of the cost savings. The costs will decline through the course of 2013, and as we enter 2014, we will have about \$450 million of annualized cost savings, again, as we enter 2014 or by the end of 2013.

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Do you have a follow-on, Joe?

**<Q – Joe Moore – Morgan Stanley & Co. LLC>:** Yeah, just on that note, the \$450 million, how does that split between operating expense and cost of sales savings?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>:** Okay. The estimate we have is about 75% of that will be R&D, about 15% SG&A, and then about 10% cost of revenue. Okay, Joe. Thank you. And we'll move to the next caller, please.

Operator: And our next question comes from Ross Seymore of Deutsche Bank.

**<Q – Ross Seymore – Deutsche Bank Securities, Inc.>:** Hi, Ron. First one, following up on that OMAP side of things with connectivity, do you expect any impact on your analog side of your business as some of those connectivity products and OMAP brought Analog along for the ride?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>:** Ross, I mean, clearly we have – I'm not sure I would agree that they're along for the ride, but we do have good analog content, typically, in a system where we're selling OMAP. Yet – and clearly if we have an applications processor in the system, that gives our sales folks good visibility into that overall system. That being said, those analog products kind of have to earn their way. Each product – customers aren't going to accept an inferior analog product just because they're using our application processor. So our view is that our analog products will continue to do fine in these tablet and smartphone applications.

And in fact, what I can – I can also envision a scenario that they could even benefit, because, I mean, think about, we work with other application processor suppliers on their reference designs to include our analog products. To the extent they don't view us as an application processor competitor, we might find some of those other application processor suppliers more amenable and cooperative on the analog side. So we'll see. That's conjecture, but I think we'll do just fine on the analog side of those systems.

Do you have a follow-on, Ross?

**<Q – Ross Seymore – Deutsche Bank Securities, Inc.>:** Yes, I do. Getting away from OMAP maybe for a second, just talk about the quarter. The mid-quarter, you guys tightened to the midpoint of the range on revenues. Any either product line or end market color you can give us about positives and negatives quarter-to-date, please?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>:** Okay. Sure. And let me just make a couple of reminders. As you would probably guess, the fact that we tightened to the middle of the range says generally most areas are tracking consistent with our expectations that we had in October. But just as a reminder, there are a few special considerations in the sequential trends this quarter that a reminder is probably worth a few minutes.

First of all, our calculator revenue typically declines by about \$100 million in the fourth quarter following the peak third quarter back-to-school season. The second consideration is that we had \$60 million in the third quarter of business interruption insurance proceeds that was the final settlement from last year's earthquake in Japan. So that amount will not recur again this quarter. And I think the final point I would make is that in our October call, I explained that our SVA analog product line would begin to convert over to a consignment inventory program at distribution this quarter, and that really is the result of us getting that SVA business, which again was the former National Semiconductor operation, converted over to TI's IT system. So with that, we'll be able to move them to the same type of consignment inventory program we have with distributors. That conversion will impact our revenue this quarter, but certainly distributors are anxious to move over

to the program. So with those three considerations, I would say the remainder of our semiconductor revenue is generally clustered around a 7% to 8% sequential revenue decline.

From an end market standpoint, let me just quickly go through those. Computing continues to be weak this quarter. In communications, I would characterize it also as weak. If you look at handsets and tablets, our baseband revenue we would expect to be seasonally flat, maybe even up a little this quarter, although that will be more than offset by revenue declines in OMAP and connectivity, again, for smartphones and tablets. I guess I don't normally provide a longer-term outlook in this update, but given our recent announcement to discontinue our investments for OMAP and connectivity products in the smartphone and tablet areas, let me go ahead and note that we expect this revenue again to decline then from about \$200 million to be gone by the end of 2013. So just a reminder on that.

In communications infrastructure, particularly wireless base stations, that revenue continues to be weak, with spending levels by operators constrained pretty much across the world. So specifically the U.S., Europe, and China, where that has historically been – those regions have historically been drivers there.

Consumer, I'd say results are somewhat mixed. TV sales remain weak, as they were last quarter, reflecting the overall economy. And we believe, actually, the emergence of tablets as an alternative viewing device for video is probably having some impact there as well. Game consoles are doing well, and ebooks also are doing well for TI. And then finally, in Industrial, I would say overall demand generally remains weak. Inside of that, automotive sales are mixed regionally, with the U.S. strong but both China and Europe weak.

