

— PARTICIPANTS

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— MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments fourth quarter and year-end earnings conference call. Today's call is being recorded. At this time, I would like to turn the conference over to Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President-Investor Relations

Good afternoon, and thank you for joining our fourth quarter and 2011 earnings conference call. As usual, Kevin March, TI's CFO, is with me today. For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

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

Our mid-quarter update to our outlook is scheduled this quarter for March 8. At that time, we expect to adjust the revenue and earnings guidance ranges as appropriate. There are a number of important things taking place in our market and inside of TI. Similar to our October call, we will provide additional detail during today's call to help you understand our results and outlook.

So let me start with the market environment. As you can see, the fourth quarter revenue of \$3.42 billion was significantly stronger than the reduced outlook we had provided during the mid-quarter update. Higher-than-expected revenue came in all our major product lines. We believe this strength relative to our outlook is consistent with a historical bottoming pattern in the industry. The slowdown that began in the third quarter continued in the fourth, during which customers and distributors were significantly reducing inventory. In December, with low levels of customer inventory and short TI

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product lead times, we experienced significant strength compared to what our backlog indicated at the start of the month.

Our belief based on historical trends is that the semiconductor market bottomed in fourth quarter 2011 or else will bottom in first quarter 2012. Our important market indicators were consistent with this belief. New orders declined 7% sequentially, book-to-bill was 0.84, and distribution inventory dropped to historically low levels. So despite low levels of backlog and visibility, we are forecasting that our first quarter revenue will decline only about 2% compared with the seasonal average decline of about 4%, excluding baseband.

Second, as we enter 2012, we are beginning the final phase of our baseband business. Baseband revenue was \$279 million in the fourth quarter, and we expect it will fall to about \$75 million in the first quarter and remain between \$50 million and \$100 million per quarter during 2012. At that level, it will be only a couple percent of our total revenue. I believe investors will be pleased to see our company results driven by our core businesses of Analog and Embedded Processing and not the decline in baseband.

Third, the fourth quarter results include a full quarter of the National Semiconductor operation, now called Silicon Valley Analog. Our confidence in accelerating the revenue growth from the National portfolio continues to grow as we spend more time with customers and see the impact of our larger sales force. Kevin will detail the accounting charges associated with National, both in the fourth quarter and the first, and provide an outlook across the remainder of 2012.

Finally, we announced today our plans to close two older manufacturing sites. Kevin will detail both the charges and planned savings from these changes.

Let's now walk through the fourth quarter results. Total revenue of \$3.42 billion declined 3% from a year ago and was down 1% sequentially. The positive contribution from a full quarter of Silicon Valley Analog revenue and growth in Wireless revenue, especially from OMAP applications processors, helped offset declines elsewhere. Earnings per share were \$0.25 on a GAAP basis or \$0.48 when total acquisition-related and restructuring charges are excluded.

Analog revenue of \$1.70 billion grew 12% from a year ago and 9% sequentially, reflecting the inclusion of a full quarter of SVA revenue. Our other three analog businesses – HPA, Power, and HVAL – declined sequentially, with HPA down most. Last quarter, we provided historical data for SVA on our website. If you compare its July through September revenue with the fourth quarter, it would have trended in a downward range similar to the remainder of our Analog businesses. Like HPA, SVA has exposure to the industrial market, which has been weaker than the overall market recently.

I realize there's also interest in the impact of the Thailand floods. Our area of most direct exposure is our Analog Storage product line. This revenue declined over 20% compared with the year-ago period and sequentially. Encouragingly, the month of December was our strongest month of the quarter as our customers began to recover.

Embedded Processing revenue declined 18% in both comparisons. As we indicated at our mid-quarter update, communications infrastructure was especially weak in the quarter, with revenue down about 40% sequentially and compared with the year-ago quarter. This decline was a result of market weakness, especially due to particular service providers in the U.S. that had put a temporary hold on their capital spending. Our position within our customer base remained strong, and by the end of the quarter, we began to see some recovery in their demand. Nonetheless, these products are highly complex and are some of our more profitable products, which also negatively affected our mix in this segment and the company overall.

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Embedded Processing catalog products, with their exposure to the industrial market, were also weak, with double-digit percentage declines in both comparisons. Products for automotive applications grew double digits from a year ago and were about even sequentially.

In Wireless, revenue declined 6% from a year ago but grew 24% sequentially. Sequentially, all of the product lines grew, including OMAP applications processors, connectivity products, and baseband. OMAP made up the strong majority of this growth, as we benefited from new product introductions at multiple customers and their associated channel sales.

In our Other segment, revenue declined 20% from a year ago and declined 29% sequentially. Calculator revenue declined seasonally a little more than \$100 million compared with the third quarter. DLP revenue was also relatively weak following our strong third quarter recovery from supply issues associated with the earthquake earlier in the year. Custom ASIC products declined, reflecting their high exposure to the communications infrastructure market.

I will note that the fourth quarter was the last quarter that we will receive revenue from Spansion as part of our transitional supply agreement following our purchase of the Aizu fab in Japan in 2010. Revenue in the fourth quarter from this agreement was about \$30 million.

In distribution, resales, or sales out of the channel, declined 8% sequentially. Growth was about the same whether SVA was included or excluded from both periods. Inventory at distributors, which now includes our SVA inventory, declined by about half a week in the quarter to 61/2 weeks.

Now Kevin will review profitability and our outlook.

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

Thanks, Ron, and good afternoon, everyone. Let me start by walking through some of the charges in the quarter.

