

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Vanessa and I will be your conference operator today. At this time, I would like to welcome everyone to the first quarter 2009 mid-quarter conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. I will now turn the call over to Mr. Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon and thank you for joining TI's first quarter mid-quarter financial update. 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 have 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 risk factors 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 complete description.

We have adjusted and narrowed our expected ranges for TI's revenue and EPS. We now expect TI revenue between 1.79 and \$2.05 billion. We have raised the middle of this range about \$50 million compared with the prior range. The upside is most notable in Embedded Processing and Analog communications infrastructure products that are being driven by China 3G programs. We've also seen upsides in other product areas, although these are mostly the result of specific customer programs such as new product launches. We have not seen the kind of broad based strengthening that would normally be associated with the end of an inventory depletion cycle.

We expect earnings per share between a loss of \$0.08 and breakeven. Note that we have revised our estimate of first quarter restructuring charges to about \$80 million or \$0.04 per share, up from our previous estimate of about \$50 million or \$0.03 per share. The specific charge amounts could still change this quarter as we implement these actions.

We are achieving some of the cost reductions faster than we had initially forecast. As a reminder, in total the actions that we have underway should remove about \$700 million of annualized cost and should be completed as planned by the end of the third quarter. We are making good progress to reduce cost and position TI for what will likely be a prolonged period of weaker demand. Although the current quarter will feel the impact of the higher charges, we will also see the benefit of lower costs earlier.

In addition, we continue to aggressively reduce inventory on multiple fronts. We reduced inventory significantly in the fourth quarter, and we expect another significant reduction in the current quarter.

In addition, we are working with our distributors to reduce channel inventory again this quarter. We believe we will be well served by our strategy to adjust sooner rather than later to the realities of lower demand.

Although we continue to challenge ourselves to achieve breakeven profitability this quarter, we will not trade off our future financial performance to achieve this.

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?

— QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Tore Svanberg from Thomas Weisel Partners.

<Q – Tore Svanberg>: Good afternoon. Ron, could you talk a little bit more about the channel inventory? You mentioned that you were working with the channel to reduce it further. I guess I'm just trying to understand do you feel that we are now at the real rate of consumption or is there more to digest there?

<A – Ron Slaymaker>: No, Tore, we don't believe even at distribution that we're at the rate of consumption. If I can just make some general comments, then I'll specifically hit what you're asking. But if you just look at distribution resales as well as our revenue into distributors, they're both expected to be down, in general probably about the same range as our overall revenue trends. And as we said, we're expecting to shift or to achieve another significant reduction in inventory.

If you try to quantify how much below their shipments out our shipments in would be, in general it looks like this quarter probably 10 to 15% below; and again, our shipments into that channel being about 10 to 15% below what distributors are shipping out. So again, we can gauge that for distributors. Once you get to customers and either the distributors' customers or our direct OEM customers, of course it's really impossible for us to track the difference there. However, even there, in general across the board, we believe that we're likely shipping below end demand. Do you have a follow-up, Tore?

Operator: Your next question comes from the line of Tim Luke from Barclays Capital.

<A – Ron Slaymaker>: Okay. Tim – and operator, again, if Tore had a follow-up question, Tore, if you can re-queue in, we'll let you back on. If you did not have a follow-up question, so be it. Okay, Tim, go ahead, please.

<Q – Tim Luke>: Thanks, Ron. Just on the inventory side, do you have any metrics in terms of weeks that you might be able to share with us in terms of inventory in the channel or on hand? That was my first question.

<A – Ron Slaymaker>: Tim, I don't have specific numbers in terms of distribution weeks of inventory. I think as I recall, we ended last quarter with distributors a little over eight weeks of inventory. As I said, in general we have our shipments into the channel, their shipments out of the channel coming down roughly the same pace. There's probably not a big difference in the weeks of inventory or turns data this quarter. But again, those numbers can be pretty volatile just by nature of the numerator and denominator in the calculation. Do you have a follow-on, Tim?