Okay. That was a long answer to a quick question, Ross, so thank you for that, and we'll move on.

Operator: Next we'll hear from Stacy Rasgon with Sanford Bernstein.

**<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>**: Hi, guys. Thanks for taking my question. I was wondering if you could give us a little bit of color, Ron, on order linearity. I think at the earnings call you'd said September orders were the low point in Q3; October was kind of flattish. Can you give us some view for how November and December are tracking relative both to those points in September and October and relative to your expectations?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Stacy, I don't have feedback for you on linearity, but what I will say is just in general we expect that orders will decline this quarter, and they're largely tracking the revenue result trends. So what I mean by that is they're weakest for our Other segment due to the seasonal calculator declines and, again, that non-recurrence of the business interruption insurance. They're also weakest for our SVA product line due to the conversion to the distribution consignment program and the impact that has both on revenue as well as orders. But I don't have the month-by-month linearity feedback for you.

Do you have a follow-on, Stacy?

**<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>**: Yes, I do. That's helpful. I think around – if I go back to Wireless a second, the chunk that's remaining, the embedded OMAP and connectivity, it's about \$200 million in annual revenue right now, I think you said. What are your targets for the economics of that business following the completion of your restructuring actions? Is that going to be making money? Is it going to be breakeven? Will it be losing money? At those levels or do we assume growth in order for it to make money?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: No, our expectation is that the loss that you've seen our Wireless segment incur over the last few quarters will largely be eliminated by

the restructuring action that we have under way. And so that's not assuming growth or anything like that. It's just taking the loss and taking the cost actions and recognizing we're going to lose about \$800 million of revenue, and therefore gross profit associated with that. But the cost savings that we're implementing should largely offset or essentially offset that loss, and so we'll just leave it at that.

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

Operator: Moving on, we'll hear from Jim Covello with Goldman Sachs.

**<Q – Jim Covello – Goldman Sachs & Co.>**: Great, Ron. Thanks so much for taking the question. I appreciate it. Thanks especially for the market commentary by area. In consideration of that, is there an area where you feel most confident that you're undershipping demand and inventory's getting drawn down in the channel? And then, conversely, are there are still areas where you think you might be overshipping demand?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Oh, Jim, I don't – boy, I don't know of any area that we're overshipping demand. I mean, there could be some out there, but they're not visible to us. So I would say in general we're shipping consistent with demand, and inventory levels are very low or there still could be some areas that inventory is continuing to be reduced. I know one area that – I don't know that I would draw – underscore anything in terms of what we're seeing this quarter, but I know, for example, in third quarter communications infrastructure was an area that we highlighted was experiencing some inventory reduction. Probably another one that I would highlight is distribution this quarter, and I guess I would note that resales from distribution we expect to decline this quarter, but at this point it looks like distributors could also reduce some inventory. And we'll see how the rest of the year plays out, but at this point we would expect they're going to reduce some inventory.

Do you have a follow-on, Jim?

**<Q – Jim Covello – Goldman Sachs & Co.>**: I do. First of all, thank you for that. That was helpful. And then kind of going back to Ross's question about the attach rates or the pull-through as we look at the wind-down of the OMAP and connectivity segments in certain areas, when you look back on the history or lessons learned from the baseband wind-down, did you see any reduction in pull-through or attach rates on analog in those segments? Or did you see pretty steady share with the customers or the SKUs that you wound down with baseband?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Jim, I'm not aware that there was any notable shift in our penetration in those customers' systems where we had baseband that then, when we got out of the baseband, we saw declines in other product lines. So I would say in the case of baseband, practically, no if any impact, and we would expect similar with the analog products and the OMAP connectivity. In fact, again, we do have good analog content in many of the OMAP systems, but we can also find customer systems that don't use our OMAP product at all, where our analog content was just as high. So, again, I think for the most part you'd have to say those analog sockets are won individually, and they tie very little directly to the OMAP processor.

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

Operator: And our next caller is Tore Svanberg of Stifel, Nicolaus.

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Yes, thank you, Ron. Could you just give us an update this quarter about any shutdowns that you're planning or just any color at all on your manufacturing?

