PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President-Investor Relations

Other Participants

Uche Orji – Research Analyst, UBS Securities LLC
Stacy A. Rasgon – Senior Analyst, Sanford C. Bernstein & Co., Inc.
Shawn R. Webster – Senior Analyst, Macquarie Capital (USA), Inc.
Chris Caso – Senior Analyst, Susquehanna Financial Group LLP
Tore E. Svanberg – Managing Director, Stifel, Nicolaus & Co., Inc.
James Covello – Research Analyst, Goldman Sachs & Co.
Cody G. Acree – Director of Research, WFG Investments, Inc.
Venkatesh R. Nathamuni – Analyst, J.P. Morgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Texas Instruments Second Quarter 2011 Mid-Quarter Update Conference Call. At this time, I'll turn the call over to Ron Slaymaker. Please go ahead, sir

Ron Slaymaker, Vice President-Investor Relations

Good afternoon, and thank you for joining TI's mid-quarter financial update for the second quarter of 2011. In a moment, I will provide a short summary of TI's current expectations for the quarter, updating the revenue and EPS estimate ranges for the company. In general, I will not provide detailed information on revenue trends by segments or end markets, and I will not address details of profit margins. In our earnings release at the end of the quarter, we will provide this information.

As usual with our mid-quarter update, we will not be taking follow-up calls this evening. Considering the limited information available at this point in the quarter, and in consideration of everyone's time, we will limit this call to 30 minutes. For any of you who missed the release, you can find it on our website at TI.com/IR. This call is broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

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

We have narrowed and lowered our expected ranges for TI's revenue and earnings from our previous ranges. We now expect TI revenue between $3.36 billion and $3.50 billion. We expect earnings per share between $0.51 and $0.55. The reductions are due to lower demand from a single wireless customer where most of our sales are baseband products.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first question today from Uche Orji with UBS.

<Q – Uche Orji – UBS Securities LLC>: – very much. Ron, so the impact from this single customer, last quarter you also had one customer that created an inventory issue for you. Should we expect this to be a problem also this quarter? And will that entail you having to take a write-down?

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay, Uche. What I would say is we do expect to build inventory this quarter, with most of it associated with the significant demand that we're seeing from our largest customer here. So similar to last quarter, where I think we said at that point if I recall right, about a third of the inventory build was baseband product associated with a forecast revision from this customer. We'll see similar.

I think we – as you understand – are in an end-of-life process with this customer on the product. Although again, as we've talked about before, this is more a customer performance and a market issue. This is not a competitor coming on board to displace TI in these handsets. So our expectation is we have another probably six quarters, basically through the end of 2012, as we've described before, of support to provide for this customer on these products. So the risk of obsolescence or write-down is not there. We fully expect to be able to ship this product. Although clearly, we'll be shipping it later than what we'd expected when we built it.

Do you have a follow-on, Uche?

<Q – Uche Orji – UBS Securities LLC>: Yes, I do. I don't know how much you can tell us about what's happening in other areas of the business. We've seen things like the ISM rolling over, which tends to be a problem for the rest of the industrial part of your business. Any kind of update you can give us as to what's happening within the industrial part of your business right now?

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. In fact, why don't I just kind of walk through some of the end markets overall if I can. So I think I've commented on handsets already. In Communications outside of handsets, communications infrastructure revenue is doing well this quarter, with demand continuing to be driven, as we've seen in the past, by data capacity expansion, in this case specifically in North America.

In the Computing markets, I would say most of our PC-related revenue is tracking flattish compared with the first quarter. I think that's pretty much similar to what you're hearing from others in our industry. It's probably also similar to what the market overall is tracking. Tablets continued to experience a strong growth, and we're participating in that.

From a Consumer end market, I would describe it as mixed. Products like e-readers are strong. Product areas like televisions and game consoles, where we have exposure, I would describe as relatively slow.