<Q – Tim Luke>: Thank you, yes. It sounded like the key difference from your prior expectation set was strength in Chinese spending, particularly Chinese 3G. Do you have a feel for how you perceive the sustainability of that through calendar '09? And I think previously, you had outlined that you would have expected three quarters potentially of revenue decline. How do you believe that shapes up going through '09?

<A – Ron Slaymaker>: Okay. Tim, certainly, as you've heard us say for some time, we are positioned very broadly across the different equipment manufacturers for wireless infrastructure in general, including the position in China. So as China is now starting to deploy or has deployed licenses and is beginning to deploy infrastructure, we're in a very good position to benefit from that.

As to the level of sustainability, Tim, I'd have to say we don't have a real clear perspective on that. Clearly that's supposed to be a big deployment and we'll continue to benefit. But what we are

unclear of is at this point how much those various equipment manufacturers may be front loading some of their ordering. So we probably are at a pace right now where they're getting positioned with inventory and it's probably a bit more intense than what it would be as the year progresses. But again, we don't have clear data there.

As to your – I would call it your third question of whether we would expect to see three quarters of decline in – I guess you're talking about just in general the inventory depletion, it's probably – and again, I think you're talking their customers and the channel, we really don't have a clear perspective to provide you on second quarter at this point. Of course we'll have more to say about our second quarter expectations in April when we report. But I think one of the considerations here, Tim, is that normally an inventory driven cycle plays out across the period of time that you referenced.

What's complicating the calculations this quarter is the end demand trend itself. So if end demand declines further, which frankly is what we believe is likely, then the supply chain's need for inventory will also decline further, and any potential snap back or whatever you would want to call it would get muted, eliminated, or even worse. So what I would say about second quarter and maybe even on into second half is that those time periods and our revenue in those time periods are highly going to depend upon what happens with end demand. So other than those general comments, though, I don't have a specific expectation to share about second quarter at this point.

Okay, Tim, thanks for your questions and let's move to the next caller, please.

Operator: Your next question is a follow-up question from Tore Svanberg from Thomas Weisel Partners.

<A – Ron Slaymaker>: Welcome back, Tore.

<Q – Tore Svanberg>: Yes, thank you, Ron. I was just wondering if you could talk a little bit about the bookings you are experiencing right now. Can you just talk about the lead times and what type of visibility you're getting on those bookings?

<A – Ron Slaymaker>: Okay. Let me just hit both of those independently. Lead times in general for most of our product areas are what I would characterize as short and stable, and product availability as you might assume is generally not an issue.

In terms of bookings and booking trends, I would describe that bookings are tracking ahead of where they were in the fourth quarter, but I'll also remind you the fourth quarter was a very weak level of bookings. So I think in fourth quarter, if I remember right, we had a 0.75 book-to-bill. Book-to-bill certainly should be improved this quarter from last quarter, although it's still too early to be specific. I'll also note book-to-bill of course is benefiting from the denominator declining. But at the same time, I will say orders have trended up from the very weak levels that we saw in the December quarter as well. Okay, Tore, thank you for that follow-up.

<Q – Tore Svanberg>: Very helpful, thank you.

<A – Ron Slaymaker>: And let's move to the next caller, please.

Operator: Your next question comes from the line of Cody Acree from Stifel Nicolaus.

<Q – Cody Acree>: Just following up there, order linearity, maybe just so far during this quarter, is there anything you can talk about as far as tracking week by week as you progress?

<A – Ron Slaymaker>: Cody, I'm not sure I want to get into it week by week, but I'll give you some monthly data anyway. If you look at orders in the month of January, they were up from the December level. But I will once again emphasize the month of December especially was very weak. In fact, I think the month of December was the weakest month in the fourth quarter. So in any case, orders grew in January. They also grew in the month of February. So they're trending right, but again the base comparison was a very weak comparison. Did you have a follow-on, Cody?