Total charges in the quarter were \$0.23, including \$0.16 of total acquisition-related charges and \$0.07 of restructuring charges. Let me explain each. As you will recall, we said in October that our total acquisition-related charges would be in two separate income statement lines in the fourth quarter. We've consolidated most of those costs, such as restructuring costs, transaction costs, retention bonuses, and amortization of intangibles, on the income statement line that we've identified as acquisition charges. In the fourth quarter, we had \$153 million of acquisition charges on this line.

Also, we discussed last quarter, accounting rules require that we write up the inventory that we initially acquired as part of the acquisition to fair value, and then recognize this expense as part of cost of revenue as the inventory is sold. In the fourth quarter, we had \$103 million of acquisition charges, primarily associated with the write-up of inventory. Going forward, although we have now depleted the inventory we acquired directly from National, we will have one additional quarter of acquisition charges included in cost of revenue. This is associated with our discontinuance of one of National's distributors. In this case, we acquired the distributor's entire SVA inventory at fair value. Therefore, cost of revenue in the first quarter will include a \$20 million acquisition-related charge.

After the first quarter, we expect the ongoing acquisition-related expenses in cost of revenue to be immaterial, and we will not call these out separately. So the total acquisition-related charges in the fourth quarter are the \$153 million on the acquisition charge line of the income statement, plus the \$103 million included in cost of revenue for a total of \$256 million. This negatively impacted EPS in the fourth quarter by \$0.16.

Also in the quarter, we have restructuring charges associated with our planned closure of two factory sites. We announced today that we will close two older 6-inch wafer fabs in Hiji, Japan, and Houston, Texas. Both of these sites have made significant contributions and demonstrate the tremendous cash flow potential associated with Analog products where factory lives are literally measured in decades. Our Hiji fab is 32 years old, and our Houston fab is 45 years old, and we are now at the point where it makes financial sense to transition the remaining products to more advanced factories. Combined, these two factories supported about 4% of TI's revenue in 2011, and each employs about 500 people.

The charge for these closures is estimated at \$215 million, of which \$112 million was taken in the fourth quarter and the remainder will occur ratably over the next seven quarters. Annual savings will be about \$100 million once the transition is complete. You can find the \$112 million charge on the restructuring charges line of the income statement. This same line will carry the remaining charges in future quarters. The EPS impact in the fourth quarter of the \$112 million charge is \$0.07.

So in summary, total acquisition-related and restructuring charges in the quarter reduced our reported EPS by \$0.23. When you review our segment results, all of these charges are carried in our Other segment.

Gross profit of \$1.55 billion declined 11% sequentially. There were three items that negatively impacted gross profit and gross margin in the fourth quarter. First, underutilization was significant in the quarter, as we reduced production loadings to avoid excess inventory. We were utilizing just a little over half of our total factory capacity in the quarter. And the amount expensed with this underutilization was about \$110 million, which is about \$20 million higher than the third quarter underutilization charge. As demand returns and we increase factory utilization again, this expense will reduce. Second, there was the recognition of the \$103 million acquisition-related write-up that I previously described. Third, we took a charge of \$44 million for excess baseband inventory.

Gross margin in the quarter was 45.3%. It's interesting to adjust this amount to exclude the impact of the acquisition-related charge and the baseband inventory charge. In that case, our gross margin increases 430 basis points to almost 50%. The closest recent utilization comparison is 2Q 2009, when utilization was in the mid-50%'s or about 5 percentage points higher than the fourth quarter. In the second quarter of 2009, gross margin was 4 to 5 points below the adjusted gross margin for the fourth quarter despite the higher utilization level. This improvement in gross margin reflects a combination of improved mix and more efficient, cost-effective factory operations. As our utilization improves from here, so will our gross margin.

Operating expenses of \$918 million increased \$135 million compared with the prior quarter. Most of this increase was the result of including a full quarter of Silicon Valley Analog's results compared with only a few days in the last quarter. There was also a negative transitional effect associated with the catch-up adjustments that were made to the variable components of our compensation plans in the third quarter and did not recur in the fourth quarter.

Our annual effective tax rate was lowered from our 25% estimate to 24%. The cumulative adjustment for this change and a net discrete tax benefit of \$11 million lowered our tax rate for the quarter to 15%.

Net income in the fourth quarter was \$298 million or \$0.25 per share. Again, in the EPS calculation, please note that accounting rules require that we allocate a portion of net income to any unvested restricted-stock units on which we pay dividend equivalents. In the fourth quarter, the amount of net income excluded from the EPS calculation was \$5 million. If you don't make this adjustment, you'll likely calculate EPS to be a penny higher than we had reported.

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I'll leave most of the cash flow and balance sheet items for you to review in the release. However, let me just make a few comments. Cash flow from operations was \$970 million, down \$170 million from last quarter. Capital expenditures were \$152 million in the quarter, down from \$193 million in the prior quarter. We used \$300 million in the quarter to repurchase 10.4 million shares of TI common stock and paid dividends of \$193 million. We reduced our inventory by \$177 million in the quarter. The decline is primarily due to the recognition of the fair-value write-up of the acquired inventory, as well as our action to reduce production loadings. It also includes the baseband inventory charge. Inventory days were 86, or 91 if you exclude the impact of acquisition charges from cost of revenue in this calculation. The 91 days is comparable to the 92 days that we discussed in the third quarter. Orders of \$2.86 billion in the quarter were down 7% sequentially. TI's book-to-bill ratio was 0.84 in the quarter.

