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PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President-Investor Relations
Kevin P. March – Senior Vice President & Chief Financial Officer

Other Participants

Glen S. P. Yeung – Analyst, Citigroup Global Markets (United States)
James V. Covello – Analyst, Goldman Sachs & Co.
Stacy Aaron Rasgon – Analyst, Sanford C. Bernstein & Co. LLC
John W. Pitzer – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Romit J. Shah – Analyst, Nomura Securities International, Inc.
Christopher B. Danely – Analyst, JPMorgan Securities LLC
C.J. Muse – Analyst, Barclays Capital, Inc.
Vivek Arya – Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Uche Orji – Analyst, UBS Securities LLC
Ross Clark Seymore – Analyst, Deutsche Bank Securities, Inc.
Mark J. Lipacis – Analyst, Jefferies & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments 1Q 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 First 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 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.

Before we begin, let me remind you that TI will host an Investor Meeting in New York on May 3. At this meeting, our CEO, Rich Templeton, and Kevin March will provide an update on TI's strategy, market position and goals. If you have not already registered, please do so as soon as possible.

Our mid-quarter update to our outlook is scheduled this quarter for June 11. At that time we expect to adjust the revenue and earnings guidance ranges as appropriate.

Let me start with the market environment. The first quarter's results landed close to our expectations, and were consistent with our belief that our business cycle bottomed in the first quarter. Analog revenue was about even, we were especially encouraged by the progress we continue to make with the former National Semiconductor product line, now called Silicon Valley Analog, as it gains traction with customers and holds a strong position in the important industrial market. Early signs point to the industrial market strengthening in the near term as opposed to the delayed recovery that we saw in the last cycle.

Embedded Processing revenue grew in the quarter led by strength in automotive and the beginning of a recovery in communications infrastructure. In Wireless, revenue fell sharply as we had expected. Baseband revenue declined to less than 3% of our first quarter revenue, and we expect it to remain at very low levels throughout the remainder of 2012.

Our Other segment was up as a result of about $65 million of insurance proceeds associated with the Japan earthquake that were received the last few days of the quarter. The proceeds were part of an ongoing settlement process with insurance companies, and were not included in our earlier guidance due to the uncertainty over their timing.

Core products were 78% of our first quarter revenue, up from 71% a year ago and 66% two years ago. As these products continue to make up a higher proportion of our revenue, our business is becoming more diversified across customers and markets.

For example, in 2009 we had a single customer that made up more than 20% of TI revenue. In first quarter 2012, it takes the combination of our top six customers to exceed 20%. We now have more than 90,000 customers and no single customer comprises more than a mid-single-digit percentage of our revenue. We believe this expanding diversity is strong evidence that our large sales force and broad customer footprint are paving the way, not only for TI's share gains, but also for results that will be determined more so by our own execution in the years ahead and not swung by the fortunes of a particular customer or a narrow market segment.

Consistent with our view that the first quarter was the bottom of our business cycle, we believe growth will resume in the second quarter. In fact, at the middle of our guidance range, sequential growth would hit 10%, when compared with the first quarter's results without the insurance proceeds. Supporting this forecast was order growth in the quarter of 13%, which resulted in a book-to-bill ratio of 1.04 and our first quarterly expansion in backlog since the second quarter of 2011.

As a reminder, in the fourth quarter, our book-to-bill ratio was 0.84. We saw broad-based order growth across the geographical regions and many of our end markets. We believe TI is very well-positioned as our markets rebound in the quarters ahead. Our product portfolio is strong and our design position with customers is excellent.

Our acquisition of National Semiconductor should contribute revenue and share gains as customers across the world embrace the strength of this portfolio combined with the attraction of TI's market channels and our customer-oriented business approach. As you know, we had been anticipating this upturn and, as a result, we have our inventory well staged and production in our factories ramping. Our manufacturing capacity is strong and our teams are poised to drive growth and capture share gains as the market strengthens.

So let's walk through the specifics of the first quarter. Revenue of $3.12 billion declined 8% from a year ago and 9% sequentially, mostly due to lower Wireless revenue. Analog revenue was up 10% from a year ago and was about even with the fourth quarter. Growth from the year-ago quarter was due to our acquisition of National and, therefore, the inclusion of Silicon Valley Analog revenue. Sequentially, SVA revenue grew, HPA was about even sequentially, as was Power. HVAL was lower due to declines in a number of markets, including consumer, which was seasonally slower and handsets.

Embedded Processing revenue declined 11% from a year ago and grew 7% sequentially. From a year ago, automotive grew while communications infrastructure and catalog products declined.

Sequentially, we saw strong growth in automotive, as well as double-digit gains in communications infrastructure revenue. Revenue from catalog products was about even sequentially. As a reminder, communications infrastructure was exceptionally weak for us in the fourth quarter. So, it is encouraging to see this revenue begin to recover.

In Wireless, revenue declined to $373 million in the first quarter or 12% of TI's total revenue down from 19% a year ago. As we had expected, baseband revenues declined sharply to $87 million. This revenue was down $247 million from a year ago and down $192 million sequentially.

Revenue from OMAP applications processors was up strongly from a year ago, but declined from the fourth quarter level when we benefited from several customer product introductions ahead of the holidays. Connectivity revenue declined in both comparisons.

