

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments First Quarter 2011 Mid-Quarter Update Conference Call. Today's conference is being recorded. 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 first quarter of 2011. In a moment, I will provide a short summary of TI's current expectations for the quarter, updating the revenue and EPS estimate ranges for the company. In general, I will not provide detailed information on revenue trends by segment 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 around the middle of our previous ranges. We now expect TI revenue between \$3.34 billion and \$3.48 billion. We expect earnings per share between \$0.56 and \$0.60.

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] We'll go to Uche Orji with UBS.

<Q – Uche Orji>: Ron, within the tightened guidance, can you just make any comments as to what you're seeing within the various end markets? What areas have been surprising to you on the upside or on the downside? Thank you.

<A – Ron Slaymaker>: Okay. Thank you, Uche. So, if – I'll start with communications. I would say we've seen some seasonally softer demand for handsets with baseband revenue expected to be down kind of in the double-digit level. Revenue from the combination of OMAP and our wireless connectivity products will likely decline, although to a lesser extent for those products, given they're more focused on the smartphone market. Similarly, demand from comms infrastructure customers we would expect to be down a few points sequentially as well.

In the PC space, we saw weakness in February. I think as is well known, that really ties to a processor chipset recall by another supplier. That situation now seems to be resolved, and we've seen improvement in demand for our products very recently and accordingly. Tablets have continued to be strong as well through the quarter. In consumer, we're seeing game consoles slow, and we've really yet to see any kind of rebound in demand from our television customers thus far.

From the industrial market, we're seeing good, solid demand holding about the same level as we saw in fourth quarter. And then I think demand from automotive we certainly would characterize as strong, and we would expect revenue in that area to be up from the fourth quarter.

So I guess just to summarize, really outside of the PC trend, which was caused by a component supply disruption, generally we would say these trends are somewhat typical for a first quarter.

Do you have a follow-on, Uche?

<Q – Uche Orji>: Yes, I do. Thanks for the answer, by the way. Within what you're seeing within your distributors, do you think at the moment sell-out and sell-in are evenly matched, or do we still think that – are there pockets of where you think inventory might be building in the supply chain or where we have less? Thank you.

<A – Ron Slaymaker>: Okay. So I guess I would just say in general we would expect resales from the distribution from our distributors, or sell-out, to be up a little compared with the fourth quarter. From an inventory perspective, we really are expecting very little change in their inventory level. So again that would say sell-in is reasonably well matched to the sell-out.

Okay, Uche. Thank you for your questions.

<Q – Uche Orji>: Thank you, Ron.

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

Operator: We'll take our next question from John Pitzer with Credit Suisse.

<Q – John Pitzer>: Yeah, good afternoon, guys. Thanks for taking my question.

<A – Ron Slaymaker>: Hey, John.

<Q – John Pitzer>: My first question is around sort of linearity in the quarter. I think the SIA data for the month of January was out late last week, and it showed an exceptionally strong month of

January. I think it was actually the fourth strongest on record, and I guess given some of the Taiwan sales data that's coming for February, that will probably moderate. But I'm kind of curious. When you look at the midpoint of the guidance, how is linearity this quarter kind of versus normal?

<A – Ron Slaymaker>: I don't think it's that unusual for a first quarter, and it probably doesn't make sense for me to get into a lot of the details in terms of how we're seeing it from a linearity perspective. But I would say we are – you typically – we would typically expect to see noise around the Chinese New Year in the month of February, and this February was no exception. But January's was strong, some noise around Chinese New Year, and then later in February, we saw some strengthening.

So, do you have a follow-on, John?

<Q – John Pitzer>: Yeah, just as a follow-on, thinking about the baseband business for this quarter and then how we should model that going forward. I guess with the recent announcement from Nokia and Microsoft, any incremental guidance you can give us there? Or are you kind of sticking to your original guidance on how baseband will kind of decline over the next couple years?

<A – Ron Slaymaker>: John, I would say we don't believe the recent Nokia announcements really will – I guess I would describe them as somewhat neutral to TI. So that – I think they referred to – they talked about their plans. I don't remember the exact words, but basically it sounded like they were harvesting or over time moving out of the Symbian platform. We are the exclusive supplier, and that's a loss of the baseband revenue that we ship into Nokia, but as you're well aware, we've intended and planned for some time for that business to go away.

