PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President-Investor Relations

Other Participants

James V. Covello – Analyst, Goldman Sachs & Co.
Craig S. Berger – Analyst, FBR Capital Markets
Chris B. Danely – Analyst, JPMorgan Securities LLC
Tore Svanberg – Analyst, Stifel, Nicolaus & Co., Inc.
Shawn R. Webster – Analyst, Macquarie Capital (USA), Inc.
Srini Pajjuri – Analyst, Credit Agricole Securities (USA), Inc.
Romit J. Shah – Analyst, Nomura Securities International, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments Third Quarter 2012 Mid-Quarter Update Call.

At this time, I would like to turn the conference over to Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President-Investor Relations

Good afternoon and thank you for joining TI's mid-quarter financial update for the third quarter of 2012. In a moment, I will provide a short summary of TI's current expectations for the quarter, updating the revenue and EPS 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 our expected ranges for TI's revenue and earnings from our previous ranges. We now expect TI revenue between $3.27 billion and $3.41 billion, a range that has been narrowed to the middle of our prior range. Although demand for products is in the lower half of our prior range of expectations, we have $60 million of insurance proceeds for business interruption associated

with last year's earthquake in Japan, allowing us to narrow our revenue range around the prior midpoint. Since these proceeds are for business interruption, not property damage, they are included as revenue.

We expect earnings per share between $0.38 and $0.42 on a GAAP basis. EPS has moved to the upper half of our prior range due to a couple of considerations. First, lower sequential profit associated with lower product revenue will be more than offset by the high fall-through associated with the insurance proceeds allowing our earnings to benefit from a favorable revenue mix.

Second, we are taking timely actions to reduce costs. Our estimates for acquisition-related charges and restructuring charges are unchanged and are expected to total to about $0.07 per share assuming TI's marginal tax rate of 35% is applied to these charges.

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'll provide you the opportunity to ask a follow-up question. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Jim Covello with Goldman Sachs.

<Q – James Covello – Goldman Sachs & Co.>: Great, good afternoon, thank you so much for taking the call. I appreciate it. I guess first question is, if you could give any kind of color at all on where you're seeing the relative weakness that would have caused the operating results to be towards the lower end?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Jim, maybe it's useful to let me just kind of walk through where we're seeing both positives and negatives because they really are a bit of mix.

So although I would describe it as most areas are tracking a little below the middle of our range of expectations, Wireless is actually doing a little better than we had initially expected due to new tablet launches at a couple of customers that use OMAP. Of course, we still expect overall Wireless revenue to decline sequentially as baseband revenue will fall from $90 million last quarter to about $50 million this quarter. And I think we explained that in terms of expectations on baseband back in July.

Outside of Wireless though, although we have some product lines that will likely be up sequentially and others that will be down, almost all of them are running a little weaker than what we had expected back in July.

So, it's probably – I probably should emphasize also that most of the weakness that we're seeing in third quarter relative to normal seasonality is really what we – what began back in June and what we had anticipated would continue into third quarter. So, for the most part, this is continuation of weakness that began in June with a little bit lower than expected across most product areas really with the exception of Wireless.

Do you have a follow-on, Jim?

<Q – James Covello – Goldman Sachs & Co.>: Yeah. Thank you for that explanation. In terms of the insurance benefit...

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

<Q – James Covello – Goldman Sachs & Co.>: I believe we had one of those last quarter, too. Are there any more of those that we might expect in future quarters that we could model in or is this the end of that?

<A – Ron Slaymaker – Texas Instruments Incorporated>: In fact, this is the end of it. So the $60 million that we are receiving this quarter will be our final proceeds for business interruption associated with the Japan earthquake. So, just for your record, cumulatively, we received about $170 million in business interruption proceeds including this quarter's amount and again that's specific to the Japan earthquake. We've also received about $40 million total in property damage and those proceeds are now final as well. So, at least with respect to the Japan earthquake, all the insurance proceeds are now behind us.

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

Operator: Our next caller is Craig Berger with FBR Capital Markets.