Strategically, our plan for both application processors and for connectivity products is to significantly broaden our market reach in areas outside of smartphones and tablets. We have the right products for many of these applications and the customer relationships in place to engage. Although it will take time to significantly diversify this revenue mix, we have begun to shift our investments accordingly and are already well-positioned with some key customer programs.

In our Other segment, revenue declined 11% from a year ago and grew 5% sequentially. The decline from a year ago was driven by lower DLP revenue, as well as the end of our transitional supply agreements, most notably our agreement with Spansion that expired at the end of 2011. Sequentially, weakness in these same areas was more than offset by the insurance proceeds and higher custom ASIC revenue.

In Distribution, resales were about even sequentially. Distribution inventory remained at about 6.5 weeks, about the same level as we ended the fourth quarter.

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 acquisition-related charges in the quarter were $174 million. These charges relate to our acquisition of National Semiconductor and include $21 million in cost of revenue with the remaining $153 million all on the income statement line identified as acquisition charges. The charges included in cost of revenue were associated with the termination of a National Semiconductor distributor contract. After this quarter, the acquisition-related impact to cost of revenue will be minimal, and we do not expect to call those expenses out. All remaining charges should be specifically included on the acquisition charges line.

Also, in the quarter we had a $10 million of restructuring charges associated with closing two factory sites that we announced in January. In total, these charges impacted EPS by $0.10.

Gross profit of $1.53 billion was 49% of revenue and declined 1% sequentially. There were a couple of items that impacted gross profit and gross margin in the first quarter. First, the underutilization expense in the quarter was essentially unchanged from the fourth quarter. Although we increased our wafer starts in the first quarter, wafer output declined compared with the fourth quarter as the effect of our lower production starts in the fourth quarter worked its way through our manufacturing operations. The net result is that average utilization levels of our manufacturing operations, and therefore, the associated underutilization expense were essentially unchanged in the quarter. Of course, the underutilization expense should start to decline in the second quarter, as the effect of our higher production starts in the first quarter works its way through our manufacturing operations. Also, as I discussed earlier, we incurred $21 million of acquisition-related charges in cost of revenue in the first quarter. This negatively impacted gross margin by about 70 basis points.

Finally, gross profit and margin benefited from the insurance proceeds. Because this insurance was largely for business interruption, it moved all the way through the income statement starting with revenue. So, if you're analyzing the effect these proceeds had on gross margin, be sure to adjust both revenue, as well as gross profit. You should calculate about 100 basis points of gross margin benefit from these proceeds.

On a segment basis, while we don't normally discuss gross margin at this level, it is important to recall that our transition services agreement with Spansion, which was previously reported in our Other segment, ended in the fourth quarter. As a result, a portion of the Aizu factory that was used to support Spansion is now available for Analog products, and this underutilized cost is now recorded in the Analog segment.

Operating expenses of $971 million were about as we had expected, and the increase from last quarter is mostly the result of seasonal increases associated with the timing of the holidays and employee vacation time in the fourth quarter, as well as annual pay and benefit increases that occurred in February. Other income and expense was lower in the quarter as we took charges associated with a discontinued business.

Net income in the first quarter was $265 million, or $0.22 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 first quarter, the amount of net income excluded from the EPS calculation was $4 million. If you don't make this adjustment, you'll likely calculate EPS to be $0.01 higher than we reported.

I'll leave most of the cash flow and balance sheet items for you to review in the release, however, let me make just a few comments. Cash flow from operations was $449 million, down $67 million from a year ago, and down $521 million from the prior quarter. As a reminder, cash consumption is typically higher in the first quarter as we pay accrued annual profit sharing and performance bonuses.

Capital expenditures were $103 million in the quarter, down $91 million from a year ago and down $49 million from the prior quarter. In fact, this is our lowest quarterly level of capital spending in almost three years as we benefit from having pulled ahead fab spending through opportunistic purchases over the past few years.

We repaid $300 million of our outstanding commercial paper in the quarter, bringing the remaining balance of this obligation down to $700 million. We also used $300 million in the quarter to repurchase 9.1 million shares of TI common stock and pay dividends of $195 million.

We increased our inventory by $65 million in the quarter, bringing inventory days to 105 as we prepare for higher shipments in the quarters ahead. Orders of $3.24 billion in the quarter increased $380 million, or 13% sequentially. TI's book-to-bill ratio was 1.04 in the quarter.

Turning to our outlook, we expect TI revenue in the range of $3.22 billion to $3.48 billion in the second quarter for growth of 3% to 12% sequentially. If you eliminate the first quarter's insurance proceeds from the comparison, growth is expected to be 5% to 14%, or about 10% at the middle of our range. We expect earnings per share to be in the range of $0.30 to $0.38.

We expect the second quarter's results will be negatively affected by about $100 million in acquisition charges and about $10 million in the restructuring charges. Combined, these items will impact EPS by about $0.06. For 2012, our estimates for R&D, capital expenditures, depreciation, and our annual effective tax rate are unchanged from what we provided to you last quarter.

In summary, our markets have bottomed, and are in the early stages of recovery. As we talked about this last quarter, we anticipated this, and are well-positioned to service our customers' rising demand as they end their inventory correction, and ultimately begin to replenish their inventory from current low levels. We're looking forward to a year of growth.