To the root of your question, which was Industrial, I would describe that market as continuing mostly strong. Areas such as solar, motor drive, e-metering are solid. Related there is Automotive. Automotive, I would say, is mixed and very manufacturer- or customer-dependent. The Japanese automotive manufacturers continue to be impacted by the earthquake. I would say there are many other automotive manufacturers that are seeing supply chain disruptions in the quarter. So again, some customers doing better than other customers depending upon are they in Japan or outside Japan and depending upon who is in their supply chain.

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

Operator: Our next question today comes from Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: Hi, Ron. Thanks for taking my question. Regarding I guess the shortfall related to Nokia, can you give us some feeling, it's $120 million step-down at the midpoint of your prior guidance versus now. So it is correct to say that the bulk of that's coming from Nokia, I think you said. Can you give us some feeling for whether that – the bulk of that $120 million is actually baseband? Is there some of it – OMAP? Connectivity? Can you give us some feeling for how much of it might be wireless revenue that's going to Nokia that may not be baseband?

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. In fact, I would say characterizing it as the bulk of it being Nokia is probably understating. It'd probably be closer to say all of the change in our – call it the middle of the range update versus what we were previously was associated with that customer. And that's not to say there aren't other plusses and minuses. There always are in a quarter. But this quarter those would have netted to neutral, and in fact we would have been narrowing to our prior midpoint, had we not seen the adjustments in demand from that one customer.

You're right that it goes beyond baseband. In fact, probably the best way to describe it is that the adjustments we're seeing from them really reflect broadly lower demand across the various products that we sell to that customer. Certainly as baseband is the largest part of our sales there, it was the most affected. Although areas such as connectivity, OMAP, and even analog to some degree were all affected, but clearly to a lesser extent. So the majority clearly is baseband. In fact, probably the strong majority would be baseband. But some of those other areas were affected as well.

And I guess, Stacy, what I would say on that is the silver lining is that, as you've probably noted, baseband is rapidly falling as a percentage of TI's revenue. And so as baseband declines, our customer base continues to diversify and becomes better balanced. In fact, for our non-baseband products, no single end customer will make up more than 5% of our revenue in the first half of this year. So clearly the quality, not only of our portfolio, is improving, but also the quality of our customer base from a diversity perspective and a balance perspective is improving as well.

Do you have a follow-on, Stacy?

<Q – Stacy Rasgon – Sanford C. Bernstein & Co., Inc.>: I do, I do. So if I look at now your new, I guess, EPS guidance in light of your new revenue guidance, it doesn't feel like you've made any significant changes to your margin assumptions based on where you're coming out on the revenue end. But given the significant weakness that you're seeing in wireless, I might have expected your overall gross margins to be a little stronger than you might have seen before. Are you seeing any sort of change in your margin, your gross margin structure, either from the wireless roll-off at Nokia or any sort of changes in terms of your assumptions from the cost impact from Japan, which I think was about $0.05 or about $80 million that you guided to last quarter?

<A – Ron Slaymaker – Vice President-Investor Relations>: I think you're right in your assumption that there's always kind of moving pieces associated with margins, but not enough to really significantly impact the assumptions we've made as we've moved through the quarter. Your comment on the Japan impact is correct in that it's unchanged. I think we came into the quarter describing that we would expect to have about $0.05 of earthquake-related costs in the quarter. That estimate is still approximately correct. And those costs include things such as the underutilization expense that we would incur from having our manufacturing assets only partially loaded, various repair costs over there, the cost of the recovery teams that we've assembled from across the world, and other miscellaneous one-time costs as well.

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

Operator: We'll take our next question from Shawn Webster with Macquarie.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Yeah, thank you. I was wondering if you could share your view on channel inventories, and to the extent that you can, where you think that they're too low or too high right now.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. And let me just kind of provide some more general comments on distribution, and then I'll specifically hit inventory. So I guess from a resale perspective or sales out of the channel, out of the distribution channel, we expect resales to be up probably the mid-single digit range on a sequential basis. And so with that, we really expect little change in distribution inventory levels. And that comment is on absolute inventories. From a days or weeks perspective, there's probably a few days reduction relative to the first quarter, but absolute inventory levels should hold steady on resale growth in the mid-single digits.

Do you have a follow-on, Shawn?