<Q – Craig Berger – FBR Capital Markets>: Hey, guys. Thanks for taking my question. I guess just on the demand picture or the revenue picture being a little weaker generally outside of OMAP, is that a demand issue? Is it inventory in the channel and can you update us on where inventory stands? Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Craig, I guess I would – I would suggest that inventory, we believe, remains pretty lean and I'll talk specifically about distribution inventory in a minute. But, if you go back to July, we also allowed at that point that this potentially could be just weaker demand or alternatively it could just be that customers were taking advantage of short lead times to potentially give orders at the last minute and I guess the what I would say on that consideration, at this point we've really concluded we're just operating in a weaker demand environment than would be seasonally normal.

As our quarter has progressed, we've seen some of the demand that had initially been scheduled for the months of July and August shipment push into September and I say that because we also I think said back in July that our backlog coverage for July and August looked pretty normal from a seasonal standpoint, but the real question mark we had was the month of September where backlog coverage was lighter, so as the quarter progressed, some of that July-August backlog in fact pushed out into the month of September, but beyond the, just shifting of backlog and demand between months, overall product demand for the quarter had also declined a little as I said a minute ago.

With respect to channel inventory, really we expect distributor inventory to hold at about flat with where it was last quarter, which you'll recall was just under 6.5 weeks, so that remains lean. I guess I should also note that we expect resales from our distribution channel to also be about even sequentially, so flat resales, relatively flat absolute inventory and then also from a weeks' basis about the same as where we ended up last quarter.

Do you have a follow-on, Craig?

<Q – Craig Berger – FBR Capital Markets>: I do, thank you so much. Can you just comment on whether TI has the right amount of total capacity following the 300-millimeter expansion and National acquisition and your demand commentary and just update us on utilizations, lead times and under-absorption related charges? Thank you so much.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. I'm not sure I can [ph] update you on (9:20) all of that because I am not sure I can remember of all that, but let me hit on do we have the right amount of capacity and I will interpret that from the standpoint of you're really asking if we have too much capacity. So let me just say although, I think our underutilized capacity – on the one hand you can – you can draw a line to gross margins and say, hey, it's pressuring your gross margins by a few points currently, we really view the open capacity more from the standpoint of an opportunity to support our future growth and really not as a headwind to our financials. Because we were able to buy those assets for pennies on the dollar, the impact that lower utilization is having on our income statement really is muted. And in fact, I should add that I think we believe the more important consideration is the benefit that we're seeing today to our free cash flow and that's really a direct result of the opportunistic capacity investments that we made over the past few years, as we're now spending well below our historical rate on capital.

So, and I'll point you specifically if you look at the first half of this year, our capital expenditures were below 4% of revenue and if you go look at our history, that's several points below where we ran even just a few years ago. I guess back to the gross margin consideration, I'll just point out a large part of the impact that underutilization has on gross margin really are associated with non-cash charges such as depreciation.

So, gross margin in our view may not be the best metric when evaluating these capacity investments in the short term and at least should be balanced out with the benefits that we're seeing from a free cash flow standpoint. So, I know I took that a little different direction maybe than what your original question was, but I thought it was important.

Okay, Craig, thanks for your questions and we'll move to the next caller.

Operator: Our next question comes from Christopher Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Thanks, Ron. Can you just talk about sort of what areas or products you guys are taking the costs out? And is the EPS upside evenly split between the insurance proceeds and the lower costs?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Yeah, first of all I would say in terms of the type of expense reductions, I don't know that I would try to draw a line to any specific product areas. Think about the expense reductions at this point really just representing general tightening, or controls on expenses in a more uncertain environment. So that includes minimizing discretionary spending, keeping hiring to new college graduates, the critical few, those types of things as opposed to specific product area or segment reductions.

And then your other question that tied into that, I guess, was the EPS – the $0.02 of additional EPS, think about it as about $0.01 came from the revenue mix benefit, so what you just described as the higher fall through from the – from the insurance, and then you're right about $0.01 of that coming from the cost reductions that we're in the process of implementing.

Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yeah. Thank you. Can you just talk about how the book-to-bill and backlog are trending this quarter and remind us what we should be thinking about Q4 as far as normal seasonality?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, in terms of order trends, I would say orders are soft this quarter and likely will be down sequentially from last quarter. From a book-to-bill standpoint, as usual, wait until the end of the quarter to comment on that. And then in terms of fourth quarter, call it average sequential growth, probably the right number to look at is if you exclude the fourth quarter of 2008, we are down on average about 4% and that is a five-year average. And keep in mind, that down 4% really is all coming from the sequential decline in our calculator business following the third quarter peak back-to-school period. Semiconductor revenue, and I realize, we don't specifically break the products out that way, but semiconductor revenue historically is flattish third to fourth quarter, but the seasonal decline in calculators pulls us down to about a 4% decline, again excluding the fourth quarter 2008 number.