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 yourselves 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: [Operator Instructions] We'll go first to Glen Yeung with Citi.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: Thanks. Hi, Ron. Hi, Kevin. Can you help us just walk through the gross margin assumptions here? I think if I back out the insurance proceeds, I'm getting a 48% gross margin for Q1. How do I walk that through to the guidance for Q2? Because I think I'm getting 49% there and I'm not sure if I'm doing that right.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Glen, you're probably doing that right in the direction – directionally, it's correct that you should be seeing gross margins going up. And by the way, you got your 1Q computation correct when you adjust for the insurance, so about 48% without the insurance. And so generally speaking, we expect that to increase as we move into second quarter. As I talked about, starting up the factories, a little bit more, higher utilization benefits should come our way in the second quarter. I'm not sure what share count you're using, but I'd say you're directionally moving in the right direction.

<Q – Glen Yeung – Citigroup Global Markets (United States)>: And maybe just as a follow-up to that, I think I might have expected to see more. Maybe can you walk through some of the mechanics there? Is there – shouldn't we be seeing more leverage in the gross margins? Or is it more – am I missing something here?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, I'd say you're a little bit light. As I say, Glen, you're directionally moving in the right direction. Again, I don't know how you built up your model, but I would see our gross margins being a little bit higher than what you've built into your model so far.

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

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

<Q – James Covello – Goldman Sachs & Co.>: Great. Thanks so much for taking the question. I guess a couple of things maybe. If I could start in the other Wireless category, obviously one of the sort of back-and-forths over the years has been, what will happen to connectivity as the baseband business kind of falls off. Obviously, baseband we all knew about; Other was a little weaker this quarter, too. Is there any way to say how much of that was just the market or the customer exposure being a little bit softer versus any impact from kind of the basebands pulling the connectivity along with it?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Glen – or I'm sorry, Jim, I don't know that I would say there's any direct tie to the baseband. I guess I could say there's an indirect tie in that we sell connectivity products to some of the same customers where we sell basebands. To the extent that those customers' business is not particularly strong, as you see both on the baseband line, as well as would show up on some of the connectivity demand products – demand for some of our connectivity products also, but then we also have separately customers that use connectivity products that do not use our baseband products and in some of those cases, we've also seen declines as well, totally independent in that case of the baseband.

Do you have a follow-on?

<Q – James Covello – Goldman Sachs & Co.>: Yeah, I guess kind of bigger picture, and this is something that had been asked on the mid-quarter update. Historically, you guys have done very well hitting the numbers. The last few quarters, it's been a lot tougher. Obviously, we were in a downturn and sometimes it's tough to get out in front of that. But as you look back on number of quarterly misses in a row, do you think about approaching guidance any differently going forward? Or do you just kind of look back on it and say, it was a tough downturn, but it's over and the way we've kind of rolled up the model historically is how we're going to do it going forward? Or were there any changes made? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Jim, I would say that the short answer is we'll continue to do what we've been doing. It was a tough downturn that was also complicated by the fact that we were frankly, executing on the largest acquisition that we've tried to take care of in the past. And so that's behind us now, we're moving forward, and we'll use the same model and approach that we have to forecast our outlook.

<A – Ron Slaymaker – Texas Instruments Incorporated>: All right, Jim. Thanks for your questions, and let's go to the next caller.

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

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi, guys. Thanks for taking my questions. I wanted to ask a little bit again about the core Wireless business. So, with the baseband now finally, rolling off, we're back to negative operating margins in Wireless. Can you give us some feeling what level of revenues in core Wireless you actually think you need for at least to break even? And where those margins could maybe go over time?

I'm also wondering from that margin standpoint, does it actually make sense to be in this business at all? Are you going to drive enough upside as you move it into more of the embedded business to make up for any of the Wireless shortfalls? Or is that not just some sort of a capitulation as you're moving out of smartphones and tablets?

<A – Kevin March – Texas Instruments Incorporated>: I'll take part of that let Ron help out on some of it, too. If you look back as recently as the last quarter and do your math, you'd see that in fact the core Wireless actually did make a profit. So, its ability to generate a profit is certainly already proven by the historical results as evidenced by the fourth quarter.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: But that was baseband, wasn't it, that was driving most of that?

<A – Kevin March – Texas Instruments Incorporated>: I think even if you extract that, you come to the same conclusion that core Wireless made a profit fourth quarter. As far as the margins are concerned, we've talked about in the past that the margins in that non- baseband portion are certainly not as rich as what you would see over in Analog or even the Embedded Processing Space, but still quite attractive. The real focus in that area at this point is that clearly we're spending enough to be able to develop the products that we need. What that team is heavily focused on now is driving the revenue growth and taking it beyond just a single source.

Ron mentioned in his opening remarks where the diversity of our customers is such that we would expect less impact to the company on single markets or single large customers, and Wireless is following through on a similar strategy where they are trying to deliver the technology from their non-baseband products into adjacent markets that can give us more diversity both of markets and customers. And those will include spaces such as automotive and certain other applications that they've gained some interesting traction on here recently. So, the focus there is really now on driving the top line. There's certainly enough spending already in place to be able to meet the R&D requirements.

<A – Ron Slaymaker – Texas Instruments Incorporated>: So, Stacy, just to add, so fourth quarter was about $150 million higher revenue in those core areas, so you asked what level of revenue does it take? That's a recent data point, as Kevin said, those core products were profitable at the operating margin level last quarter. So, we're nipping on profitability, we just need revenue that will be sustained and certainly, what we're doing in these embedded areas by no means do we consider that capitulation, but actually a means by which we can further enhance revenue on what should be a – basically leverage the investment we've already made for smartphones and tablets and be able to go reach into some of these other market segments as well.

