

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Texas Instruments Third Quarter 2010 Mid-Quarter Update Conference Call. At this time, I would like to turn the conference over to Ron Slaymaker. Please, go ahead, sir.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon. And thank you for joining TI's Mid-Quarter Financial Update for the Third Quarter of 2010. In a moment, I'll 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 segment or end market 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 Web site at ti.com/ir. This call is broadcast live over the Web and can be accessed through TI's Web site. 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 around the middle of our previous ranges. We now expect TI revenue between 3.62 and \$3.78 billion. This is a range of sequential growth of 4% to 8%. We expect earnings per share between \$0.66 and \$0.72. This EPS range is \$0.04 to \$0.10 higher than the \$0.62 we reported last quarter.

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: Thank you, Mr. Slaymaker. [Operator Instructions] And we'll take our first question from Uche Orji with UBS.

<Q – Uche Orji>: Thank you very much. Ron, let me just ask you about what you're seeing by way of any rescheduling in bookings. I mean, National Semi was on a few minutes ago and they had talked about seeing some rescheduling in bookings. Any comments you can make as to your bookings activity will be helpful to understand whether we're starting to see any imperceptible slowdown there or whether bookings continue to remain strong.

<A – Ron Slaymaker>: Okay. Uche, I don't think we typically comment about our order trends at this point in the quarter as orders really tend to be more about next quarter's outlook. So we'll have those details in the report in October along with our fourth-quarter outlook. Do you have a follow-up question?

<Q – Uche Orji>: Sure, I do. So if we look at the – any comments you can make by end market at this point as to where you're seeing strength and where you're seeing weakness would just be something that would help for us.

<A – Ron Slaymaker>: Okay. Sure. And I'll try to tie this to how those end market trends tie to various product lines for TI as well, or our segments anyway. I guess, first of all, just the nature of narrowing to the middle of our range, I would say it's probably pretty evident that the quarter overall is tracking consistently with our initial expectation back in July.

If I describe our trends relative to the second quarter, we expect all of our segments to grow sequentially this quarter. Also, growth should be strongest in our Embedded Processing segment and that really reflects its strength in the industrial and wireless infrastructure markets. I think those markets clearly are performing robustly this quarter and that also then would affect in a positive way various portions of our Analog products that also have ties into those same markets.

I think, as we've said before, the industrial segment is continuing its cyclical recovery, although I think after three to four quarters of strong growth in industrial, that cyclical recovery very likely will soon give way to more typical seasonal patterns in that segment.

I think if you move over to products that we have that are exposed to PCs, and I'll include hard disk drives in this discussion, probably also some consumer areas such as televisions would be considered underperforming this quarter. Both of those markets primarily affect portions of our Analog segment.

And then finally, sequential growth in Wireless really reflects both the overall strength of the smartphone market as well as the strength of TI's position in smartphones. I think baseband revenue, once again, you should see and we would expect it to decline as a percentage of TI's overall revenue, once again this quarter.

<A>: Okay, Uche, thank you for your questions. Let's move to the next caller, please.

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

<Q – Tore Svanberg>: Yes, thank you, Ron. I was hoping you could talk a little bit about the quarterly dynamics, like lead times and maybe even linearity throughout the quarter.

<A – Ron Slaymaker>: Okay. Let's start with lead times. And as you know, we've been adding capacity now for several quarters and in fact have been reducing lead times now for several

quarters in what I would characterize as an orderly manner. Lead times are still not as short as we want them yet, but the capacity additions we've made have helped and will continue to help, so lead times are again progressing from the standpoint of getting shorter once again this quarter.

I guess I should also note that while our lead times are shortening, we believe and our customers are conveying to us that most of our peers are in fact extending their lead times, so this certainly encourages us that our capacity additions have been timely and really were the right strategic move in an environment that we think is increasingly supply-constrained.

Linearity, Tore, there's probably not a lot to be gained from discussing our month by month trends. I think what's safe to say is that as in most quarters, we're expecting the last month of the quarter or the month of September to be our strongest month, although we only need an average September, by historical standards, to meet the guidance that we're providing here.