Okay, Chris. Thanks for your questions. We'll move to the next caller.

Operator: Our next question comes from with Tore Svanberg with Stifel, Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, thank you. First of all, Ron, can you talk a little bit about the actual end markets? I think you said all product lines were tracking below seasonality or a little weaker, but as far as end markets are concerned, are you seeing any differences there?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Not really. I'll kind of walk you through them individually, but probably the overview is not really. So I'll start with computing, it's weak essentially on every front with the exception of tablets. PCs and associated peripherals are weak. I

know there is debate whether this is due to delayed purchases associated with Windows 8 or whether it's due to displacement by tablets. I'm sure there are a few other theories I don't want to weigh in on, so I'll say I don't know why it's weak, but we are seeing notable weakness in the computing and the PC space.

Turning to communications, I would describe that also as generally weak. Part of it is TI specific, of course, because our baseband revenue is taking a pretty good step down this quarter as we wind down, really in the final stages of that business now. If you look at comms infrastructure, that revenue will likely also decline this quarter and I would really point to maybe three different reasons, one is the impact of the carrier in North America that is and has in fact slowed down its orders. The second would be the economic slump in China is now pushing out infrastructure spending and then the third is that some of our OEM customers are working down some of their excess inventory now.

In consumer, we expect our revenue to be sub-seasonal, a couple of examples I can give, television manufacturers, the panel manufacturers anyway have now reduced their forecast to a sequential decline, really they are pointing to overall economic weakness as well as high inventory levels. On the other hand, a bright spot I guess is game manufacturers are ramping for the upcoming holiday season and seem to be driving some growth there.

Automotive, we expect our revenue to be about flat sequentially and then elsewhere, industrial, I would just say demand is on the weak side, some of that certainly is seasonal although there is a lot of, just general caution amongst industrial OEMs as well.

Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes. Thanks, Ron. You talked about bookings potentially being down this quarter, can you also talk a little bit about the linearity of the bookings?

<A – Ron Slaymaker – Texas Instruments Incorporated>: I don't have any view on month to month linearity, Tore. So, I can't help you on that one.

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

Operator: [Operator Instructions] And our next question comes from Shawn Webster with Macquarie.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Yeah, thank you. A lot of questions have been asked, but I was wondering if you had any visibility from a geographic perspective in general on what's going well and what is going down for you in Q3?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Sure, Shawn. That's hard to say: sure, Shawn, okay. So, geographically and again what we are – what I'm going to convey are basically quarter-to-date and just if we extrapolated that out for the rest of the quarter. So, we're seeing growth in the U.S. market. Asia, about flat with last quarter and then declines in Europe and in Japan as well. So again growth in U.S., flat Asia and then declines in Europe and Japan.

Do you have a follow-on Shawn?

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: I guess just quickly on the connectivity side of thing – things, was that also down within your Wireless segment for Q3?

<A – Ron Slaymaker – Texas Instruments Incorporated>: We do expect connectivity to decline sequentially, that's correct.

<Q – Shawn Webster – Macquarie Capital (USA), Inc.>: Okay, thanks.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay, Shawn. Thank you. We will move to the next caller.

Operator: Our next question comes from Srini Pajjuri from CLSA Securities.

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Thank you, Ron on the OMAP business, the strength that you mentioned. I recall the last couple of quarters, I think you did lose some money in this business, do you think that strength is enough to drive profitability in this business, and if not could you give us an idea of what the longer term strategy for this business is?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Okay. Srini, so I guess what I would say is that considering that overall Wireless revenue, we expect to decline sequentially. Keep in mind the OMAP revenue increase will be more than offset by the decline that we're seeing in baseband. So, given that the overall revenue will be down, we would expect that the operating loss that you saw last quarter to increase somewhat this quarter. So, in general, we remain enthusiastic about the opportunities to broaden our base of customers and applications for both our OMAP product lines as well as our connectivity products in markets outside of smartphones and tablets. And we've been explaining that strategy to go more horizontal into different adjacent markets for probably six months or so now.