Turning to our outlook, we expect TI revenue in the range of \$3.02 billion to \$3.28 billion in the first quarter, or down 12% to down 4% sequentially. Keep in mind that we expect baseband revenue to decline from \$279 million in the fourth quarter to about \$75 million in the first quarter. This means at the middle of our guidance range, we expect the remainder of our revenue to decline about 2%, which is a little better than the seasonal average. As Ron said earlier, we expect baseband revenue to remain in a \$50 million to \$100 million range per quarter for the remainder of 2012.

We expect earnings per share to be in the range of \$0.16 to \$0.24. We expect EPS will be negatively impacted by about \$0.09 associated with total acquisition-related charges, including about \$150 million of acquisition charges, and additionally about \$20 million of charges included in cost of revenue. Also, restructuring charges associated with the planned factory closures that I previously discussed will be about a \$0.01 impact on EPS.

For 2012, our estimate for R&D is \$2 billion, for capital expenditures, is \$700 million, and for depreciation is \$1 billion. Our estimate for our annual effective tax rate in 2012 is 28%, 4 percentage points higher than in 2011, reflecting our expectation of higher profits in 2012 and the expiration of the R&D tax credit at the end of 2011.

Our estimates for total acquisition-related charges for the remainder of 2012 are as follows: After about \$170 million in the first quarter, we expect the charges in the second quarter to drop to about \$110 million and then continue to decline by about \$10 million per quarter until we reach \$80 million, which is the ongoing amortization of intangibles amount that will continue for eight to 10 years. We will continue to update you on our expectations as we move forward, and we will make these charges visible for you as we report.

To help you understand our transition from the fourth quarter to the first quarter, let me provide you some visibility in this quarter beyond our traditional guidance. First, at the middle of our guidance range, revenue will decline about \$270 million in the fourth quarter, or 8%. The decline is mostly due to the decline in baseband revenue, although the completion of our Spansion contract is also a contributor.

On a GAAP basis, gross profit should fall about \$70 million to \$1.48 billion. This includes the acquisition-related charge of \$20 million that will be included in cost of revenue. This charge is about \$80 million lower than what it was in the fourth quarter. Also, if you are comparing with the fourth quarter, we do not expect to repeat the \$44 million charge for excess baseband inventory in the first quarter.

Cost of revenue will reflect some seasonally higher expenses as employees take less vacation and holiday time in the first quarter and as annual pay and benefit increases take hold. Also, the first quarter will include some additional cost as we move from attrition to hiring manufacturing employees in anticipation of stronger demand ahead. We expect operating expenses of about \$975 million in the first quarter, or about \$50 million to \$60 million higher than the fourth quarter level.

Again, this will reflect seasonally higher expenses due to less vacation and holiday time in the first quarter, as well as annual pay and benefit increases.

Restructuring costs will decline to about \$15 million in the first quarter. This will be about \$100 million less than the fourth quarter level. The remaining acquisition charges that are not included in cost of revenue will be about \$150 million, about the same as the fourth quarter. Other income and interest expense will be about the same in the first quarter as the fourth quarter. And finally, as I previously described, our estimated annual effective tax rate for 2012 is 28%, and that is the rate that you should model for the first quarter as well. Therefore net income in the first quarter should be about \$235 million or about \$0.20 per share.

In summary, the market continues to show promising signs that a bottom has formed and that demand could begin to improve soon. When it does, we intend to be well positioned with capacity and inventory.

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?

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QUESTION AND ANSWER SECTION

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

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks, guys, for letting me ask a question. The first one is what's your sense of the slope of the recovery that we're likely to see here? And in asking that question, I'm kind of interested to know, do you think your distributors and OEM partners are going to rebuild inventory? And could you also just clarify, when you said inventories were low at distys, was that on a dollars or a days basis?

<A – Kevin March – Texas Instruments Incorporated>: Glen, I'll offer some comments, and I'm sure Ron can add some additional color. Right now, as I mentioned – or Ron mentioned – we have drained about \$850 million of backlog over the last few quarters. So our visibility into first quarter is quite low. But looking at just the classic signs of what we've seen in many cycles in the past, we do believe we are at or near the bottom of this cycle. Our distributor inventories are at record lows, or about 6 1/2 weeks. So we would call that very lean. And it certainly looks like our customer inventories are very lean also, especially as evidenced by the unexpected uptick in demand that we had in the second half of December.

From the standpoint of how quickly it soaks back up, that's probably a little bit hard to quantify with any kind of precision given the visibility due to our backlog. But I would point out that from an inventory standpoint, our days of inventory are well staged. If you compare that to the last time we saw a cycle that was probably somewhat similar, was back in first half of 2009. At that point in time, we came out of first quarter 2009 into second quarter 2009 with days of inventory that was down in the mid-70s. This time we're looking about 91 days. In addition, as I mentioned, we're beginning to increase our manufacturing staffing in anticipation of increased demand. So we will be well positioned for when the demand does come back. Just how steep that slope is, is a little bit tough to call.

Ron, you might have some color -

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah, the only thing else I was going to add, Glen, is – you're right. Our view is that distribution inventory is on the low side and probably does need some replenishment. They're not at that point yet where they've begun to replenish. But history would suggest that in fact that will occur. And just in general regarding the slope, we don't really know, but if you just look at history, our industry clearly doesn't have a history of smooth, low-slope transitions in terms of how it recovers. So we'll be prepared accordingly.

Do you have a follow-on, Glen?

