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investment report

Texas Instruments (TXN)

business overview *From ti.com and Reuters.com*

Texas Instruments Incorporated (TXN) makes, markets and sells high-technology components. Headquartered in Dallas, Texas, TXN has approximately 31,400 employees worldwide with corporate, sales and manufacturing facilities in more than 25 countries across Asia, Europe and the Americas. Founded more than 75 years ago, TXN began taking actions in 1996 that transformed the company into a corporation focused on making semiconductors for the signal processing markets that have fed the wireless and mobile Internet revolution. This focus, along with a series of acquisitions, divestitures and other actions has made TXN one of the leading semiconductor companies today.

TXN has three business segments: Semiconductor, Educational & Productivity Solutions (E&PS), and Digital Light Processing (DLP®) Products. The Semiconductor segment designs, manufactures and sells integrated circuits accounting for 87% of TXN's revenue in 2005. Its core products include analog semiconductors and digital signal processors (DSPs) with DSP representing about 40% of TXN's Semiconductor revenue. TXN has 58 % of the DSP market and 15% of the standard analog market. Educational & Productivity Solutions (E&PS) supplies business and scientific calculators its customers and a range of advanced classroom tools and professional development resources to help students and teachers interactively explore math and science. E&PS relies on third-party manufacturers to build its products, and it represented 4% of TXN's revenue in 2005.

The DLP® segment uses DLP®technology to develop projection and display solutions for business, home entertainment and commercial entertainment use.

TXN is currently overseen by Thomas Engibous, its Chairman of the Board, and Rich Templeton, president and chief executive officer, who came to this title in May 2004.

competition¹

competitor	company description	implications for TXN
ADI: Analog Devices, Inc.	Headquartered in Norwood, MA, ADI specializes in analog, mixed signal and digital signal processing (DSP) integrated circuits (IC), which can be utilized in various electronic equipment, including wireless communications, industrial process control, computers, automobiles, networking and process control devices, etc.	Controlling about 6% and 9% of the DSP and analog signal markets, respectively, it is a key competitor in these fields. Recently announced its new chip set based on 3G TD-SCDMA, the Chinese standard.

¹ Information compiled from Reuters.com, WSJ.com, company websites, and the Lehman Brother's Semiconductor handbook.

AGR: Agere Systems Inc.	Incorporated in 2000, AGR focuses on integrated circuits used in high-density storage, wireless communications, and enterprise and telecommunications networks. It chiefly targets customers that manufacture PCs, modems, cellular phones, and other electronic equipment.	Controls about 9% of the DSP market. Number 1 supplier of chips for communication networks in North America, Europe, and Asia.
QCOM: Qualcomm Inc.	A digital wireless telecommunications provider, Qualcomm specializes in products that use its CDMA technology, including ICs and system software for wireless voice and data communications, multimedia functions and GPS. Its chief customers are cellular phone manufacturers, including LG, Motorola, and Samsung.	Has been involved in numerous court cases, the costs of which are expected to rise. TXN is one of the companies speculated to have complained about QCOM's patent charge practices.
NSM: National Semiconductor	Headquartered in Santa Clara, CA, NSM provides analog and mixed-signal ICs, targeting manufacturers of wireless handsets, displays, networking devices, medical applications, automotive applications, etc. The company is divided into two groups: the Power and Management Group as well as the Analog Signal Path Group. It mainly focuses on its analog products, which account for 86% of its revenues.	Currently controls about 11% of the analog signal market.
BRCM: Broadcom	BRCM produces semiconductors used for both wired and wireless communications. Its products have a wide variety of applications, including digital cable, satellite, high definition television and DVD, modems, storage networks, telecommunications, etc, allowing the company to have a large client base comprised of companies that produce computing and networking equipment, digital entertainment and broadband access products, and mobile devices.	It has a broad base of technologies. Has agreed to acquire LVL7, a networking software developer, for \$62 million.
MXIM: Maxim Integrated Products Inc.	MXIM is a manufacturer of analog, mixed-signal, digital and high frequency circuits. The automotive, communications, consumer, data processing, industrial control, instrumentation, and medical industries are some of the many industries that MXIM targets for its products.	Has announced that third quarter profits have increased by 2%.
LLTC: Linear Technology Corporation	LLTC focuses on the production of standard linear integrated circuits. Some of its clients include makers of computers, cellular phones, networking devices, multimedia products, and military and space equipment.	Lehman Brothers announced that it expects LLTC to underperform TXN.