So, we're enthusiastic about what's happening outside of smartphones and tablets yet on the other hand I'd have to say the smartphone and tablet market has become less attractive to us even in the past 12 months and that really is being driven by, our view is that the two largest players in that market or those markets have really shown a very strong tendency to vertically integrate the key chips in their systems. And so I would just say obviously we're not satisfied with the operating loss that we reported last quarter, and that we're going to report again this quarter. And we're in the process of working to re-profile the investments that we're making in those areas. So, that's probably about as much as I can say at this point.

Do you have a follow-on, Srini?

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Yes, Ron. Thank you. On the inventory, I think last quarter, you said that distributors had about 6.5 weeks of inventory, I'm just wondering what you think that they'll end up with this quarter? Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Thank you. The distribution – somebody asked that question earlier, distribution inventory we expect to be unchanged with where it was last quarter.

All right, Srini, thank you for your questions. We'll move to the next caller.

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

<Q – Romit Shah – Nomura Securities International, Inc.>: Yeah, hey, Ron, I was wondering if you could spend a little time talking about your view around share buybacks. You guys in the past have announced some pretty large repurchase programs. You did the National deal last year and the balance sheet is not as strong as it was 12, 24 months ago, can you just share with us how you are thinking about buybacks going forward.

<A – Ron Slaymaker – Texas Instruments Incorporated>: Sure, Romit, I think if I go back pre-National we were probably repurchasing $500 million plus, maybe $500 million to $600 million per quarter, I think if, you are right when we acquired National we took on some debt and we explained at that time that we would continue to repurchase, but we would moderate our repurchases as we also had some debt to service and repay. Since then we have repaid about a $1.5 billion of the debt and in fact about a month, six weeks ago we went back into the debt market and took on basically that amount again, another $1.5 billion and that really was just based on the very low rates that were available to us in the market today.

We described – and by that, I think, our coupon rate on, we took that $1.5 billion was split between three year debt where our coupon rate was 0.45% and seven year debt where I believe if I remember right our coupon rate was 1.65% and so those obviously are very attractive rates. What we described that we would be doing with those proceeds would basically be general corporate purchases including share repurchases.

So the thinking is that we would like to move our repurchases back to the general levels that you saw from TI prior to our acquisition of National Semiconductor and in fact if you just look at in terms of authorization that remains at the end of second quarter, we still had $5.1 billion of repurchase authorization remaining from our Board, so hopefully that answered your question.

Do you have a follow-on, Romit?

<Q – Romit Shah – Nomura Securities International, Inc.>: Yeah, that's good color. Just on baseband, should we expect that to go to zero by the end of the fourth quarter?

<A – Ron Slaymaker – Texas Instruments Incorporated>: Yeah. That's our expectation is that by the time we get into 2013 baseband revenue will be essentially zero.

Okay, Romit – and I think as you see from the trends we are well on that path, so thanks for your questions, Romit, and we will move to our next caller.

Operator: And now for our final question from Richard Davis with Richard W. Davis.

<Q>: My question, is there a merger in divisions between the OMAP chips and the embedded area?

<A – Ron Slaymaker – Texas Instruments Incorporated>: So what – Richard, what we have organizationally is that those are two separate product lines. Our Wireless reporting segment and our Embedded Processing reporting segment actually have been combined, I believe we made an announcement on this somewhere back in the May time period that they have been combined into one organization really since the priority for both of those product line areas is focused on these horizontal or embedded application markets. So they are all combined, meaning microcontrollers, DSPs, connectivity, the OMAP products, all within one organization that is managed by Greg Delagi, however, for transparency reasons we have – we are continuing to report the Wireless business as a separate reporting section.

Do you have a quick follow-up Richard?

<Q>: No, sir.

Ron Slaymaker, Vice President-Investor Relations

Okay, thank you very much for your questions and before we end tonight's call, let me say that we have an upcoming investor meeting on September 25 in New York, really focused on drilling down into our strategies for Embedded Processing and Wireless. Most of you should have received an invitation, but if not please contact us for details, if you haven't registered yet pleased do so as soon as possible. Also let me remind you that the replay is available on our website, thank you and good evening.

Operator: That does conclude today's call and we appreciate your participation.