<Q – Glen Yeung – Citigroup Global Markets (United States)>: I do. It's just regarding fab closures. One part of this is should I assume that – how much of that \$100 million savings is actually in cost of goods? And then sort of as an adjunct to that, are there any other things like this that you still see you can do to reduce costs?

<A – Kevin March – Texas Instruments Incorporated>: Glen, all of the \$100 million savings that we were talking about will be in the cost of revenue line. And we'll begin to realize that in its full – in full order by the time we get to the end of the closure period, which will be over the next 18 months. As far as the other actions, there are no other actions that we'd have to talk about right now.

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

Operator: We'll take our next question from Vivek Arya of Bank of America Merrill Lynch.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks for taking my question. I'm curious: Excluding baseband, can you give some color on what end markets are doing better or worse than what you expected at the time of your last update? Where does the rebound look sustainable? And where do you think it's just a temporary sort of inventory filling bounce right now?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah, Vivek, that's a tough call to – we see the demand, but it's very difficult for us to be able to kind of see through all the customers' channel to understand, is it – does it reflect a movement on end demand, or is it just that their inventory correction is beginning to slow? And, as you heard us say even back in third quarter, our customers, we believe, were reducing inventory. So even if demand were to remain stable, if the customers just slowed their inventory reduction, that would translate to growth on our end. So, again, what we saw late December was very broad-based growth. And, again, beyond in terms of, is that end demand or just slowing of inventory correction, we don't know.

By end market, to be honest, Vivek, we don't have at the mid-quarter update a detailed cut. But I would say based upon the breadth that we saw, upside, in our product lines, our view is that it really went across almost all end markets, as well as almost all regions as well. So I don't have a lot of precision, but again, the feeling is that it was very broad-based across product lines, regions, as well as end markets.

Do you have a follow-on, Vivek?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yes. Thanks, Ron. If I look at – I mean, what I would like to understand is just the trajectory of OpEx in 2012. But more importantly, I think you were guiding R&D up 5% in 2012. If I just compare it to an annualized Q4 type number. And I'm trying to align that with the cost synergy that you were expecting with the NSM integration before. Is the spending higher than what you had expected before, or were those cost synergies more in SG&A rather than R&D? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Vivek, the R&D – you kind of need to keep in mind that we've got a full quarter of – or one quarter of National in our numbers right now. So to put it another way, in 2012, of course, we'll have four quarters of National in there, whereas in 2011, we only had one quarter. So that may be part of what you're seeing on that front.

Just – far as where our OpEx is going, I think the best thing to do is probably just use the fourth quarter guidance that we've given and then go ahead and model from there using the kind of seasonal history that you can pretty clearly see when you take a look at our reported financial results. And as we talked about, we expect OpEx to be up fourth quarter to first quarter in the \$50 million to \$60 million range. So if you start there and then model that out, that'll get you to a pretty good estimate, I think, of where 2012 will land.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Vivek, though, your observation or your question was in the right direction on the National synergies. We've said all along that the \$100 million that we achieve in synergy from National will almost wholly be from G&A, and it was our intent to maintain the entire R&D – that was part of the value that we purchased – as well as the sales force, and achieve synergies on the G&A side.

Okay, Vivek. Thank you for your questions. Let's move to the next caller.

Operator: We'll take our next question from John Pitzer with Credit Suisse.

<Q – John Pitzer – Credit Suisse (United States)>: Yeah, guys, thanks for letting me ask the question. Ron, I guess my first question is given that the month of December came in a little bit

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better than expected from the mid-quarter update, are you now sort of at a run rate where you would expect bookings to grow sequentially in the March quarter and generate a book-to-bill of greater than 1?

<A – Ron Slaymaker – Texas Instruments Incorporated>: John, let me not extrapolate that far out. But what I will say is the strength that we saw during the latter part of December has carried forward thus far into the quarter. Now, what we don't know at this point is what'll happen through the Asian holiday period. Will things slow back down and part of what we're seeing is pull-ahead of that demand, or how that'll translate. But, again, the strength we saw late December has carried forward thus far in the quarter on the bookings side.

Do you have a follow-on, John?

<Q – John Pitzer – Credit Suisse (United States)>: Yeah, my second question's on utilization. I think you guys mentioned about 50% utilization. One, does that include kind of the RFAB capacity that was idle going into this? And I guess secondly, can you help me understand at what revenue level you start to approach kind of that target margin? You guys have historically talked about in the past of 55%. And I realize there's a lot of mix that goes into that as well, but I'm just trying to get a sense of how we should think about the model now with National included and the baseband business unwinding.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, John, on the utilization, it does include all of the capacity that we have been discussing over the last couple years, including the new factories that we've brought on and the equipment that we've brought along inside those factories. And in fact, we are in the low 50% utilization range, the low 50%'s.

To the question of what revenue level gets us to the kind of model GPM, I'm going to defer that until we can actually produce an actual to represent that to you. Clearly it's higher than we're at right now. If you just go back and take a look at history, you can see there were a couple times where we approached the 55% kind of gross margin. You can go back into late 2010 and see those kind of numbers that were showing up. So that might be one point of reference for you to just take a look at to anticipate where we'd need to be as we get back to those kind of gross margins.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Hey, John, I can also give you a little more insight into where we actually are with RFAB. So RFAB utilization is about 25% currently. And that includes all the equipment that we've purchased, even though some of it may still be shrink-wrapped and in storage. So all the equipment that we've purchased for RFAB, in that consideration we have 25% utilization. And, again, the equipped capacity that we're talking about today from a revenue standpoint is about \$2 billion. So that means we have roughly \$500 million of annual revenue in the form of starts that we have loaded at RFAB currently.