financials

income statement

From the income statement, Texas Instruments shows immense steadiness. In fact for the past five quarters, the changes in total revenue, gross profit, and operating expenses are around five percent. As a steady and established company of 75 years, Texas Instruments has established production as a source of revenue and steady expenses providing steady profit and income. Although observing closely, the past two quarters have been better by a margin in all areas.

In Millions of USD (except for per share items)	3 months Ending 09-30	3 months Ending 06-30	3 months Ending 03-31	3 months Ending 12-31	3 months Ending 09-30
Revenue	3,761.00	3,697.00	3,334.00	3,324.00	3,339.00
Other Revenue, Total	-	-	-	-	-
Total Revenue	3,761.00	3,697.00	3,334.00	3,324.00	3,339.00
Cost of Revenue, Total	1,829.00	1,790.00	1,662.00	1,667.00	1,649.00
Gross Profit	1,932.00	1,907.00	1,672.00	1,657.00	1,690.00
Selling/General/Admin. Expenses, Total	432.00	418.00	421.00	404.00	408.00
Research & Development	570.00	536.00	533.00	493.00	521.00
Depreciation/Amortization	-	-	-	-	-
Interest Expense(Income) - Net	-	-	-	-	-
Operating Unusual Expense (Income)	-	-	-	-	-
Other Operating Expenses, Total	-	-	-	-	-
Total Operating Expense	2,831.00	2,744.00	2,616.00	2,564.00	2,578.00
Operating Income	930.00	953.00	718.00	760.00	761.00

balance sheet

There are no noticeable discrepancies in the past five quarters in the balance sheet. This data may attribute to the fact that Texas Instruments is a large company with a positive brand-name and a steady production. Something worth noting is the fact that the total debt has been dramatically decreased in the past two quarters meaning that TXN has enough cash to pay off those debts.

In Millions of USD (except for per share items)	As of 2006-09-30	As of 2006-06-30	As of 2006-03-31	As of 2005-12-31	As of 2005-09-30
Cash & Equivalents	1,430.00	1,678.00	722.00	1,214.00	1,941.00
Short Term Investments	2,754.00	3,992.00	2,942.00	4,116.00	3,305.00
Cash and Short Term Investments	4,184.00	5,670.00	3,664.00	5,330.00	5,246.00
Accounts Receivable - Trade, Net	2,089.00	1,929.00	1,798.00	1,648.00	1,756.00
Receivables - Other	-	-	-	-	-
Total Receivables, Net	2,089.00	1,929.00	1,798.00	1,648.00	1,756.00
Total Inventory	1,491.00	1,335.00	1,246.00	1,185.00	1,074.00
Prepaid Expenses	190.00	215.00	248.00	135.00	166.00
Other Current Assets, Total	667.00	643.00	1,142.00	1,114.00	1,030.00
Total Current Assets	8,621.00	9,792.00	8,098.00	9,412.00	9,272.00
Property/Plant/Equipment, Total Gross	7,890.00	8,406.00	8,442.00	8,374.00	8,661.00
Goodwill, Net	792.00	792.00	793.00	677.00	677.00
Intangibles, Net	306.00	314.00	353.00	303.00	331.00
Long Term Investments	270.00	253.00	240.00	236.00	234.00
Other Long Term Assets, Total	807.00	793.00	686.00	705.00	738.00
Total Assets	14,785.00	15,928.00	14,038.00	15,063.00	14,984.00
Accounts Payable	744.00	788.00	720.00	702.00	755.00