Do you have a follow-on question, Tore?

<Q – Tore Svanberg>: Yeah, just very quickly...

<A – Ron Slaymaker>: Tore, I believe we lost you there and if you'll queue back in, we'll try to circle back to you. Operator, why don't we move to the next caller?

Operator: We'll go next to Tristan Gerra with Robert W. Baird.

<Q – Tristan Gerra>: Hi. Assuming that we see a weakening in end demand trends later this year and into Q1, what is your ability to modulate the RFAB output? And also how would that potentially change the mix from that fab versus what you're currently expecting?

<A – Ron Slaymaker>: Tristan, I don't think – RFAB is not different than any other fab. We have the ability at any fab on a daily, weekly, monthly basis to modulate our loadings consistent with what we believe end demand will look like. And I think the difference between RFAB and the mix between RFAB and other fabs really will have – the primary factor will be just what products we have ramping in RFAB and the demand for those products versus the products that are loaded into other fabs. So it would be more mix determined by product area as opposed to, for example, cost consideration of RFAB versus other fabs.

<A>: Do you have a follow-on, Tristan?

<Q – Tristan Gerra>: Quick one. Are you willing to give us an update on the inventory trends directionally, specifically for what you have in consignment?

<A – Ron Slaymaker>: That's a very detailed question that I wouldn't even venture to start down on. I don't know that I even typically have that detail at the end of the quarter. But I'll make some general comments on inventory. Some I can maybe be of use and others I may not at this point in the quarter.

Let me first of all just talk about inventory trends, maybe at customers. So I think if you look at some of the areas that I already identified, specifically consumer TVs and PCs, and PCs again including associated hard disk drives. In fact, we're seeing an inventory adjustment that really tie to weaker-than-expected end demand by our customers for their products. I think the PC market has a history of sharp, but relatively quick corrections and we believe that, in fact, is what we're in.

For TVs, I think the correction really ties to lower-than-expected flat screen demand that was associated with the World Cup, as well as what I would characterize as tepid consumer acceptance of some of the new 3D television models. But in both markets I think those adjustments are

resulting from lower-than-expected demand and not from an excessive build of semiconductor components. I think in terms of our own inventory trends, which is part of what you were asking with respect to consignment, I don't have a projection on our trends at this point in the quarter. Again, we'll have those details for you in October.

Maybe the only other one I can comment on would be distribution and just in general, distribution is tracking our overall results pretty closely. And I say that both from the standpoint of resales or sales out of that channel, as well as our shipments in. So with respect to distribution inventory, it's been managed very lean, partly because of the structural benefit of the consignment program that we've referenced and we really see that we would characterize distribution inventory today as lean as well.

Okay. Tristan, thank you for those questions. And let's move to the next caller.

Operator: We'll go next to Shawn Webster with Macquarie.

<Q – Shawn Webster>: Great. Thank you very much. In terms of the – you made some comments in terms what you're seeing for customer order patterns in a couple end markets. Can you talk about the calculators and specifically I guess I'm interested in how back-to-school demand is coming together from what you can observe and maybe just specifically touching on the calculator segment.

<A – Ron Slaymaker>: Yeah, I don't – the back-to-school, of course there's a lot of different customers that have involvement there, as we've talked about with PCs. But with respect to our calculator business, I would characterize it as our expectation is pretty normal. And if you just look at a normal seasonal second-to-third quarter transition, usually we see that revenue up about 10%. And we're generally in that ballpark this quarter as well. Do you have a follow-up, Shawn?

<Q – Shawn Webster>: Yeah. Just can you give us any geographic color you might have on the quarter?

<A – Ron Slaymaker>: Geographically, I don't have a lot of detail. But what I can say is it appears at this point that growth is going to be broadly distributed across the U.S., Europe and Asian regions for us, so generally broad-based growth throughout.

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

Operator: We'll go next to Alex Gauna with JMP Securities.

<Q – Alex Gauna>: Yeah, thanks very much. You mentioned some strength on the infrastructure side of communications and I was wondering if you might be able to give us some color maybe geographically or what type of infrastructure we're seeing early 4G or is it 3G?