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

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: I did actually have a follow-up on that point. So, how long does it take to actually ramp meaningful revenues in those other kind of markets? What's the sort of I guess design-in life, and how does it take to win that design? And how long does it take before we can expect to see meaningful revenues coming out of those? And is there any sort of incremental investment that needs to happen? Or do you think your OpEx in these markets is at comfortable levels to drive that?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Boy, there were a bunch of questions there, Stacy. I think the core question was how long does it take to drive meaningful revenue in these other areas. And I guess what I would say is it will take a while. This is not something that in some of these other areas where the product lives can be very long, the design-in aspect of them tends to be a little longer than some of the high-volume verticals is as well. So, we don't expect – this is not a strategy to go address things over the next one to two quarters. This is something that we build on what we have today, and over time, we will increase the diversity and therefore, the stability of that revenue mix.

I don't think – Kevin, you can comment – but I think we believe the investment level that we have today will take us into these new spaces. This is not a big incremental investment to be able to go drive these products into new areas. I mean, think about the biggest infrastructure investment is the sales force, which is already in place today. And, by the way, that's the biggest competitive advantage we likely have as well. I mean, clearly, we have to have the right products. Once you have the right products you have to be able to have the right reach into the customer base, and that's the sales force that's in place today. But it's not a big incremental R&D spend to go somehow develop new products or different products for these other adjacent markets.

<A – Kevin March – Texas Instruments Incorporated>: I would just add to Ron's comments there that this isn't something that the Wireless team has just started that is going to the adjacent markets. Greg has already talked about it. He talked about it recently in Barcelona that his team has been looking at these adjacent markets for some time now and have over 100 customer engagements already. So, they've already begun to gain traction, but as Ron says, we expect that the nature of those markets is such it'll take a while to see the revenue build. But from a cost standpoint I think that Greg will tell you he's investing adequately now to meet that growth.

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

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

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: Yeah, good afternoon, guys, and congratulations. Kevin, I just wanted to make sure that I understand on the Analog side of the business, revenue was essentially flat sequential, operating profits was down about $80 million? Was that all due to the Spansion? And help me understand, is that now a continuous headwind around utilization? Or help me understand that.

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<A – Kevin March – Texas Instruments Incorporated>: John, the Spansion capacity, the capacity that was being used for Spansion currently is underutilized now that we've wound that up. And so that is clearly – that's allocated into the Analog segment and, clearly, is a drag. But, in addition, on flat revenues Analog like some of the other businesses also have seasonally higher pay and benefit increases that began in February. So, you have the GPM drag that I just mentioned, as a result of the utilization, but you also have higher OpEx. So, as that revenue builds there, I think it'll be able to absorb that just fine over the next couple of quarters, John.

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

<Q – John Pitzer – Credit Suisse Securities (USA) LLC (Broker)>: And then, Ron, as a follow on, now that you have National as part of the fold I wonder if you could just recenter me as far as the percent of your business being done through distribution what's sell-in versus sell-through? And then on the sell-in front, relative to your hubbing strategy what percent of the sell-in kind of acts like sell through? And do you think what we're seeing here is inventory restocking or real demand?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. So, in the current quarter, a little over 45% of our business went through distribution. And, as you noted John, bringing on board National where 70%, I believe, of their revenue moved through distribution, very similar to our catalog analog areas such as HPA and to a large part the power and a lot of the catalog Embedded Processing businesses. So, much of that goes through distribution – I'm sorry over 45%. Of that 45%, about a third of that revenue is supported by consignment programs. So, I mean, a third of the distribution revenue is supported by consignment.

I should note that at this point none of the SVA business through distribution is on consignment because we needed to get IT systems in place to be able to support that. However, that is in fact, something that we will do, and that we're working toward to put in place.

And again for the broader audience, when you have a distribution program on consignment our revenue recognition approach of sell-in tends to look more like sell-out because it moves the revenue recognition closer to where the distributors pull the product from the hub and actually ship it to their customers.

And then if you look more broadly, about 40% of TI's total revenue, and this includes distribution, as well as our direct OEM customers, are on consignment. So, I hope I got all the pieces you had asked there, John.

Okay. And let's move to next caller, please?

Operator: We'll go to Romit Shah with Nomura.

<Q – Romit Shah – Nomura Securities International, Inc.>: Hey, guys. I just noticed that your inventory days had crossed over 100 in the first quarter and I was wondering if just if you could comment on that level? If it was influencing how you're managing the factory loadings here in Q2?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Romit, I think that that's more – remember, inventory days are a backward-looking metric, and so coming off of a sharp quarter of revenue decline and then following that with a pretty sharp expected quarter of revenue increase, you've got to stage your inventory before you get to the quarter, not after. And so you wind up with, frankly, an anomaly like you're describing where the days of inventory can compute higher than what you'd normally expect to see.

But when we look at the mix of inventory, we are extremely comfortable with it, and it is lined up quite well with generally the demand that we see. And recall that we talked about our book-to-bill went positive in the fourth quarter. Our orders increased by 13%. That gave us better visibility into actual end demand than we've had in several quarters now, and that gave us the ability to build and stage inventory in anticipation of when that demand needs to be delivered. So, I would say that the inventory is positioned quite nicely for what we're trying to do for the second quarter.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Romit, I would also say, loadings in second quarter, yeah, inventory is one variable the plays into that, but probably more importantly will be our outlook for third quarter at that point.