Accrued Expenses	1,184.00	1,071.00	938.00	1,069.00	998.00
Notes Payable/Short Term Debt	0.00	0.00	0.00	0.00	0.00
Current Port. of LT Debt/Capital Leases	43.00	43.00	0.00	301.00	303.00
Other Current liabilities, Total	458.00	881.00	437.00	305.00	197.00
Total Current Liabilities	2,429.00	2,783.00	2,095.00	2,377.00	2,253.00
Long Term Debt	0.00	0.00	318.00	329.00	55.00
Capital Lease Obligations	-	-	-	-	-
Total Long Term Debt	0.00	0.00	318.00	329.00	55.00
Total Debt	43.00	43.00	318.00	630.00	358.00
Deferred Income Tax	14.00	15.00	17.00	23.00	33.00
Minority Interest	-	-	-	-	-
Other Liabilities, Total	315.00	342.00	370.00	397.00	770.00
Total Liabilities	2,758.00	3,140.00	2,800.00	3,126.00	3,111.00
Redeemable Preferred Stock, Total	-	-	-	-	-
Preferred Stock - Non Redeemable, Net	-	-	-	-	-
Common Stock, Total	1,739.00	1,739.00	1,739.00	1,739.00	1,739.00
Additional Paid-In Capital	820.00	779.00	744.00	742.00	674.00
Retained Earnings (Accumulated Deficit)	16,927.00	16,271.00	13,930.00	13,394.00	12,787.00
Treasury Stock - Common	-7,413.00	-5,911.00	-5,092.00	-3,856.00	-3,152.00
Other Equity, Total	-34.00	-67.00	-66.00	-66.00	-160.00
Total Equity	12,027.00	12,788.00	11,238.00	11,937.00	11,873.00
Total Liabilities & Shareholders' Equity	14,785.00	15,928.00	14,038.00	15,063.00	14,984.00
Shares Outs - Common Stock Primary Issue	-	-	-	-	-
Total Common Shares Outstanding	1,483.88	1,532.59	1,558.04	1,596.59	1,618.05

statement of cash flows

The net income has been positive and steady except the unusually high starting line from April to June of 2006 (tripling to quadrupling the other quarters of the year). Cash from operating and investing both seem to be mostly positive, with investing on the more erratic side ranging from -1140 to +1479. What seems to be causing the negative net change in cash in most of the quarters all seem to be coming from financing activities.

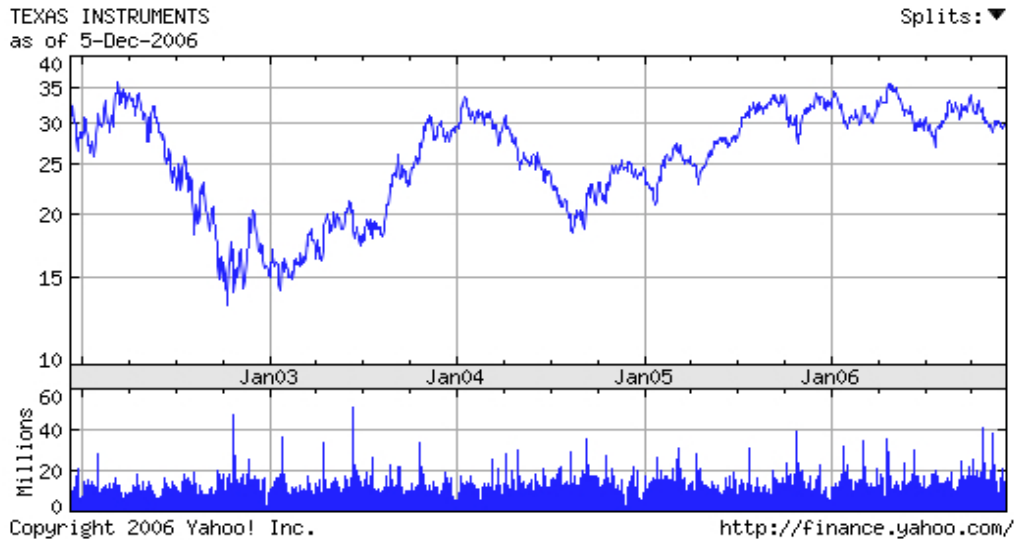
In Millions of USD (except for per share items)	3 months Ending 2006-09-30	3 months Ending 2006-06-30	3 months Ending 2006-03-31	3 months Ending 2005-12-31
Net Income/Starting Line	701.00	2,387.00	585.00	655.00
Cash from Operating Activities	419.00	639.00	557.00	908.00
Cash from Investing Activities	968.00	1,479.00	599.00	-1,140.00
Cash from Financing Activities	-1,631.00	-1,165.00	-1,650.00	-499.00
Net Change in Cash	-248.00	956.00	-492.00	-727.00