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Yeah, I was wondering if you could share with us like what might be happening with your lead times and to the extent you can what's going on with your book-to-bill ratio. Thank you.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. Lead times I would describe overall as at normal levels, although clearly there's the exception for those products that were sourced from Miho, which is our Japan factory, which is still in recovery process over in Japan. So clearly those lead times are extended.

Pricing I think was your second question. I'm sorry, it was a book-to-bill question. And as usual on that one, Shawn, we'll just wait till the end of the quarter. Any metric that has a numerator and a denominator that are both variable gets too tricky to call at this point in the quarter, so we'll wait until the end of the quarter to give you that data.

Okay, Shawn. Thank you, and let's move to the next caller

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

<Q – Chris Caso – Susquehanna Financial Group LLP>: Hi. Thanks, Ron. I just wondered if you could – one of the concerns I think some folks have had after the earthquake in Japan was the prospect of customers ordering ahead, just being worried about not getting enough product and seeing some of those order rates potentially slip off later on. I just wonder if you could weigh in on that and give us your perspective what you guys have seen so far.

<A – Ron Slaymaker – Vice President-Investor Relations>: Well, I would describe – if you look at just order trends, orders are – I guess I would say they're solid. They're not exceptionally strong. We expect they'll be up from last quarter, where we did have strong growth. But I would say just a solid increase in orders. I think customers clearly are concerned about getting product, but at the same time, I believe most would say that TI has done a pretty good job of communicating our status.

The alternative, such as a factory – for a customer – most of the product that we had manufactured in Miho, we now have in production at other TI factories, such as RFAB, and the customers will need to requalify that product on their end. But they clearly understand our status in Miho recovery.

And then they also understand the various alternatives that they have in terms of qualifying, for example, product out of RFAB. And so I believe we are getting a reasonable perspective on their demand. And customers understand, if they communicate reasonably with us on their demand, then things go a lot better in terms of the two-way dialogue in terms of our staff to be able to support that demand. And so I can't say it's non-zero risk, but it's a risk that we believe we have well understood and comprehended here.

Do you have a follow-on, Chris?

<Q – Chris Caso – Susquehanna Financial Group LLP>: Sure. And I guess – I realize it's early at this point, but whatever kind of color you can give with respect to your customers' feeling on, say, going into the back-to-school season now. Just kind of get a sense of general tone from customers. We're obviously all worried about what may be going on with the macro situation right now, and just wondering what customers are telling you.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. Well, I think we came into the quarter describing that had it not been for Japan, we had some pretty robust expectations for second quarter demand. We gave that a haircut, both based on our expectations for the Japan impact on demand, as well as frankly our ability to supply with some of the disruptions that we saw with our Japan factories. But I would say outside of the one wireless customer that I discussed, demand is generally tracking very closely to what we expected when we came into the quarter.

And so I just kind of walked through things by segment, Analog and Embedded Processing, we expect both of those areas to grow this quarter compared with the first quarter. I think if you look at the Wireless, Wireless overall should decline. Frankly, core Wireless, so excluding the baseband, will decline. But if you were to remove the impact of that one customer that we discussed, core Wireless would have been up in the quarter. And then I think if you go into our Other segment, our expectation is that it will grow. Although at the same time, I have to quickly remind you that our calculator revenue typically grows more than $80 million in the current quarter, or the second quarter, as our various retailers prepare for back-to-school. So generally, I would say with the exception of, frankly, one customer, things are tracking very closely to our expectations.

Your point on back-to-school, I think we said coming into this quarter in our April call that we had strong expectations for second half. We continue to expect a strong second half. We look at underlying consumer, corporate demand. We think they're strong. And then maybe on top of that – and certainly we would believe that by the time we get into second half, most of our Japan supply constraints will be resolved. And the impact on our customers in Japan and customers outside of Japan from a supply chain perspective, that whole Japan event will be largely behind us at that point. And then I guess, finally, I would say by the time we get into second half, our baseband revenue, as you might guess, will be smaller and therefore should be less disruptive as well. So things going well with the exception of that one handset customer.