And the other thing I would say is just even over the weekend, reviewing some other transcripts of conference calls that have taken place, I mean, you're already hearing at this very early stage in the upturn where certain players are finding their own inventory too short or out of mix and having difficulty meeting up with – or fully meeting customer demand. We're delighted with our inventory position at this stage in the upturn. So, we think it's going to be great. And of course, it'll play out as the market grows here over the next few quarters.

<Q – Romit Shah – Nomura Securities International, Inc.>: Yeah, I appreciate the color. So, loadings are increasing in the second quarter. If I do the math on your gross margin guidance for Q2, I'm coming up with, on a pro forma basis, around 49.5%, which would be up about 150 basis points sequentially, excluding the insurance payment. And I guess my question is, on an incremental basis that would suggest around 60% incremental gross margin, which is lower than I would've expected. If loadings are up, are you guys seeing a negative impact from mix or some other item?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Romit, we've – we'll give you guidance on the top line and the bottom line and in between, we'll leave it to you to develop your models. I would say, again, you're directionally correct. We do expect it to be moving up over the first quarter and certainly, in the direction and of the magnitude, if not more, than what you've been describing so far.

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

Operator: We'll go next to Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, guys, and you can also count me on someone who's hoping we're going to have a growth year in semis. So, we've had a number of companies last week talk about issues with wafer availability from foundry and there's some talk that lead times might stretch out over the summer. Can you comment on how your availability is for foundry wafers? And then also your own lead times, are they stretching out? Do you anticipate that, that could happen over the summer?

<A – Kevin March – Texas Instruments Incorporated>: Chris, I'll start with the lead-time question. Right now, again, one of the things that we have as a takeaway on the last inventory correction cycle was the fact that we publicly entered that growth period with less inventory than what was necessary to meet, and what turned out to be quite a strong pull-back or snap-back in customer demand. So, we're coming into this quarter clearly with more inventory availability than we had a couple of years ago when the last upturn occurred. So, with that in mind, we have most of our lead times are quite normal, at eight weeks or less, and we have higher levels of inventory than we did during the last industry cycle upturn, plus we have considerably more capacity than we had last time.

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Those combined lead us to feel that we are going to be well-positioned to be able to meet customer demand even on pretty strong growth basis. So, as far as our wafer foundry availability is concerned, again, a declining portion of our revenue is actually sourced from foundries, especially as you consider that the baseband is winding down quite a bit, because that was largely sourced from foundries. And the non-baseband portion of Wireless also sources a lot from foundries, but clearly, with the volumes that they're at right now, we are not experiencing any availability issues.

<A – Ron Slaymaker – Texas Instruments Incorporated>: And, Chris, the other thing I would just say is, and I think we've had discussions with – about this in the past, I mean, even if you look at recent SICAS [Semiconductor Industry Capacity Statistics] reports, et cetera, total industry utilization is actually at a pretty high level and you've seen a lot of semiconductor companies over the past few years not need to and therefore, they did not invest in new capacity.

So whether it's the foundries or whether it's the IDM's own capacity, our suspicion is that if we get into much of an uplift at all in terms of demand, we very likely, as an industry, will see shortages and lead times accordingly stretch out. So, at the same time, like Kevin said, and what I said before, having a very good inventory position coming into this upturn plus having a lot of open capacity, we think is going to serve us very well.

Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yes. If you could just maybe run down your take on the end markets, which you think are better or, which you think are in the worst shape and then how you see that playing out for both Q2 and the rest of the year?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I can make some comments. I made probably the most substantial comments already just in terms of our view of what was helping. But clearly, automotive is an area of strength. It's one of the few areas where year-on-year, as I noted, we had growth. And that probably partly has to do with some of the automotive industries overall globally were impacted by supply chain issues early last year from the Japan quake and tsunami. And so there's a very good recovery, maybe even some pent-up consumer demand on top of a trend for increasing electronics contents and semiconductor growth.

Wireless infrastructure, our view is the excess inventory that had tended to build in that channel has essentially been eliminated. We're seeing stronger demand now, and we expect that will continue to grow from here. Again, we ended up better than fourth quarter, but well below both a year ago, as well as even the third quarter revenue levels. And that market, as you've heard us talk about before, as consumers with their smartphones and tablets demand more mobile data, there are just some really positive trends that are taking place there in terms of carriers' need to deploy more capacity, and even the type of capacity they're deploying. Historically it has been macro cells with in both mostly WCDMA, but even to some degree some LTE.

Going forward, you will see more and more of that shift to a small cell type of structure where our percent of that content just small cell almost by its very definition is going to require system-on-a-chip implementation, and we have a great position both in terms of scalability from what we've done with these same equipment manufacturers from the macro cell and then trying to scale down into small cell, but also even just expanding our position from there. So, just a really strong trend, secular trend overall in wireless infrastructure that we think will play to our advantage, literally in the years ahead.

Handsets, less and less of a direct tie there for TI in terms of the size of that business, but absolutely we think smartphone market in 2012 is healthy, growth probably in the 25% range for smartphones this year, compared with last year, just some good healthy trends there.