<A – Ron Slaymaker>: Alex, I would say most of what we're seeing is broad-based strength in 3G W-CDMA systems. And so again, that's broad based across geographies. That being said, I would also note that we are seeing good strength in TD-SCDMA in China as well.

I think the other thing that's encouraging and probably not so much in this quarter's results but if we look ahead in the not-too-distant future, we believe we're on the verge of some very good growth out of India as well as they start to deploy some more advanced infrastructure. And probably, certainly as you know, we are very well positioned in this wireless infrastructure equipment with DSPs from our Embedded Processing segment as well as with Analog products. So that growth is strong and certainly very welcome.

Do you have a follow-on, Alex?

<Q – Alex Gauna>: Any way you could characterize on the verge? Is that one to two quarters? Two to three? Within the next year?

<A – Ron Slaymaker>: Yeah, something like that. No, I don't have, probably – certainly within the next year. Whether it's a quarter out or two quarters out, it's always a little difficult. But I would say certainly near term in that type of range.

<Q – Alex Gauna>: Thanks so much.

<A – Ron Slaymaker>: Okay. Alex, thank you. And operator, we'll move to the next caller.

Operator: We'll go next to Srinu Pajjuri with CLSA.

<Q – Srinu Pajjuri>: Hi, Ron. Based on your comments about the strength in industrial and somewhat of a weakness in PC and consumer, should we expect any impact on the gross margins? I mean normally I would expect gross margins to kind of benefit from this trend and mix. Just wondering if we should expect some benefit here?

<A – Ron Slaymaker>: To be honest, I don't think you're going to see it. I think you're probably right that the product – just if you look at mix and you consider nothing other than industrial strong and some of the high-volume markets like PCs or televisions, weak you would say those strong areas tend to be higher gross margin, relative to the weaker areas. So all things other than that set aside, mix would be beneficial to gross margin. But rarely is it that clean. But I suspect again you probably won't see a significant difference one way or the other associated with that mix.

Do you have a follow-on?

<Q – Srinu Pajjuri>: Yeah, sure, Ron. I know it's bit early looking to the fourth quarter, but usually your fourth quarter is seasonally down because of calculators. But in the past few quarters the mix has changed especially in Wireless. I'm just wondering should we expect any difference if we think about seasonality this time? Thank you.

<A – Ron Slaymaker>: Yeah. I mean, seasonality, does, has maybe shifted somewhat with consignment programs and such. Although to be honest, our consignment program in Wireless has been pretty deployed over a number of years now. So that probably hasn't, at least in recent years, moved around so much.

Maybe – I don't have a lot but I can say about fourth quarter at this point, as is normal. But if I just look at the last five years for what it's worth, our total revenue has averaged down 7%. And probably three to four points of that decline is directly associated with our decline – the back-to-school seasonality, coming off of that back-to-school period for our calculator growth. So and then you can start deciding whether you're going to pull out Wireless out. I think if you take out the 24% decline that we had in fourth quarter '08, that probably moved up a few points from that down seven. So typically we would be down in fourth quarter anywhere from a few to seven points probably is the way to look at it.

Okay. Thanks for your questions. And, Operator, we'll move to the next caller.

Operator: We'll go next to Steve Smigie with Raymond James.

<Q – J. Steven Smigie>: Great. Thanks. I was wondering if you could comment a little bit on the competitive environment you see in the applications processor market at this point? And talk a little bit about where you're seeing standalone versus integrated apps processor?

<A – Ron Slaymaker>: Well, I think certainly we feel – I mean, it's going to be a competitive environment. It has been. It will continue to be. We've had certain competitors that have – I would describe it as pulled back or seen less traction in the market. And at the same time we've seen other competitors become increasingly – maybe aggressive or at least noisy even though maybe there's not a lot of traction that you could specifically point to in terms of design wins.