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

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

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, thank you. Ron, could you talk a little bit about linearity in the quarter? Were April and May sort of consistent with what you usually see from a seasonal perspective?

<A – Ron Slaymaker – Vice President-Investor Relations>: Tore, I will plead ignorance. I believe linearity has – actually, I don't even want to comment, because I don't know April versus May and kind of the month-by-month or week-to-week buildout. So let me just hold off on that. I will say that we will have some output from our Miho factory that will be translating to revenue shipments in the second half of June and then continuing through third quarter. So that would cause some nonlinear strength, I guess, is the best way to describe it. But other than that, that's the only real item of note that I would make.

Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yeah, the follow-up – you've commented on product line and end market, but just – can you also add a little bit of color on regions, just so we understand where there's relative strengths and weaknesses, please?

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. You bet. And I think as you might expect, we expect Japan will be down, and down at a double-digit level. And so there clearly is weaker demand in that particular region. Outside of Japan, I would describe the U.S., we would expect, to be up solidly. And then both Asia and Europe probably more flattish to the last quarter. So U.S. up solidly, Asia, Europe flattish, and then Japan down double-digit levels.

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

Operator: Our next question comes from Jim Covello with Goldman Sachs.

<Q – Jim Covello – Goldman Sachs & Co.>: Great. Thanks so much for taking the question, Ron. If I could just follow up on that question about linearity. I know you said you didn't have all the data, but I guess one of the distributors commented that April was very strong and May was a lot weaker from an orders perspective for them. So what I'm trying to get a sense of, if orders are okay so far quarter to date, was that a real strong April and a real weak May, or was it okay in both months? And how does that trend so far in June? I know you sort of said you didn't have the data, but any incremental color you can give there?

<A – Ron Slaymaker – Vice President-Investor Relations>: Yeah, let me be more direct. I don't have the data. So I have not looked at linearity as we've progressed through the quarter. And that's not trying to hide because we don't like the data. I just haven't looked at it.

<Q – Jim Covello – Goldman Sachs & Co.>: Maybe then for my follow-up, if I could ask it, would it surprise you that one of the big distributors kind of had that linearity in their business, the real strong April and real weak May?

<A – Ron Slaymaker – Vice President-Investor Relations>: I've only looked at the total, and as I said, I think distribution, we would say the mid-single digits is a pretty good quarter rolling forward for them. But their linearity, if I haven't looked at it for us, I haven't looked at it for the distributors either, Jim.

Okay, Jim. Thank you. Do you – I think that's kind of – that was your follow-on, so we'll move to the next caller. Thank you, Jim.

Operator: And our next question comes from Cody Acree with Williams Financial.

<Q – Cody Acree – WFG Investments, Inc.>: Thanks. Hey, Ron, can you give a little update on the progress of repairs in Japan and maybe some of the transition product outside of Japan?

<A – Ron Slaymaker – Vice President-Investor Relations>: Cody, I'm sorry, you were kind of breaking up there. Something about transition outside of Japan?

<Q – Cody Acree – WFG Investments, Inc.>: Yeah, let me turn the speaker off. Just in terms of the repairs in Japan and then also the transitional products outside of Japan.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay. I'll answer a question that – so basically, you're saying what's the status of our recovery of those factories in Japan. Okay. And if that wasn't your question, that's the one I'm going to be answering here.

So basically Aizu is back to full production, and we really ramped that during the month of April. So I would say there's probably some lost output there early in the quarter, although now that's behind us. We also began to ramp Miho mid-April. Its production ramp is proceeding well, and in fact I would describe that as ahead of our earlier expectations. At this point, we expect to have Miho essentially at full production by the end of this quarter, although there will be some residual production ramp that will carry over into the third quarter, really tied to some specific equipment that we're still waiting for delivery on.

And please remember, Cody, that I'm talking about production starts, and there's some lag time probably of – oh, probably on average a few months between when we start a wafer and when that product then ships for revenue. So for the most part, Miho's ramp through the second quarter implies a revenue ramp in third quarter more so than an impact in the current quarter. And then as I said before, we have alternate wafer fabs, including RFAB. I think what was the last I saw is something like 80% of the products at Miho we had now sourcing at alternative fabs. And so that process continues to ramp. But it will be a combination of recovery both at Miho, as well as these alternative factories.