Industrial, I think from an end demand standpoint, probably not a lot of change, but again, I think what we're encouraged about is where is in that upturn in 2009, we had a lot of the verticals that were lifting in second quarter, but literally it wasn't till fourth quarter, if I remember right, before we started seeing industrial really start to recover. We're already seeing industrial markets recover. So, again, a lot of it may not be end demand driven, it may just be the fact that they are no longer reducing their semiconductor inventory that's creating the lift on TI. But again, it's healthy for us.

Consumer, I think I noted that we had seasonal weakness there, and that was in several different consumer areas. I think we have to get out of the first quarter and into what would be a seasonally stronger quarters ahead to really know what's going on in that space. And then probably the last one I'd comment on is in Computing. We noted earlier that HDD was in recovery mode. We see that continuing into second quarter of 2012 such that whatever bottleneck HDD has played in terms of the supply side of the PC market, we think will essentially be lifted. So, and then at that point we'll understand better what PC end demand really looks like.

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

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

<Q – C.J. Muse – Barclays Capital, Inc.>: Yeah, good afternoon. Thank you for taking my question. I guess first question, if I look at the midpoint to the top end of your revenue guide, relative to end markets and relative to many of your semi-peers, you're clearly tracking a little bit better. So, I'm curious, are your thoughts here, it's more inventory replenishment, or Texan specific in terms of market share gains and/or your leverage to the right markets? Any color there would be great.

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think you could see a little bit of all of the above with the exception of I don't know that, C.J., I would – I don't believe we are seeing any real substantial inventory replenishment at all. I think what we may be seeing is lack of inventory reduction, and that in and of itself will start to create a lift in demand for us. So, again, where – ever since I would say third quarter of last year through probably first quarter of this year where we've been under shipping our customers, now that they have their inventory positioned to where they need it, they will start ordering again consistent with their own production rates or their end demand, and that will create a pretty significant lift for us based on our views of how far below that end demand we've been shipping.

So of course, that's going to be broader than just Texas Instruments, but I think we've been busy through the course of the last few quarters, and especially with the National product line, very aggressively working design-in positions such that when the markets began to lift again, we would disproportionately benefit. And then I think you've also heard us talk about that on the capacity side. We think we will be competitively advantaged, as well as when these markets go back into growth mode.

Okay. C.J., do you have a follow-on?

<Q – C.J. Muse – Barclays Capital, Inc.>: Yeah, real quickly. In terms of some of the discussions around 28-nanometer shortages, I'm curious if you're hearing anything on the demand side where on the power management or through all of wireless, you're seeing, I guess, some concerns around getting other chipsets, and what impact that might have on the timing of your shipments?

<A – Ron Slaymaker – Texas Instruments Incorporated>: C.J., just from what I've heard anecdotally through the investor world, it seems like there's some of that starting to rear its head. I have not heard that through our businesses or the customers yet as a specific concern that they have. So, it could be there, and we just haven't heard it, but we have not had it coming back to us through customers and our business groups yet.

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

Operator: We'll go next to 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 revisit this issue of gross margins, and how we should think about the different moving parts of Q2 implied margins. What are underutilization charges? What is the mix impact? Essentially, what are some of the one-off items, and what are the more ongoing items? And then how we should think about the walk back toward the mid-fifties gross margin model that you had established before?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Vivek, I'll mention what I did a few minutes ago to everybody else that directionally, we would expect our gross margins to be up. I would suggest that maybe when as folks are putting the models together, maybe they're not quite estimating some lines correctly when they look into the future.

One of the things I would point out is that our OpEx will probably be up another point or two in the second quarter, and that's just simple math rolling out. In other words, our pay and benefits increase occurred in February of the first quarter, and so the second quarter, we'll see a full quarter's effect of that, and that may be where people are having a little trouble on their gross margin analysis.

To as far as our overall gross margin model, I would just perhaps remind you that our focus is on revenue growth and, frankly, it's on revenue growth to grow faster than markets and earnings to grow faster than revenue so that we can continue to do – make healthy cash returns to our shareholders as we've been in the form of dividends and buybacks over the last few years.

We're not projecting actual margins greater than 55 and 30, and we're also not precluding this from happening as margins are going to be dependent upon product mix and utilization, as you pointed out. I think that, as you heard from Ron, 78% of our revenue now is from our core products and clearly, Analog is now more than half of our revenue, and that's very encouraging from a product mix standpoint. So, I think as we watch that mix continue to shift, we are going to like the results, not just on gross margin and operating margin, but importantly, on bottom line cash, and what we can do with that for shareholders in the form of dividends and buybacks.

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

<Q – Vivek Arya – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yes. On your core Wireless business outside of baseband, how do we get the confidence that over the long term, this is a real growth driver for the business? Because when you look in the market, and I think all of this question has been asked before, but when you look in the market, we do see the high-end Apple and Samsung really taking a lot of the high-end business, and then at the low-end, there's just substantially more competition coming online. So, how do you get the comfort that this is a business that you should be investing in over the long term? And even if you take into some of these embedded markets, will these really add value, or will they be lower ASP, lower margin type markets?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Vivek, I guess this is one where I would just kind of have to – we will be able to give you some progress reports as we proceed where we have particular customer successes in moving into some of these adjacent areas that we talked about.