Okay, John. Thanks for your questions, and we'll move to the next caller.

Operator: Next question comes from C.J. Muse with Barclays Capital.

<Q – C.J. Muse – Barclays Capital, Inc.>: Yeah, good afternoon. Thank you for taking my question. I guess first question, curious on how we should think about seasonality for you guys. With no baseband and now adding Nat Semi, how should we think about typical seasonality into Q2?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Oh, boy, C.J., it's going to be easier to measure seasonality when it's history than trying to project it in advance, but just a couple considerations. I mean, as baseband becomes smaller – baseband is probably a product line that was more depressed in first quarter. So therefore, that would tend to maybe mute out some of the

normal seasonal lift that we would have going into second quarter. I don't really – we haven't done kind of a detailed analysis of National's seasonality and what impact that would have, but probably the bigger piece would be what we just talked about, which is less baseband, therefore less – I'll just – depressed seasonality or decline in the first quarter. And that impacts then on the second quarter transition as well.

Keep in mind, a big part of our second quarter seasonality is a significant growth in calculators in that quarter, which typically will add about 3 points of growth to the company level on top of what semiconductors do. And semiconductors historically, including baseband, historically would have been up about 5. So again, historical all-in seasonality for TI just on a five-year average would be 8% at the company level with about 3 of those points coming from calculators.

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

<Q – C.J. Muse – Barclays Capital, Inc.>: Yeah, very helpful. As a follow-up, in terms of gross margins, you told us about the \$103 million, but then you didn't exclude the \$44 million inventory charge from pro forma. So curious, was there anything else in there that's one-time related? And anything that we should be thinking about one-time in the first half of 2012 as well?

<A – Kevin March – Texas Instruments Incorporated>: The large things, C.J., were what we talked about there. That's the \$103 million of fair market value – principally fair market value write-up; the \$153 million of acquisition-related charges that we put on the acquisition line; \$112 million of the restructuring costs that's on the restructuring line; and the \$44 million we have not excluded. In fact, those are the sort of things that we consider as part of our operations and we need to manage to.

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

Operator: Our next question comes from Ambrish Srivastava with BMO.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Hello, Ambrish.

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Thank you. Excuse me. I just wanted to understand the – what's the right way to think about National now that you have had a couple of quarters beyond all the time that you spend before that? If you think X percent growth for Analog, what should be – just order of magnitude – how much would SVA underperform, or not at all? And all the sleeping beauties that you've talked about, are they starting to wake up? And just help us understand the magnitude.

<A – Kevin March – Texas Instruments Incorporated>: Ambrish, I think we've discussed in the past where our anticipation in the acquisition of National was that it had been under-growing the market for some time now. And as we looked at it, we expected it would probably continue to under-grow the market for the first year. By the second year probably approaching the market growth rate. And then by the third year, exceeding market growth, similar to the expectations we have with our other Analog businesses. At this point in time, of course, just the design-win cycle, and the design-in cycle, and then how long it takes for those design-ins to actually turn into production revenue, I don't think we would suggest that you change your expectation from what I just described. That's not to say that we're not being a lot more aggressive internally to try to go off and do better than that. But I'd say it's too early for us right now to go off and change that expectation.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Ambrish, I would just kind of underscore customer response. We thought there were some considerations that customers would

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probably be pleased with our acquisition of National. But as we've been out visiting customers and talking to them, their enthusiasm over this acquisition has exceeded our expectation. So, again, our aspirations are high. We're going to turn it into a lot of revenue growth. And we'll let you know probably as it happens more so than trying to project it out too far in advance.

Do you have a follow-on, Ambrish?

<Q – Ambrish Srivastava – BMO Capital Markets (United States)>: Yes, I do. Thanks, Ron. Just as a follow-up to Vivek's question earlier on, in the comm infra market – this was one that you called out as being very weak, particularly due to the North America CapEx – is the bounce-back here something you're seeing just from inventory replenishment? Or do you think in this market you're seeing some signs of sustainability? Thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Boy, Ambrish, again I don't know that we can say. Clearly that market has not recovered. I mean, it was down 40% for the quarter. So we didn't see recovery in the fourth quarter. I think you heard us say even at the mid-quarter update that part of what we had seen was that certain service providers in the North American market had slowed or put a temporary hold on some of their capital spending. So – and that's not to say there may not be some inventory correction taking place as well. But it was also service providers putting a crimp on capital spending.

And, again, we saw late-in-the-quarter demand. It's probably too early for us to say, was that the service providers turning on again? Or was it just the OEM customers that we service directly coming out of their inventory correction? We don't know that. I think probably our expectation clearly is, as we get into kind of the mid part of the year, the North American market overall sees recovery. But, again, I don't know how to translate what we saw in the few weeks late in December into an overall statement.

Okay, Ambrish. Thank you for your questions, and let's move to the next caller, operator.