valuation

Fluctuating between \$14.68 (November 2002) and \$35.71 (March 2002), the stock price for TXN has been relatively stable, particularly as it appears to be growing steadily in the past two years. Currently, with a PE ratio that is below that of its industry and its competitors (with similar trends in its price to book and price to sales ratio), it would appear that there is a slight undervaluation of its shares.

However, the recent announcement that its fourth quarter revenues are below what they expected may suggest that perhaps the stock is not necessarily undervalued. Furthermore, that the recent buyback of shares has not really resulted in much of an increase in price may also suggest some problems. Nevertheless, one must also look at the fact that because of improved cash flows from debt repayment, the company has also been able to increase its dividend payments to its existing shareholders, from a consistent 2.125 cents per share to 4 cents per share in November 2006.

Overall, the stock is probably fairly valued right now with possibly some room for growth and an appropriate return to shareholders.



key metric	TXN	ADI	comparison to industry	comparison to S&P 500	implications for TXN
PE Ratio	18.23	22.41	23.88	20.40	With a slightly lower PE ratio compared to its competitor, the industry and the S&P 500, this stock looks favorable, but could also indicate that investors do not have much confidence in the stock, being unwilling to pay much for it.
Price to Book	3.66	3.31	3.72	3.89	The price to book ratios for TXN, the industry, and the S&P 500 are all relatively similar. With a slightly lower price to book ratio, however, TXN may be slightly undervalued.
Price to Sales	3.12	4.42	4.13	2.90	The lower price to sales ratio compared to the industry indicates that investors are placing a lower valuation on this stock compared to others in the industry, though it is valued higher than other stocks in the S&P 500.

investment opportunities

strong industry performance

TXN remains one of the few semi names that we believe offers above-average industry growth and some margin leverage. We expect continued strength in wireless, analog and consumer DLP markets. We believe further margin leverage exists at TXN, given its multi-tiered manufacturing structure, lower depreciation and positioning in HPA & DLP. Expect inventory to track sales and believe inventory levels at distribution remain healthy.

wireless, analog, & DLP technologies

We are looking at steady progress in wireless & analog driven by buoyant traction at key partner Nokia in WCDMA & mid-and low-end phones and strength in industrial segment as well as ramp of DaVinci platform in '07, respectively. ARCHOS selected the new TXN DaVinci™ technology dual-core processor for its latest generation of portable multimedia players. LG Electronics selected TXN's OMAP-Vox™ platform for a new series of EDGE cell phones. TXN introduced a high-performance analog power management chip with stackable features that enable designers to develop a high-density power supply that easily scales up to 320 amps of output yet maintains maximum power efficiency. TXN customers demonstrated upcoming models of slim DLP high-definition televisions, which reduce the television cabinet depth to about 10 inches and offer a very light weight, enabling flexible installation options. Samsung has announced availability of the first slim DLP high-definition televisions for later this year.

competitor dealing with lawsuits

QUALCOMM, one of TXN's biggest competitors, is currently dealing with lawsuits on its CDMA patent. They own the rights for this cell phone technology and have been collecting royalties on it. Now, motivated by the EU's anti-trust stance and investigation, many companies such as Motorola and Nokia are filing lawsuits against QUALCOMM, which now will be putting even more of its money and resources into the lawsuits.

strong industry performance

TXN remains one of the few semi names that we believe offers above-average industry growth and some margin leverage. We believe further margin leverage exists at TXN, given its multi-tiered manufacturing structure, lower depreciation and positioning in HPA & DLP. We expect inventory to track sales and believe inventory levels at distribution remain healthy.