One, I can just throw out as I'm thinking about it, a release that happened, I want to say about a month ago with iRobot, using OMAP for robotic imaging applications. And that's just an example, but in some cases, customers are amenable to having their names discussed, in other cases, they want to – they'd rather be a little more discreet until they get their products on the market. I think also we've announced customers in the automotive infotainment space using, again, OMAP.

But, Vivek, I would also say this is a case where I think our management team has a pretty strong track record of, if a business or an operation, the outlook is not what we think it needs to be, you've seen us not be shy about adjusting our strategy accordingly. And so, this is one where hopefully we can get some credit just based on a very long, solid track record of making those appropriate, strategic moves, and it will be management driving that change from inside the company as opposed to, frankly, convincing Wall Street and getting Wall Street to nod or shake its head on where we're headed.

So again, give us a little bit of patience here, and we'll try to give you some status reports as we're moving along to help you continue to feel good about where we're going with it.

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

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

<Q – Uche Orji – UBS Securities LLC>: Sure. Thank you very much. Ron, can you hear me?

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

<Q – Uche Orji – UBS Securities LLC>: Can you hear me now?

<A – Ron Slaymaker – Texas Instruments Incorporated>: It sounds like we're making a commercial here. I can hear you now, Uche. Go ahead.

<Q – Uche Orji – UBS Securities LLC>: [Laughter] Let me try again. I'm on the road so I apologize if you can't hear me. But let me – did you say when you talked about small cells, was that part of the way you – was that included in your guidance or your view for wireless infrastructure both in the quarter that just ended and in the coming quarter? And are you able to let me understand how your positioning in that market is relative to other competitors like Cavium, Broadcom, even Freescale within that market? I mean, Altera has described that market as additive as opposed to cannibalizing macro base stations. It sounds like you think the opposite. So, let me just try understand how that plays into your current quarter and your guide and your competitive positioning?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I think it's – I don't know additive versus cannibalization. I mean, I think what you're going to see is that it's kind of the next wave of technology, I might say, in terms of base stations. And we will see a significant part of the spend move to small cell, we believe, as the base – not the base station, as the carriers are doing their best to keep up with just the consumers' data capacity needs. And small cell is one of the most cost-effective means that they can do that because basically, they can deploy these cells with a minimal installation cost, and even considerations like their electricity usage are much more straightforward than continued deployment of macro-level base stations.

So I think we're going to see both, but we think over time, and this is looking forward, Uche, more so than anything that happened in first quarter. Over time, we're going to see it represent a much more significant piece of the dollar content.

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In terms of position, a lot of people – and I mean, obviously, it's an attractive market, everybody wants to claim success. I guess all I would say is, our – we have a very strong position in macro, and we expect that our position in small cell will meet or exceed what we have in terms of macro. So, just in terms of where there were known programs that were put out for bid – I shouldn't say it that way. Of the total available programs, various carriers, et cetera, not all of which are determined at this point, we've already had design positions in more than what I would call half of the small cell opportunity.

And those are a number of programs, the market share position actually is higher than that because some of these players are more important than others. So, again, we're off to a great start. This is a system-on-a-chip technology, it's going to – you may see the very first generation be somewhat, what I would call, not integrated, but this is about cost, power, a lot of things that because of the form factor, will very, very quickly drive full-up system-on-a-chip implementations, and we're going to be very well-positioned there.

So I'll just say, we've got great design position, our content in these systems is going to be very high, and we think the market outlook there is really good, and it's just going to be one where, again, you'll kind of have – kind of like what we're saying in previous Q&A, we – the results will show when the results show. We've got great position, but to the extent others claim they have a really great position and create confusion there, we may just have to wait until that translates to revenue and profit growth for TI.

Okay, Uche, we will try again. Do you have a follow-up question?

<Q – Uche Orji – UBS Securities LLC>: Sure. Sure. Thank you very much. Let me ask you, in terms of your view of the restocking rate? And I ask this question because some of the key indicators we look at like the PMI data coming out of China and Europe still are not – they're improving, but still not at levels that we think is driving significant confidence in any restocking program going on right now. I know you described the environment as where destocking has stopped, but we've seen the orders go up a lot. Do think the environment at this point is enough for us to feel comfortable especially where these key indicators out of Europe and China are still not essentially great? The U.S. is strong, so that's fantastic, but to what extent do we need all these other markets to show enough data for us to feel comfortable that the orders that we're seeing is going to be sustained? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Uche, I think you're asking about restocking rate. You were breaking up a bit on your question there, but I'm going to assume that's what it was, so let me take it from there.

As Ron mentioned, the – what we believe we're seeing is not so much that customers are restocking per se, it's that they've stop reducing their inventories, and so even if they just hold their inventories at lower levels, that's going to result in higher orders for us because they've depleted that pipeline of prior shipments. From an overall standpoint, we do expect to grow in 2012, which means that we're anticipating the economy's going to do okay to support that, and that's a reference to the global economy. There will probably be some stronger pockets than others. One could reasonably expect the Americas will probably be stronger than Europe.

One could also look at Asia, China in particular, and say that it may reportedly slower growth rate than recent, but it's still growing at an extremely fast rate, compared to the Western economies, and that rate is against a very large economy itself. It's already the second-largest economy in the world. So, when we put it all together, I'd say right now we're not seeing or we can't necessarily prove or point to any evidence of customers restocking. What it appears to us is more like at this stage, customers have stopped draining, and are now at least holding their inventories, and we'll have to wait a few weeks or a few months perhaps to report and see if we actually see evidence of restocking.