So with OMAP we feel very good about our position. That does not mean that we are relaxing and believing we have the battle over. It's not. But we do feel very good about our position. We feel good about the customer base. We feel good about our relative position in some of the hottest operating sets – systems such as Android. And then also that debate about whether the world goes integrated or whether applications processors stay discrete, just the traction we have, and I think you've heard us note before, this year alone, we will have 50 new handset models move into production using OMAP3 as their applications processor.

So I would put that success rate up against any of our competitors in terms of, not just our current position in the market, but the incremental gains that we're making in terms of design wins. And I think the results speak for themselves in terms of whether the world will increasingly move integrated or whether it will remain discrete. So that, the argument itself about the benefits of one versus the other is probably a little more complex than what we want to get into here, but just suffice it to say nothing has changed our position or even has caused a ripple in that position as to our confidence in our success with OMAP moving forward and the significance of that opportunity for TI.

<A>: So do you have a follow-on, Steve?

<Q – J. Steven Smigie>: Yeah, if you could, talk a little bit about maybe what you're seeing in terms of Wi-Fi for handsets, how you're doing with the connectivity. Are you gaining share there? And a little bit about – well, I guess it's sort of short-term, how it's doing in the quarter and do you think you're gaining share? Thanks.

<A – Ron Slaymaker>: Yeah, I think just in terms of connectivity, that's an area that we have been especially strong in, especially tied to Wi-Fi. We have the kind of the full spectrum covered anywhere from at the one end products such as just standalone Bluetooth or those discrete connectivity products that are most integrated.

We have a part that is in customers' hands today that integrates Bluetooth, GPS, Wi-Fi, FM, and when I say Wi-Fi, of course all the different flavors of that Wi-Fi standard. And there are not a lot of players in connectivity in terms of our competitors that have the capability to move from discrete solutions to that fully integrated solutions. You have players that have been particularly strong in GPS or particularly strong in Bluetooth or some that maybe had positions in Wi-Fi, but very few that have the capability to put it all together in a single chip.

So we see that market to some degree consolidating from a competitive standpoint, I would say in terms of Wi-Fi and various forms of integration around there, we are the market leader today and I think the products such as the one I just described will take that market leadership and extend it as we go forward.

<A>: Okay, Steve, thank you for your questions and operator, we'll move to the next caller.

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

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

<Q – Tore Svanberg>: Yes, thank you, Ron; just got dropped there. Yeah, my follow-up question had to do with capacity. So just given that the supply chain has gotten to be more conservative, I was just wondering if the company has changed its stance on capacity addition and especially in relation to 300-millimeter, which is expected to come online in Q4.

<A – Ron Slaymaker>: Not at all. And again, when we are – when we're looking at capacity, I mean, of course you always have near-term actions you take, whether you're ramping starts or whether your loadings are being pulled back based upon a very, call it, near-term outlook. Those are just very tactical moves that we always make.

But when we look at capacity, we're really pulling back and look at the big picture of what our needs are going to be over the course of the next couple of few years which is the planning window that – upon which we need to be making capacity decisions. And so, of course we do that in consideration of what various demand scenarios could look like. We consider what our own growth aspirations are relative to the overall marketplace, but those are really the bigger factors. And again, the fact that when we look at the competitive front and see many competitors that have, over the last few years, significantly pulled back on their capital spending and at the same time have been taking actions to permanently shutter wafer fabs, we just think this is a very good opportunity to be appropriately layering in new capacity.

And then, the fact that's also commensurate with that opportunity that our competitors have presented, we also have semiconductor companies that have been going bankrupt and presenting the opportunity for us to purchase this incremental capacity at very, very good prices. It's just a confluence of opportunities that we think we're not going to look back on with anything other than full enthusiasm.

So we feel really good about the actions we've taken. We feel good about the status in terms of how those facilities are ramping and absolutely, we will take whatever is an appropriate near-term action to adjust loadings accordingly.

And I kind of – I brought the topic up, so let me maybe address an obvious question, which is utilization, overall this quarter just in very near term, we really expect to be holding at about the same level as what we were last quarter.

<A>: Okay Tore, thank you for that follow-up question and let's move to the next caller.

<Q – Tore Svanberg>: Thank you.

Operator: We'll go next to Cody Acree with Williams Financial Group.