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**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Well, I don't – the shutdowns and the idling that occur through the course of the holiday period will vary from factory to factory, as it does every year. And that'll just depend upon demand, et cetera, for the particular products that are manufactured in those factories. So some we certainly will be idling through the course of the holidays, as we typically do. And by the way, that's just a means by which we can most cost-effectively manage when we have open capacity such as we do. So that's just a means by which we handle lower levels of utilization cost-effectively. So we will be doing that through the course of these holidays, but it'll vary factory by factory.

Okay, Tore, do you have a follow-on?

**<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>**: Yes. Could you also talk a little bit about lead times? If I recall correctly, lead times were fairly short at the beginning of the quarter. Just wondering, have they remained short or any movements at all there?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Really no movement of significance at all. So I would say lead times overall remain very short, with the strong majority continuing to be below six weeks for TI. Okay, Tore, thank you. We'll move to the next caller.

Operator: And our next caller is Shawn Webster of Macquarie.

**<Q – Shawn Webster – Macquarie Capital (USA), Inc.>**: Great. Thank you very much. Kind of on that thread, do you guys expect utilization rates to come up in either Q1 or Q2? And then for your own – my follow up question would be, for your own inventories, what's your expectation for them in terms of dollars and days in Q4 and maybe in Q1, if you have a view on that?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Okay. So maybe you missed, Shawn, this is the fourth quarter mid-quarter update, so I can talk about utilization trends this quarter, which really are consistent with what we expected in October. Utilization will be lower in fourth quarter compared with third, as we've reduced new production starts in response to weaker demand. What happens with utilization in first quarter and beyond, I really don't have a lot to comment on at this – I really have nothing to comment on at this point.

And then in terms of TI's own inventory, I guess I would say in light of our actions to reduce the production levels in our factories that I just described, we would expect that our inventory will decline this quarter. From a days standpoint, it's a little more complex. I would say inventory days, even with the absolute reduction in inventory, you could see days still drift up a little, and that's just in consideration that revenue will also decline in the quarter.

Shawn, I believe that was your first question – first two questions. Do you have a follow-on?

**<Q – Shawn Webster – Macquarie Capital (USA), Inc.>**: Yeah. Well, thanks for the extra one. In terms of your – it sounds like your expenses are doing a little bit better. And can you remind us, in terms of the OpEx linearity, it normally comes up in Q1 and then partially in Q2. Is that the normal linearity? And I'm talking normal. I know you have the restructuring going on, which is going to bring it down.

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: That's – so good point, Shawn. OpEx typically is down in Q4 seasonally, and that really just reflects that more vacation time and holiday time is taken in the fourth quarter compared with the third, and then that will reverse itself in the first quarter typically as less holiday and vacation time occurs. And then the other consideration in the first quarter is that the annual pay and benefit increases are implemented in the month of February, so usually from a seasonal standpoint we see some increase in OpEx in the first quarter as well.

Okay, Shawn. And I didn't mean to give you three questions there, but I'm glad you appreciate that. We'll move to the next caller, please, operator.

Operator: Our next caller is Chris Caso of Susquehanna Financial Group.

**<Q – Chris Caso – Susquehanna Financial Group LLP>**: Hi, Ron. Thank you. I wonder if you could expand a little bit on some of the comments you made about inventory in the channel. And we also heard from one of your competitors, who had recently thought that there was some destocking coming on. Do you have any metrics that you could share with us in terms of where we are relative to normal levels? And just looking forward, just comment on perhaps the sustainability of the channel inventory at these levels, even taking into account where the levels of demand are right now.

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Okay. So what I would say is if you've listened to us over the past few quarters, we've been running six and a half weeks or so over the last few quarters. That is a lean inventory level. We've characterized it that way. That's lean by historic standards, and that's lean even comprehending that we are carrying some of what historically was distributor inventory on TI's books as consignment inventory.

Okay. So, again, a couple of things have happened. Inventories are lean, but we've also implemented the consignment program. But even adjusting for that, they were lean. I really don't want to give you any kind of specific projection on the fourth quarter, other than we could see a few more days come out of that inventory level. And it's – at this point, the data usually is not very predictive of the full quarter, but I would say we, at this point, probably would be expecting to see a few more days of inventory come out of distribution.

Is that sustainable? I don't believe so. I think in general, the channel inventories and to the insight we have at customers, I would say we believe inventory levels are lean. And, therefore, from a risk standpoint, it's probably somewhat asymmetric. They are lean in consideration of the weak environment, but if there is any growth that starts to occur again, we would fully expect replenishment to occur, both in distribution as well as at customers that carry their own inventory. So, again, the lean inventories that are there reflect economic uncertainty and relatively weak demand currently, but clearly there will be replenishment if growth is to occur again.