In particular, we look for steady progress in wireless & analog driven by buoyant traction at key partner Nokia in WCDMA & mid-and low-end phones and strength in industrial segment as well as ramp of DaVinci platform in '07, respectively.

investment risks

Texas Instruments is susceptible to the cyclical nature of the semiconductor market. It is also susceptible to the fluctuations in the wireless handset market. Nokia is a big customer at approximately 15% and changes in Nokia's market share in handsets may impact sentiment toward Texas Instruments. In addition pricing pressure could lead Nokia to utilize rival suppliers. In fact, Nokia recently cut its profit margin forecasts for the next two years and joined market analysts in forecasting slower growth for the global mobile phone market in 2007.

tougher times ahead?

In the third quarter, Texas Instruments changed predictions for its expected range of revenue to between \$3.71 billion and \$3.87 billion, compared with the prior range of \$3.63 billion to \$3.95 billion. Its EPS from continuing operations will be between 44 cents and 46 cents, instead of the previous range of 42 cents to 48 cents. Following the announcement, stock prices have continued to decrease from \$32.50 to \$28.97, decreasing 12.7% in the past twelve months and 9.3% in the last quarter. The company perhaps may be trying to decrease inventory because they aren't seeing a healthy demand.

full financial statements *From Google Finance*

income statement

In Millions of USD (except for per share items)	3 months Ending 09-30	3 months 2006-Ending 06-30	3 months 2006-Ending 03-31	3 months 2006-Ending 12-31	3 months 2005-Ending 09-30	3 months 2005-Ending 06-30
Revenue	3,761.00	3,697.00	3,334.00	3,324.00	3,339.00	
Other Revenue, Total	-	-	-	-	-	
Total Revenue	3,761.00	3,697.00	3,334.00	3,324.00	3,339.00	
Cost of Revenue, Total	1,829.00	1,790.00	1,662.00	1,667.00	1,649.00	
Gross Profit	1,932.00	1,907.00	1,672.00	1,657.00	1,690.00	
Selling/General/Admin. Expenses, Total	432.00	418.00	421.00	404.00	408.00	
Research & Development	570.00	536.00	533.00	493.00	521.00	
Total Operating Expense	2,831.00	2,744.00	2,616.00	2,564.00	2,578.00	
Operating Income	930.00	953.00	718.00	760.00	761.00	
Interest Income(Expense), Net Non-Operating	-1.00	-2.00	-3.00	-2.00	-2.00	
Gain (Loss) on Sale of Assets	-	-	-	-	-	
Other, Net	55.00	88.00	52.00	51.00	49.00	
Income Before Tax	984.00	1,039.00	767.00	809.00	808.00	
Income After Tax	686.00	739.00	542.00	622.00	596.00	
Net Income Before Extra. Items	686.00	739.00	542.00	622.00	596.00	
Net Income	702.00	2,387.00	585.00	655.00	631.00	
Preferred Dividends	-	-	-	-	-	
Income Available to Common Excl. Extra Items	686.00	739.00	542.00	622.00	596.00	
Income Available to Common Incl. Extra Items	702.00	2,387.00	585.00	655.00	631.00	
Dilution Adjustment	0.00	-	0.00	0.00	0.00	
Diluted Weighted Average Shares	1,537.00	1,586.00	1,618.00	1,643.00	1,663.00	
Diluted EPS Excluding Extraordinary Items	0.45	0.47	0.33	0.38	0.36	
Dividends per Share - Common	0.03	0.03	0.03	0.03	0.03	
Stock Primary Issue	-	-	-	-	-	
Basic Normalized EPS	-	-	-	-	-	
Diluted Normalized EPS	0.45	0.47	0.33	0.38	0.36	