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

<Q – Christopher Danely – JPMorgan Securities LLC>: Gee, thanks, guys. One quick question on the guidance. So it sounds like things are bottoming here and clearly getting a lot better. But the book-to-bill was pretty low at 0.84. I'm just wondering why guide for better than seasonal with such a low book-to-bill? Is it just because the last six weeks has been so strong? Are you counting on higher turns? Or can you just talk about that a little bit?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Chris, I'll add some comments, and Ron can add as well. Again, we're kind of looking back to classic signals that we have seen on inventory cycles in the past, and that is a couple quarters of negative book-to-bills and declining of orders, which tend to then bottom out and then be followed by some fairly nice revenue growth on a sequential basis. So from that standpoint, we've seen a couple quarters now of negative book-to-bill, a couple quarters declining orders. That's not to say that the fourth quarter was necessarily the bottom or the first quarter's the bottom, but we believe we're darn close to it, whichever direction it's in. And from that standpoint, then, as evidenced by the demand that we saw in December and going into January, that's led us to the guidance that we've offered.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Chris, I think also if you go back and look at historical cycles, at least with respect to TI's numbers, book-to-bill really was not a leading indicator. We came out of downturns into very robust growth. I mean, just go look at second quarter 2009 as an example where we came into that quarter with a pretty weak book-to-bill and obviously had some pretty robust growth. So, again, we don't lean too heavily on book-to-bill. I mean, it's a consideration, but it's not the only one. And the other thing I would just ask you to keep

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in mind, that we have 40% of our revenue and our largest customers, our highest-volume programs, on consignment, where book-to-bill almost by definition in a consignment program runs at 1.0. So, again, there we rely more on those companies' – those customers' forecasted build rates as opposed to what you would see, for example externally, in the order trends or in the book-to-bill.

Do you have a follow on, Chris?

<Q – Christopher Danely – JPMorgan Securities LLC>: Yeah, thanks. A bit of a longer-term question. So in the past, you guys have talked about the target models. I think it was 55% gross margin and 30% op margin. And I think you guys pretty much hit that, or maybe even exceeded it a little bit, toward the end of 2010. Now that the baseband is down to about 2% of revs, and now that you're folding in the higher-margin National business, can we assume that your peak gross margins and peak operating margins and even maybe your OpEx should be higher now?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Chris, when we talked about that model, we talked as we average our way through a cycle, that's what investors should expect our business to be able to deliver to them. And in fact, as you pointed out, we exceeded that during certain points of the recent past, and right now we're operating or about to operate below that given our outlook we've given for first quarter.

But all that being said, certainly we've got a portfolio that continues to get – to average itself up with the fact that the lower-margin businesses are becoming a smaller and smaller percent. I think it's probably too early for us to predict whether or not our peaks on the next cycle will exceed the peaks on the last cycle, but certainly we have put together a manufacturing cost model, and we're building a product portfolio model that should allow us to continue to be very reliable when it comes to maintaining that model. I would also remind you that we're continuing to be very focused on growth. And that is really our near-term objective as opposed to trying to predict when and by how much we would break out of the model that we talked about.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah, I think if you just look at a lot of just even pure companies, obviously analog, embedded processing, the part of the wireless market that we're now focused up on, are all what I would call very target-rich in terms of profitability. And I think from the investor side, we're all going to be much better served just by TI driving a lot of growth in those areas as opposed to kind of getting micro-focused on margins. Margins will be good if we grow the way we aspire to grow.

Okay, Chris. Thanks for your questions, and let's move to the next caller.

Operator: We'll take our next question from Uche Orji with UBS.

<Q – Uche Orji – UBS Securities LLC>: Sure. Thank you very much. Ron, can I just quickly ask you about Wireless? Especially about connectivity as well as OMAP? Can you talk about how you view the sustainability of the growth we've seen in the OMAP business, which obviously is a reflection of solid design wins you've had recently? Plus, any insight as to what your commitment and engagement with your customers are there. And then also on connectivity, the weakness there, how much of that was due to any specific end customer weakness or how much was socket loss?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Let's hit the back part of your question, because then I think it leads into the other one. Connectivity, the decline that we saw in let's just say the year overall for 2011, we believe reflects almost wholly the success or in some cases lack thereof by our customers in that marketplace. And the reality is our two largest connectivity customers probably underperformed the smartphone market in 2011. And we love our

customers, but our connectivity revenue's going to reflect the success of our customers. So that would be the consideration.

Our share in connectivity has done well and I would say has been reasonably consistent. And I think you take that same thing over to OMAP. OMAP, there's nothing that says a customer cannot change processors, even applications processors, even applications processors where they might have a pretty significant software investment developed. But our goal is to make sure they have no reason to change. And so to the extent that we continue to develop industry-leading products, and I mean that from a performance standpoint, from a power consumption standpoint, and as long as we continue to treat that customer with the respect they deserve as a customer, we think that business is sustainable over the course of time.

And whether it's applications processors or embedded processors in general or our deep history in DSPs, that business over time has tended to be relatively sustainable. And those customer relationships have tended to be strategic and long lasting. And again, if a supplier gives a customer a reason to change, that customer will change. But we've been fortunate on that front, and we intend to continue to operate accordingly.

So, again, connectivity and OMAP – the reason we're enthusiastic about it is it's a great growth opportunity from the standpoint of the outlook for smartphones, and we believe our position within the customers where we're engaged is a sustainable one.

Do you have a follow-on, Uche?

<Q – Uche Orji – UBS Securities LLC>: Sure do. Separate question for Kevin. Kevin, how should we think about your priorities for use of cash going forward? Obviously the buyback rate has come down sharply from where it was last year, a) because the stock value's gone up, and, b) all the cash usage you've used in terms of National Semi. So between dividends and buyback, how should we think about your use of cash for this year?