<Q – Cody Acree>: I do. Spending, you talked about making progress in spending maybe a bit ahead of expectations. If you look through the remainder of the year or at least what your goals are, what can we expect for operating leverage as you continue to make progress?

<A – Ron Slaymaker>: Sure. I think – let me say first of all or just clarify, we are making good progress on the cost reductions, and in fact we're probably ahead of schedule somewhat on those cost reductions. I believe what we characterized last quarter was of the \$700 million of total cost reduction, 80% of that would be operating expense, so all of that clearly is going to be operating leverage that will be fully played out by the fourth quarter of this year.

And just to make that guidance very specific, I think we said that in the fourth quarter of last year, we had already achieved 10 million of gains associated with the wireless actions that we announced in October, so specifically fourth quarter of 2009 should be – total cost gains would be 165 million therefore compared to fourth quarter of '08, and 80% of that roughly would be on operating expense. So again that will be the final result; we're tracking to that. And again the total number hasn't changed in terms of those cost actions, but the pace at which we expect to be achieving them has been pulled in somewhat.

Okay, Cody, I believe that was your follow-up, and we'll move on to the next caller, please.

Operator: Your next question comes from the line of Glen Yeung from Citi.

<A – Ron Slaymaker>: Hi, Glen Yeung, how are you?

<Q – Glen Yeung>: Good, Ron, how are you?

<A – Ron Slaymaker>: Good.

<Q – Glen Yeung>: If I look at your bookings from the fourth quarter and grow them by 3% and then compare that to your current revenue guidance, you have a book-to-bill that's one. Do you think – there are a lot of assumptions there, but do you think that's even a reasonable way to think about things?

<A – Ron Slaymaker>: I think the way you're – the math you're doing is generally correct. I'm always reluctant at this point in the quarter to try to project what the book-to-bill will be just because you have a numerator and a denominator that can change on us here. But you're right, we're saying 23% reduction at the middle of the range is what the denominator would do, so that alone would get you pretty close to parity on book-to-bill. And we're also allowing that orders are going to be up somewhat compared to last quarter as well, so I can't argue your math.

<Q – Glen Yeung>: Second question I had, Ron, is you made the point about there still being inventory destocking going on, but I wonder if you can clarify between Embedded, Analog and Wireless, if you see an area where there's relatively more inventory that's left over and inventories where there is relatively less?

<A – Ron Slaymaker>: Glen, not that I really have direct perspective; I mean again, our best visibility into inventory and what remains out there is in the distribution channels. And I would say

there we're pulling it down pretty uniformly, and that would mainly be the catalog area of our embedded products as well as the high-performance analog products and power products that move through distribution. But versus say wireless, I mean the reality is a lot of wireless's are on the revenue supported by consignment programs there, and there's probably less component destocking, and probably the inventory consideration there is more what our customers are doing at the handset levels and through their channels. And again, we know generally what's happening but we can't quantify it specifically, so hopefully that helps. Thank you, Glen, for your questions and let's move to the next caller.

Operator: Your next question comes from the line of Jim Covello from Goldman Sachs.

<A – Ron Slaymaker>: Hey, Jim.

<Q – Jim Covello>: I know Tim was talking about the infrastructure and you were talking about the infrastructure demand related improvements in China, anything on the handset side there? What's your overall assessment of China handset demand and inventory versus demand including anything from the stimulus impacting the demand there? Thank you.

<A – Ron Slaymaker>: Jim, I would say I don't know that I can get it down specific to China in terms of my comments on wireless handsets. I can say that overall, our Wireless business is doing what I would characterize as a little better than we had initially expected. But again, the upside there is really a small fraction of the increase that we're seeing on the infrastructure side though; and of course, the handset business is a much larger business. So I wouldn't say that there is anything that I would point specifically to China on handsets. But in general, the handset number came up a little bit relative to our initial expectations. Do you have a follow-on, Jim?