Okay, Chris. Thank you. Let's move to the next caller, please.

Operator: And our next caller is Romit Shah of Nomura.

**<Q – Romit Shah – Nomura Securities International, Inc.>**: Yeah, thanks, Ron. Just to clarify, did you say your lead times are four to five weeks right now?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: I said the strong majority of our lead times are six weeks or less.

**<Q – Romit Shah – Nomura Securities International, Inc.>**: So if the channel's carrying about six weeks, then – I understand that it's lean from a historical perspective, but isn't that sufficient, given where your lead times are? What would be the incentive for them to restock?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Well, that's kind of the false impression that pulls everybody in. So it's fine if lead times and everything are totally stable. And, Romit, we are – from the standpoint of positioning our own inventory and all that, and certainly our capacity, we try to keep it positioned such that we will be able to maintain lead times short. But more generally, in our industry, short lead times occur in the troughs of the cycle or during relatively

weak periods. And then when customer demand starts to come back, lead times tend to extend, and that causes customer demand to get even more heated as customers then try to replenish inventory. So do I believe more broadly in the industry that current inventory levels and current lead times are sustainable? No way. And we'll see. That's only just based on 30 years of semiconductor industry history that I have. Maybe this time will be different, but I wouldn't bet on it.

Okay, Romit, do you have a follow-on?

**<Q – Romit Shah – Nomura Securities International, Inc.>**: Yeah, I appreciate that, though. That's helpful. I was hoping you could just talk specifically about comm infrastructure. It's a big business for you guys. And on one hand we're hearing about AT&T spending more capital. But at the same time, you guys are talking about a reduction in inventory. So maybe just some specifics on what you're seeing from the comm infrastructure space. And if you can segment it by geography, that would be helpful.

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: I probably don't have a lot to say there, other than U.S., Europe, China all being weak, as I said previously. We believe that – when I just look at TI's revenue trends this quarter, they're very consistent with what we believe the card shipments are from the equipment providers overall. So I don't – there could be, as I said, some component inventory reduction. But there's not a big sync difference between what we're seeing with our shipments and what we believe is happening in terms of shipments to the operators currently. So I realize there are operators that have forecast more capital spending, et cetera. But I think that's still likely ahead of us as opposed to anything that's impacting our business this quarter.

Okay, Romit, thank you for your questions. And, operator, we have time for one final caller.

Operator: Certainly, and that will come from David Wong of Wells Fargo.

**<Q – David Wong – Wells Fargo Advisors LLC>**: Okay, thanks very much. So, Ron, the cost savings that you get from your exit of the Wireless business, as 2013 progresses, do you actually manage to reduce in absolute terms your operating expenses, or do they keep rising because you have other things that you're investing in?

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Oh, you mean for TI?

**<Q – David Wong – Wells Fargo Advisors LLC>**: Yes, TI as a whole.

**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: Boy, that – David, I don't want to try to project that. I mean, think you're seeing TI manage our expenses overall pretty tightly. And I think you will continue to see that going forward. The \$450 million – what I can assure you is that \$450 million is not just moving out of our Wireless segment into other parts of TI. These are costs that are leaving Texas Instruments. So I think you would – if you consider how much we're spending in operating expense currently, that probably would clearly translate to a net reduction. But, again, the only thing we're really forecasting here is what we're doing inside of our Wireless segment. And I'll provide you the assurance those costs are truly leaving TI, as opposed to just shifting somewhere else inside of TI.

Do you have a follow-on, David?

**<Q – David Wong – Wells Fargo Advisors LLC>**: Yes. Thanks, Ron. The connectivity products you're exiting, are they manufactured in house? And, if so, what percentage of manufacturing do these currently represent?

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**<A – Ron Slaymaker – Texas Instruments, Incorporated.>**: What I would say is in both of these areas, connectivity and OMAP, most of the production is done through third-party foundries. So as we exit these, this will not have an impact on capacity utilization. We will not have stranded capacity as a result of this action.

**Ron Slaymaker, Vice President-Investor Relations**

Okay, and with that, we will go ahead and wrap up. What I will say is before we end the call, let me remind you there's a replay available on our website. Thank you, and good evening.

Operator: Ladies and gentlemen, that does conclude today's conference. We thank you again for your participation.

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