<A – Kevin March – Texas Instruments Incorporated>: Uche, you summarized it pretty good there. We have in fact stepped down the amount of dollars we've allocated towards the buyback. And we indicated we would do that as a consequence of the acquisition of National Semi so that we can begin to allocate certain cash balances for repaying the debt when it comes due. Our use of cash remains unchanged from a priority standpoint, though. That is, first and foremost, we're directing the cash into activities that we believe can result in growth. And the most obvious areas where you see that is in R&D; in capital, as in CapEx; and then followed by acquisitions. And most of those acquisitions, once again, aside from National, are usually quite small acquisitions.

To the extent that we have cash then beyond our needs after that, then we do allocate it of course to dividends. You saw us increase the dividend fairly significantly here, almost 30% in the fourth quarter versus the prior quarter. And we also allocate it to buybacks. So that would be the order of cash use. But first and foremost is focused on opportunities that we believe can push the top line for growth.

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

Operator: We'll take our next question from Edward Snyder with Charter Equity Research.

<Q – Ed Snyder – Charter Equity Research>: Thank you very much. A couple here. OMAP did particularly well and has done well the last several quarters, but how should we think about the outcoming year? I'm sure you track competitors' products. The 8960 from Qualcomm has been getting a lot of adherence, and this is their first big push into the integrated baseband modem, which I'm

sure you're feeling a little pinch out at RIM and I doubt at Nokia yet. Do we extrapolate out – I know you're not giving guidance yet, but why shouldn't we worry about what has been one of your strongest performers in the Wireless group given the landscape in the baseband side of the business – or the applications processor side of the business over the last quarter or so?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Ed – and, again, whether it's the particular competitor you mentioned or the many other competitors that would like to encroach upon our success in applications processors – first of all, we take that threat as a real threat. But at the same time, we view the opportunity in terms of players where we don't have share and opportunities even within the customers where we're engaged but we're not – we don't have all those programs. There's a lot more that we're missing than we have. And so will a competitor pick up a TI historical opportunity here and there? Probably. But our view is we're not sitting here satisfied with our current share. We're aggressively moving forward to take our success in OMAP today and extend that share. And we recognize fully that we'll be facing a lot of good competitors in the process.

Do you -

<Q – Ed Snyder – Charter Equity Research>: Do you feel hobbled without a – and this is kind of an adjunct to the same question. A lot of LTE product is coming through the design cycle now for this year. Qualcomm's got probably the leading LTE solution. ST-Ericsson's still struggling, who you partner with often in OMAP. Infineon – we could go down the list. There aren't that many LTE solutions. And in fact Samsung and Motorola have worked on their own – I think it paired with maybe one of your products. Are you feeling – is there a risk that not having a baseband, especially a 4G baseband, could imperil that business? Is it something that you're working with your partners on? Or do you think it's all just going to equalize out through the next year or so and that there'll be a robust merchant market for LTE and not one dominant supplier?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah, I don't – I guess part of that question comes with if there are limited suppliers of LTE basebands, will they be able to successfully through heavy-handed approaches leverage that into an application processor business? And I guess what I would say is I think the customers in this space tend to be pretty powerful. And those types of approaches by – or suppliers try to bundle and leverage and all that kind of stuff, tend to be pretty short-term successes with those customers. So I don't think – we think the momentum clearly is toward integrated applications processors first – I'm sorry, to discrete applications processors versus integrated, and a bundled chip set we'd put in that same category. I don't think that's a good, long-term success for a supplier in terms of an approach to take. So we'll see. But we don't view that as a significant threat today.

Do you have a follow-on, Ed? I guess that was your follow-on. Okay. Thank you, Ed, and we'll move to the next caller.

Operator: We'll take our next question from Jim Covello with Goldman Sachs.

<Q – James Covello – Goldman Sachs & Co.>: Great. Good evening, guys. Thanks so much for giving me a chance to ask a question. I want to go back – sort of a derivation of the good question that John Pitzer asked earlier on gross margins. I guess is – first of all, it looks like the implied gross margin guidance is down a couple hundred basis points for the first quarter. I just want to make sure I'm not too far off on the ballpark there. And then secondly, is there some sort of ratio or algorithm we could think about for gross margins ramping X percent of revenue growth? Again, I know mix is going to drive some of it. But X percent revenue growth is going to drive X percent margin expansion? Thanks.

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<A – Kevin March – Texas Instruments Incorporated>: Jim, I think you're about right on your gross margin modeling. It is down – to be very explicit, I gave the GPM dollar guidance that we were talking about given the midpoint of our guidance. And so in fact, it is down. And I would remind you -

<A – Ron Slaymaker – Texas Instruments Incorporated>: Although it would be down only if charges were excluded out of the fourth quarter number, correct?

<A – Kevin March – Texas Instruments Incorporated>: Oh, yes.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Right.

<A – Kevin March – Texas Instruments Incorporated>: I would also remind you that the first quarter sees as normal pay and benefits increases in our manufacturing operation, as well as in our other support groups. And plus we've moved from an attrition environment in manufacturing to an increase in staffing environment in manufacturing. Those things are going to be adding manufacturing costs from 4Q going into 1Q.

To your question as to some algorithm, frankly, we're sitting right now at a utilization level in the low 50%'s. Any incremental revenue is going to fall through quite well when you've got utilization levels like that. And I think that we'll see our gross margins begin to step back up rather nicely with fairly modest revenue growth. There is no particularly algorithm I can offer to you, though. I'd just simply say you can pretty much model it through on a delta basis, as you have in the past. That is, take your delta revenue assumption quarter over quarter and drop that through. I think many people drop that through as 60-odd percent. And that's a pretty good way to get to what you think the gross margins are going to be going forward.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Jim, I think we also gave you how much utilization impact was there in the fourth quarter, as well as where our company utilization was overall. So it'll give you a little bit of an idea as to how to kind of potentially map that going forward as utilization goes up.