<Q – Jim Covello>: Yes, I'll stay on that topic for the follow-on. Is there any way of gauging the improvement in handset demand? What percentage is demand related versus inventory related?

<A – Ron Slaymaker>: Not that we've been able to assess – and again part of the issue there, Jim, is when we look at what customers do seasonally and in the transition between fourth and first, there is always – it's closer than it used to be, but there is a bit of a lead that we have relative to the customers just by nature of not 100% of our Wireless revenue is on a JIT program. There is also lead time for their manufacturing cycle time, et cetera. So there will never be 100% correlation between our shipments or our revenue and that of the customers. So even if we just read market reports, et cetera, that doesn't give us specific data as to how much of what we're seeing could then be calculated as end demand versus inventory. So I'm sorry I can't be more clear, but that's the reality of the situation. Okay, Jim, thank you for your questions, and let's move to the next caller, operator.

Operator: Your next question comes from the line of Chris Danely from JPMorgan.

<Q – Christopher Danely>: Thanks, Ronny. So I guess just a clarification, are you saying that book-to-bill is above one so far this quarter or around one?

<A – Ron Slaymaker>: I am saying that book-to-bill has improved from last quarter, although it's too early to be more specific. I should be able to have a specific book-to-bill number for you at the end of the quarter, Chris.

<Q – Christopher Danely>: Okay, great. That's close enough. And then in terms of your own inventory and utilization rates, how far do you feel you're progressing in taking down your inventory? i.e., do you expect your utilization rates to remain low or go lower in Q2? And how much longer do you think that it will take TI to get its inventories in the appropriate shape?

<A – Ron Slaymaker>: We feel we're making very good progress on inventory. I think if you even look at what we've done over the last couple quarters, I would be – I suspect we're pretty much best in class compared to semiconductor peers in terms of how aggressively we've moved on getting our inventory in alignment with lower end demand. And I guess I don't have a lot of foresight to provide you as to what we may do next quarter other than clearly, we may continue to reduce inventory in the quarter. I'll just leave that as an option.

I think what I would also say is if you look at this quarter, I think we came into the quarter telling you that we would expect to see utilization level in the low 30s, mid-30s, somewhere in that range. That's still on track in terms of what we're running. But the only thing I don't want to do is try to extrapolate out into second quarter because we're still in the process of making those – putting those operating plans into place. So I'll just keep that one open until we report in April.

<Q – Christopher Danely>: Thanks, great.

<A – Ron Slaymaker>: Okay, Chris, thank you, and we'll move to the next caller, please.

Operator: Your next question comes from the line of David Wong from Wachovia.

<Q – David Wong>: Thanks very much. At the rate at which you're currently starting wafers and also placing foundry orders, will your total output in the June quarter be below the March quarter levels or above?

<A – Ron Slaymaker>: I think I'll also beg off on that one, David, and say that we'll give you more comments about second quarter in April. I probably don't have anything more to say on second quarter than what I have already said thus far. Do you have a follow-on?

<Q – David Wong>: Yes, thanks. Are you seeing any particular pricing pressures at the moment?

<A – Ron Slaymaker>: No. In fact, I would even say remarkably no to some degree. And what I mean by that is overall pricing trends remain stable. The surprising area is that even in the commodity areas, pricing is stable. I frankly would have expected more deterioration of pricing in commodities, and best I can tell is that as distributors are working to reduce their inventory levels, they're not stepping – pricing usually comes into play when they would get motivated to buy more product. They're more focused on reducing inventory than driving down pricing, so overall pricing trends are stable. Okay, thank you, David; let's move to the next caller, please.

Operator: Your next question comes from the line of John Dryden from Charter Equity.

<A – Ron Slaymaker>: John Dryden, are you there?

<Q – John Dryden>: Yes.

<A – Ron Slaymaker>: Okay. Go ahead, please.

<Q – John Dryden>: With the larger sales force in emerging markets versus your analog peers, is your team there any more optimistic versus US and Europe or no significant improvement in orders across all geographies?