Okay, Cody, do you have a follow-on question?

<Q – Cody Acree – WFG Investments, Inc.>: Yeah, real quick. Nokia down as much as they've been here recently, well most of the suppliers at the end of 2012, I guess when could we expect that revenue to fall to the point that it really gets to be a negligible impact to revenue on any volatility quarters?

<A – Ron Slaymaker – Vice President-Investor Relations>: Well, okay. So that's an interesting question. I mean, I think what we would expect that – this quarter, it's probably – if you go back to even to fourth quarter, we were – in 2010 overall, baseband was 12% of our total revenue. But fourth quarter level was 12%. We expect second quarter is probably going to be about half of that level. So I'll let you define for yourself what is negligible. But clearly it has fallen off quickly and is getting to a pretty small number, I would say, even today.

Okay, Cody. Thank you, and we'll move to the next caller. Operator, this will be our last caller, please.

Operator: Okay. Great. We'll go now to Christopher Danely with J.P. Morgan.

<Q – Venk Nathamuni – J.P. Morgan Securities LLC>: Hey, this is Venk. Ron, thanks for taking my question. I think earlier you alluded to some strength in the second half of the year, driven by both corporate demand as well as some back-to-school demand. But if you look at the specific end markets, do you see, for example, in the Wireless Infrastructure or Industrial being pretty strong toward the rest of the year? And any color you can add on that would be very helpful.

<A – Ron Slaymaker – Vice President-Investor Relations>: Okay, Venk. I don't think we probably want to start narrowing down kind of the more general statements that we've said by particular end equipment, but I would say that we're not – when we talk about strength in the second half, we're not saying a particular market segment. The nature of analog and embedded processing, as you would ascertain even from what I said when I described that no single end customer will make up more than 5% of our non-baseband revenue in the first half of the year, clearly these are very broad-based, diverse businesses.

Our ability to grow in those markets at rates that go beyond just the rate of the market – which, by the way, we think the market will be doing well, based on our views that enterprise spending and consumer spending that to some degree has been masked this quarter in our results based on Japan and the wireless customer, as those come through – and maybe even some catch-up from Japan falling out as we move into second half. It's those types of things that will be able to drive our growth. So we absolutely – we view this market overall as entering into a stronger period. And then as we've said numerous times to you before, our expectation of our own results is that we will be tracking well above the market in our core businesses.

Do you have a follow-on, Venk?

<Q – Venk Nathamuni – J.P. Morgan Securities LLC>: Yes, thanks for the color on that. So any update on the National Semiconductor acquisition?

<A – Ron Slaymaker – Vice President-Investor Relations>: Sure. I guess I would say that we continue to make good progress, and we expect, as we did initially when we announced the deal, that the transaction will close before the end of the year. I think as you saw from a press release back in late May from TI, we have now cleared the U.S. antitrust review in May, which was an important step. We still need regulatory clearance from, I believe it's seven non-U.S. jurisdictions. And National still needs approval from its shareholders, and I believe they have that meeting and vote scheduled for June 21, so another couple weeks here. And in both of those cases, the regulatory clearances and the shareholder vote, we certainly expect a successful outcome from all of those.

I guess I would also note that a few weeks back we issued $3.5 billion of debt at what we consider to be attractive interest rates. In fact, I think the weighted average of all the fixed-rate notes that we have is currently about 1.5%. And those were for terms ranging from two to five years. So the point being, our financing for the transaction is also in order. So everything is proceeding very well, and as I said, we expect that to close here before the end of the quarter (sic) 2011.

Okay, Venk. Thank you for your questions.

Ron Slaymaker, Vice President-Investor Relations

And before we end the call, let me remind you that the replay is available on our website. Thank you, and good evening.

Operator: And, ladies and gentlemen, this does conclude our conference. We appreciate your participation.