Do you have a follow-on, Jim?

<Q – James Covello – Goldman Sachs & Co.>: Yeah, I guess just a simple follow-up. The baseband falling away, is that just simply a function of your competitor finally getting that product ramped up? Is that the driver there, or is there an assumption on underlying customer share loss?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Maybe a little bit of both, but I think there are some competitors that are in the process of shipping more product into that customer. But there could be – we'll just have to see how that customer translates their product positions into sales. But I think I would allow we have competitors that are now in the process of ramping.

Okay, Jim. Thanks for your questions, and we'll move to the next caller.

Operator: We'll take our next question from Chris Caso with Susquehanna Financial Group.

<Q – Chris Caso – Susquehanna Financial Group LLP>: Hi. Thank you. Just wondering, as a follow-up on some of your earlier comments with respect to the 2009 cycle and following the rebound that you guys saw in early 2009, that was followed by some supply shortages, as you guys weren't prepared for the business to come back as aggressively as it did. It sounds like – and I guess first part of my question – correct me if I'm wrong in the assumption that it sounds like you're trying to put the manufacturing assets in place, at least the variable assets, to prevent that from occurring again. And what does that mean kind of going forward? As we look through this next

cycle, what point do you guys decide to ramp up the manufacturing a little bit more, perhaps put some more inventory in place to avoid what happened during that cycle?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Chris, again, just to kind of look back. One of the easy metrics to look at, although it is backwards looking, but it's still somewhat instructive, is days of inventory. And we were in the mid-70s back as that cycle began to spring back. This time we're sitting at about 92 days. So clearly, we've got more available inventory on hand. Also, if you go back and recall the history from back in that point in time, we, like many others, fairly significantly reduced our total workforce leading into that downturn. And so consequently, when demand did snap back, it took some time to bring the workforce back on, get them trained, and get them productive.

In this example that we've just gone through, we have not taken that same action. In fact, what we did is we slowed our factories, or idled factories for a few days where it made sense, but we've maintained – other than attrition, we've maintained that staff on hand. So we have a trained workforce already in place. So as demand does snap back, we will have the benefit of a largely already-trained workforce and just having to add incrementally, and we'll have the benefit of starting out with more inventory, considerably more inventory than we had the last time.

So you put those together, and we think we're much better positioned this time to meet strong snapbacks and still able to deliver in reasonable lead times with our customers and deliver revenue and profit to our shareholders.

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

<Q – Chris Caso – Susquehanna Financial Group LLP>: Yeah, thank you. I guess as a follow-on, about the OMAP business. And you talked about the view of the business going forward with respect to your success in that business. Perhaps you could talk about what your feeling is still about the synergies of that business with the Analog business. And I'm sure that you're getting some Analog sockets as a result of having the OMAP business, but I'd also assume that perhaps some of your competitors are more reluctant to put you on reference designs because you have that business. How do you guys balance that internally?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Chris, all the above are probably the case, as where by being in OMAP, we'll pull through power-management products just because it's – we have the insight, first of all, so therefore we can have the companion power-management ICs ready to go when we introduce the new OMAP product. In many cases, the customer just finds it easier to use TI. We also have competitors that will use TI as part of their reference design. And might they – the fact that we're a competitor, is that a consideration? I don't really know when, if they don't have an analog capability internally, but that could be the case.

But when it comes down to it, whether we are in OMAP or not, we don't look so much at potential synergies, I would say, between Analog and OMAP. Rather we look at just the smartphone opportunity is a great growth opportunity. And it aligns well with the capabilities that we have in connectivity, in OMAP, and then also in Analog. But we really don't go so much across, well, do we get pull-through of Analog product because we're in OMAP? Some of that may occur, but, boy, we sure don't try to rationalize the OMAP business plan based on synergies with Analog, is probably the best way to describe it.

Okay. Operator, I think we have time for one final caller, please.

Operator: We'll take our next question from Tore Svanberg with Stifel, Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes. Thanks for squeezing me in. First question, just going back to visibility – and I know you can't sort of predict what bookings is going to do this quarter – but just given the months of December and January, is it safe to say that book-to-bill is positive for those two months?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Tore, let me not get into breaking a quarter down in terms of book-to-bill, because the tough part on book-to-bill is you have multiple variables in the numerator and the denominator that can swing that number around pretty dramatically. And what we've seen in terms of strength thus far in January, boy, I sure don't want to try to extrapolate that out through the end of the quarter. We're optimistic, but again, let me wait until we get further along.

Do you have a follow-on?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yeah, that's fair. I'll have an easier follow-up for Kevin. Kevin, the \$700 million CapEx for the year, should we model that to be fairly linear?

<A – Kevin March – Texas Instruments Incorporated>: For now, Tore, I would go ahead and recommend that's probably not a bad way to look at it.

Ron Slaymaker, Vice President-Investor Relations

But by the way, Tore, there's no requirement you give Kevin the easy questions. In fact, I would encourage otherwise.

So with that I think we're about ready to wrap up. Thank all of you, and so thank you for joining us. A replay of the call is available on our website. Good evening.

Operator: That concludes the conference. Thank you for your participation.

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