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

Operator: We'll go next to Ross Seymore with Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, guys. Thanks for letting me ask a question. I wanted to ask a question on the utilization side, and forgive me if it's a little convoluted, but the utilization rates you talked about, at 50% to 55% roughly, where did that peak? And really what I'm getting at is you guys added a lot of supply, your own acquisitions of supply plus adding National. And what I'm trying to figure out is how much of that utilization dropped from wherever that peak was due to adding the supply versus the revenues coming down? Or said differently, what revenue do you need to get back to have the same amount of utilization driven goodness with your current manufacturing footprint versus where you were prior?

<A – Kevin March – Texas Instruments Incorporated>: Ross, it may take the two of us to try and get an answer for you on that, but the 50% to 55% you're referring to was in fact, the utilization rate we discussed last quarter. I don't think we gave – or, excuse me, fourth quarter. We haven't discussed what this quarter is just yet, other than to say that we have increased our starts in the factories, and it takes a while for those starts to become outs, and so our average utilization is about even. But the starts-based utilization actually increased in the quarter.

It is worth noting, as you pointed out, the incremental capacity we put in place. Clearly, over the last couple of years between the factories we acquired and the acquisition of National Semiconductor, we have added $7 billion with of incremental revenue generating capacity. And so all things being equal, by definition we've got a lower utilization than we would be at the same revenue levels in the past. And that alone of course, will cause a larger underutilization charge, which I think is what you alluded to.

But we clearly have room to increase our revenue substantially with that capacity we brought on board. And I think the simplest way to think about it is all-in it's about $7 billion of incremental revenue generating capacity. I'll leave it you to kind of model where you think that takes us, but frankly, I'm pretty optimistic that's going to not only be attractive for letting us grow revenue rapidly as the markets come back, but also do so at very attractive margins given the cost of that capacity when we acquired it.

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

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Yes, I do. Hopefully a little clearer one. On the SVA side of things, can you talk a little bit about what was driving the sequential growth there relative to your other Analog segments? Given that they're sell-in, and so disti heavy, I would have thought they would have acted a little more synchronized with your other businesses?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Well, Ross, the only thing I would caution against is that was a relatively easy compare against fourth quarter because, remember, in fourth quarter, we had some distribution channel changes where we discontinued one of their major distributors, we added TI distributors. So, I would say first quarter, the compare is relatively easy against fourth quarter. So, I don't know that I want to draw a lot of real strong conclusions about this market or that market as opposed to just saying at this point we would say it was an easy compare and put the challenge in front of that team to let's see if they can do it again, and after that, we'll probably challenge them again.

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All right, Ross. Thank you, and, operator, I think we have time for one additional caller.

Operator: We'll go next to Mark Lipacis with Jefferies.

<Q – Mark Lipacis – Jefferies & Co., Inc.>: Thanks for taking my question. You're forecasting CapEx of $700 million still. To get there, you'd have to double the run rate for this quarter. I'm wondering if the CapEx you reported in Q1 was what you expected to, and whether or not you got some efficiencies and there's a chance to undershoot that CapEx number?

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Mark, the CapEx came in not far off from what we were expecting for 1Q. In fact, you'll see us on this spending actually spend it closer to when we actually need to bring the equipment in. With the front-end or wafer fab capacity we acquired over the last couple of years, a larger portion of our CapEx is aimed at the assembly and test sites, and generally speaking, the lead times on that type of equipment is shorter, and so we can order and install it closer to when we have actually have the revenue need for it.

So as a result, we still are holding to our prior estimate of a $700 million CapEx for the year. I would just remind you, if you take a look at our actual CapEx spend over the last 12 months, it's been a little over 5% of our total revenue, and that's translated into a little less than 7% depreciation total revenue over the last 12 months. So, clearly, the spend that we did in the last few years bringing on the wafer fabs that we did has been at very low cost to us from a fixed standpoint and is allowing us to actually operate at much lower CapEx levels than we have in the past. We've previously indicated that we would be a 5% to 8% of revenue kind of CapEx model given the wafer fabs that we bought over the last couple of years. Over the next foreseeable future we'll probably run at the lower end of that range closer to 5% than 8%.

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

<Q – Mark Lipacis – Jefferies & Co., Inc.>: Yes. Thank you. The factory – could you just spell out, Kevin, one last time the Spansion impact to the gross margins? Is that something that just it hits first right now in the second quarter? And can you quantify the impact at all? Thank you.

<A – Kevin March – Texas Instruments Incorporated>: Yeah, Mark, I won't go so far as to quantify, but I will remind you we reported when we came out of fourth quarter that Spansion revenues ran about $30 million a quarter and, frankly, we weren't – I would graciously say we weren't making a whole lot of profit on that. So, as a result, once that revenue went away, the capacity was left behind and was converted and now available for Analog. So, that cost is all going into the Analog P&L now. And that occurred with the first quarter.

<A – Ron Slaymaker – Texas Instruments Incorporated>: – Whereas previously when it was there supporting Spansion it was in our Other segment, Mark. Okay, Mark. Thanks for your questions.

And with this we'll close up. Thank you for joining us. We hope to see many of you next week in New York. A replay of this call is available on our website. Good evening.

Operator: That does conclude our conference. You may now disconnect.

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