<Q – Cody Acree>: Thanks. Hi, Ron.

<A – Ron Slaymaker>: Hey.

<Q – Cody Acree>: Hey Ron, you mentioned that you would be seeing some of your maybe your industrial Embedded Processing strength tail off back to normal seasonality over the next few quarters. Can you give us a little bit of timeframe that you could expect?

<A – Ron Slaymaker>: Yes. Cody, I wouldn't read too much on that. I mean I think I'm just trying to note that, first of all, industrial's always difficult to read because of its very, very diverse nature. So my comment about normalization simply reflects that we've had three to four quarters of strong

growth in industrial as that market has recovered from a correction that lasted throughout most of 2009. It was the last to begin its cyclical recovery and it's now three to four quarters in duration. So logic dictates that as our shipments again converge with our customer shipment levels, then growth in our revenue for that industrial market should begin to align with the end market growth and therefore follow a more seasonal pattern.

<Q – Cody Acree>: Good.

<A – Ron Slaymaker>: I'm really not trying to put a specific window on that comment.

<Q – Cody Acree>: Do you have a thought as to how far along that is for whatever timeframe or percentage wise?

<A – Ron Slaymaker>: I'm – I can say with pretty direct certainty it's three to four quarters along. What percentage, I don't want to venture a guess there. But you guys are the analysts, I'm sure you'll all have the answers by tomorrow morning anyway.

Okay Cody, thank you for your questions. And operator, I think we have time for one final caller.

Operator: And we'll go next to Chris Danely with JPMorgan.

<Q – Christopher Danely>: Hey, Ron. Thanks for sneaking me in. I'm sure you're disappointed. So Rich has been talking for a while about how you guys were going to step it up to get a little more aggressive on HVAL and we've seen it really come around in terms of the growth rates. You've seen a few of your competitors start to talk about some weakness and yet you guys are doing fine. Do you think we are seeing the fruits of your efforts in HVAL or do you think that there's something else going on in terms of your relative performance versus your competitors?

<A – Ron Slaymaker>: No, I think you absolutely are seeing the fruits of our efforts. I don't think – that's nothing that's starting this quarter or last quarter. I mean, I think as we've discussed literally over the last probably couple years anyway, that's been at least a three-year project inside of TI. I think probably externally, the results of those labors became obvious starting in – oh, probably early – call it first half anyway – 2009. And HVAL has been performing very consistent with the rest of our Analog business since that time period. So it will kind of wobble around here and there, quarter by quarter, but I think we feel very confident that the programs we put in place, the management changes we made, the structural changes, the way we approach the market, the way we approach our design activity in HVAL, has that business well into turnaround and we look forward to some very strong results there literally over the next few years. So to the extent that our success is going to create some damage to competitors, I guess that would be expected.

Do you have a follow-on, Chris?

<Q – Christopher Danely>: Yeah, just a brief one. So industrial and wireless infrastructure stronger expected and PC HDD, consumer a little weaker than expected. When you guys talk to your customers or when you talk about it around the water cooler at TI, how long do you expect that weakness in PC, hard disk drive, consumer to last? Or is there any speculation on when it's going to get better?

<A – Ron Slaymaker>: I really don't have – I don't want to sit here and try to speculate, Chris. We may have our own internal projections on that. But I guess, like I said in earlier, I think the thing that's encouraging especially on the PC channel is when those guys detect slowing demand, when they detect excess inventory, they slam on the brakes hard. They make the correction. And then they're back off to the races again.

So I don't want to either try to read anything in there in terms of how fast or slow it may take, but those guys generally are very responsive and tend to move quicker versus slower. So that's certainly encouraging.

I think the bigger question is just going to be from the demand front going forward, what demand's going to look like. And that's more of a macro type of question that you guys have as much visibility, certainly, as we would.

Ron Slaymaker, Vice President, Investor Relations

Okay, Chris. Thank you for your questions. With that, we're going to wrap up the call. Before we end let me remind you the replay's available on our Web site. Thank you and good evening.

Operator: That concludes today's conference. We thank you for your participation.

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