<A – Ron Slaymaker>: John, unfortunately I do not have any regional data to provide at this point in the quarter, so I'll just have to ask you to wait until April for that data. Do you have a follow-on, John?

<Q – John Dryden>: Yes, on the 30 million restructuring pull-in, can we take that out of Q2 and Q3, your estimate there for 130 million?

<A – Ron Slaymaker>: Yes, that's a good question, John. About half and half is what I would say, meaning about half of the higher charges that we're seeing this quarter are due to pull-in from those two future quarters, and about half of the total charges are just due to the estimate now being higher than what the – the estimate for total charges from these actions being higher than what we provided back in January, and I'll give you an example of how that comes about.

In our planned job reductions, we've had a higher mix than what we had expected of early retirement volunteers, and those types of voluntary programs tend to be more costly than the involuntary program, which then drives the total charge higher. So it's those type of almost what I would characterize as mix that's impacting the charge to be a little higher than what we had initially projected in January. So again, of the 30 million, about half is pull-in and about half is just higher than expected total charges. Okay, John, thanks for your questions and let's move to the next caller, operator.

Operator: Your next question comes from the line of Adam Benjamin from Jefferies.

<Q – Adam Benjamin>: Thanks, Ron. First off, can you just clarify? I think you indicated that you thought demand was going to weaken as you progress throughout the rest of the year. And then secondly, as you look at your shipping below consumption, I think you indicated about 10%. As you look out, when do you expect to be getting to parity, and has that changed versus where you were back in January when you had your earnings call? Thanks.

<A – Ron Slaymaker>: Okay, Adam, to the first question, let me not say that we expect end demand will continue to deteriorate through the end of the year. What we believe is everything we see around us at the macro level says that end demand is currently deteriorating. And so based upon that, we don't believe we can put a stake in the ground and say we're at a bottom yet. And frankly until we see stabilization in end demand, you won't see us step up. We won't have the confidence to step up and say that we think we're approaching a bottom. So again, it was just a statement that here and now, end demand continues to deteriorate. Frankly, we don't see signs of stabilization; and until it does, we won't be confident that we're approaching a bottom.

To the distribution, we're currently under-shipping 10%. How much longer does that go on? I'll circle back to that depends on end demand. If end demand goes down, our distributors need less inventory to support that end demand. If our – same thing applies to OEM customers, so it's difficult in this environment where end demand is deteriorating to apply the normal historical rules of we've got this amount of inventory burn underway, therefore it's going to take X weeks or months or quarters to get through it when we don't know what will ultimately happen with end demand. So I'm going to have to just probably leave that one there.

Do you have a follow-on, Adam, or maybe that was your follow-on. Okay, operator, I think we have time for one final caller, please.

Operator: Your next question comes from the line of Ross Seymore from Deutsche Bank.

<Q – Ross Seymore>: Thanks, Ron, for getting me in under the wire. The cost cutting appears to be heading or has been heading faster than you had originally thought. Could that \$165 million in savings year over year happen in the third quarter of this year given the pace at which you're ahead of expectations?

<A – Ron Slaymaker>: I think the profile will be more accelerated from what we're expecting. But Ross, we do expect the actions to continue through the third quarter, so it will be the fourth quarter

before we're seeing the full effect there, so do not pull that into the third quarter. We expect that it will be fourth quarter. Do you have a follow-on, Ross?

<Q – Ross Seymore>: Sure. A simple one, do you think you're going to burn more or less inventory than the 200 million you did last quarter?

<A – Ron Slaymaker>: We expect a – clearly that 200 million was a significant reduction. I won't go beyond saying that we expect another significant reduction in the current quarter, so it could be above or below. We'll tell you that in April.

Ron Slaymaker, Vice President, Investor Relations

So with that, we're going to wrap up this call. And before we end it, let me remind you that the replay is available on our website. Thank you and good evening.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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