balance sheet

In Millions of USD (except for per share items)	As of 2006-09-30	As of 2006-06-30	As of 2006-03-31	As of 2005-12-31	As of 2005-09-30
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Long Term Investments	270.00	253.00	240.00	236.00	234.00
Other Long Term Assets, Total	807.00	793.00	686.00	705.00	738.00
Total Assets	14,785.00	15,928.00	14,038.00	15,063.00	14,984.00
Accounts Payable	744.00	788.00	720.00	702.00	755.00
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Notes Payable/Short Term Debt	0.00	0.00	0.00	0.00	0.00
Current Port. of LT Debt/Capital Leases	43.00	43.00	0.00	301.00	303.00
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Capital Lease Obligations	-	-	-	-	-
Total Long Term Debt	0.00	0.00	318.00	329.00	55.00
Total Debt	43.00	43.00	318.00	630.00	358.00
Deferred Income Tax	14.00	15.00	17.00	23.00	33.00
Minority Interest	-	-	-	-	-
Other Liabilities, Total	315.00	342.00	370.00	397.00	770.00
Total Liabilities	2,758.00	3,140.00	2,800.00	3,126.00	3,111.00
Redeemable Preferred Stock, Total	-	-	-	-	-
Preferred Stock - Non Redeemable, Net	-	-	-	-	-
Common Stock, Total	1,739.00	1,739.00	1,739.00	1,739.00	1,739.00
Additional Paid-In Capital	820.00	779.00	744.00	742.00	674.00
Retained Earnings (Accumulated Deficit)	16,927.00	16,271.00	13,930.00	13,394.00	12,787.00
Treasury Stock - Common	-7,413.00	-5,911.00	-5,092.00	-3,856.00	-3,152.00
Other Equity, Total	-34.00	-67.00	-66.00	-66.00	-160.00
Total Equity	12,027.00	12,788.00	11,238.00	11,937.00	11,873.00
Total Liabilities & Shareholders' Equity	14,785.00	15,928.00	14,038.00	15,063.00	14,984.00
Shares Outs - Common Stock Primary Issue	-	-	-	-	-
Total Common Shares Outstanding	1,483.88	1,532.59	1,558.04	1,596.59	1,618.05

statement of cash flows

In Millions of USD (except for per share items)	3 months Ending 2006-09-30	3 months Ending 2006-06-30	3 months Ending 2006-03-31	3 months Ending 2005-12-31
Net Income/Starting Line	701.00	2,387.00	585.00	655.00
Depreciation/Depletion	266.00	267.00	270.00	365.00
Amortization	41.00	44.00	46.00	48.00
Deferred Taxes	-46.00	-41.00	-36.00	-93.00
Non-Cash Items	64.00	-1,591.00	83.00	42.00
Changes in Working Capital	-607.00	-427.00	-391.00	-109.00
Cash from Operating Activities	419.00	639.00	557.00	908.00
Capital Expenditures	-276.00	-374.00	-408.00	-376.00
Other Investing Cash Flow Items, Total	1,244.00	1,853.00	1,007.00	-764.00
Cash from Investing Activities	968.00	1,479.00	599.00	-1,140.00
Financing Cash Flow Items	21.00	57.00	7.00	17.00
Total Cash Dividends Paid	-46.00	-47.00	-48.00	-48.00
Issuance (Retirement) of Stock, Net	-1,606.00	-900.00	-1,298.00	-742.00
Issuance (Retirement) of Debt, Net	0.00	-275.00	-311.00	274.00
Cash from Financing Activities	-1,631.00	-1,165.00	-1,650.00	-499.00
Foreign Exchange Effects	-4.00	3.00	2.00	4.00
Net Change in Cash	-248.00	956.00	-492.00	-727.00
Cash Interest Paid, Supplemental	-	-	-	-
Cash Taxes Paid, Supplemental	-	-	-	-