So if I go back to fourth quarter, just as a reminder, that was 12% of our fourth-quarter revenue. It'll be less this quarter, since it's declining more than the business overall. And generally the best we can say is, well, certainly our expectation is that by the time we get into 2013, we expect that revenue to essentially be gone. And the best we can tell is kind of draw a straight line between where we are and that zero at first quarter 2013, and that's probably about as good a guidance as we can give you. There will be quarters above. There will be quarters below that line, but that's probably about the best we could tell you.

Okay, John. Thank you. And we'll move to the next caller, please.

Operator: We'll take our next question from Tim Luke with Barclays Capital.

<Q – Tim Luke>: Thanks so much. Ron, I was wondering if you had any commentary with respect to how your lead times maybe have been developing in some of the different segments and how you would expect that to look going forward, and whether you might have any commentary just on how you perceive broad channel inventory levels as well. Thanks.

<A – Ron Slaymaker>: Okay. So with respect to lead times, I guess the best characterization I could put on our lead times is that they're at normal levels. I think we said back in our January call that during fourth quarter, by the end of the year, we had brought lead times back to normal levels. Even so, I believe we've said that we had some outlier areas where lead times remained extended. And I guess I would say in those outlier areas, we do continue to make progress in bringing those back down to more normal or targeted areas. So in general, maintaining normal levels, but again, continued progress in some of the outlier areas.

In terms of expectation going forward, I think we talked about the fact that we had built some inventory in fourth quarter. I think we said we plan to continue to replenish some inventory in the first quarter with the major goal of that being to maintain our lead times as short as possible as

customer demand strengthens. So that continues to be our plan, and it's our expectation that we'll keep lead times short.

Do you have a follow-on, Tim?

<Q – Tim Luke>: Thanks. From Mobile World Congress, there seemed to be some stronger commentary associated with OMAP 4 and going forward OMAP 5 design wins. Could you just remind us when we might begin to see some revenue contribution from OMAP 4 and whether you see that in the handset side or in the tablet side? Any commentary there would be helpful. Thank you.

<A – Ron Slaymaker>: Okay. So I think if you were over there, certainly one of the most interesting and compelling products that was introduced was the LG Optimus 3D product, which is OMAP 4 based. And again, this basically has a stereoscopic 3D capability that – I think the thought generated a lot of buzz at the show. And we've seen third parties do benchmarking data on that phone, comparing it to other smartphones using other applications processors, and basically it looks like we knocked it out of the park in terms of how those benchmarks compare very specifically based upon OMAP 4.

So the fact that we have a product out there today says – and I guess the other one I would say is we have a – RIM has their PlayBook that – I'm not sure what they've said publicly. I believe they've indicated it will be in production very shortly, so I would say, so both on the smartphone side, as well as on the tablet side, we are seeing OMAP 4 revenue in the current quarter.

The other thing that I hope you saw was our introduction of OMAP 5. And just to – I know last time we had some – I think it was in the January call, we had some questions about comparison to other competitors' apps processors, et cetera. And since at that point I really couldn't talk much about OMAP 5 since it wasn't introduced, I thought, let me go ahead and take an opportunity just to make a couple points. It's a 28-nanometer device, and if you just compare it to OMAP 4, where again we already have performance leadership, and say comparing to comparable functionality OMAP 4 versus OMAP 5, OMAP 5 will provide three times the processing performance. It will provide a 5x increase in 3D graphics capability, and yet again at comparable functionality, it will provide a 60% power reduction compared to the OMAP 4 platform.

And by the way, I should emphasize that the reason we're seeing tablet manufacturers and smartphone manufacturers pick OMAP 4, besides having benchmark performance levels, we blow our competitors away when it comes to battery life and power consumption. So we take what will be benchmark already today with OMAP 4 and make it a lot better with OMAP 5.

So I don't have any customers to talk about at this point, but I will say that OMAP 5 is based upon ARM's Cortex-A15 processor, which is their most state-of-the-art processor architecture. So what we're not doing is just simply stamping out more A9s in parallel. We're actually taking the architecture to a more advanced state. And the reason we do that is once again because that is the architecture that provides the best combination of performance and power consumption.

So that's probably a good place to stop, and I appreciate that question, Tim. And we'll move to the next caller.

Operator: We'll take our next question from Jim Covello with Goldman Sachs.

<Q – Jim Covello>: Great, Ron. Thanks so much. Ron, I have a question on the automotive space. One pretty consistent theme we've seen throughout a number of companies reporting recently is kind of record sales in the automotive space, and a lot of us are kind of preprogrammed to see record sales in any category and assume that there's a pending issue. The thing, though, we

have with automotive now, though, is we have this content per box increase in addition to good demand. Can you help us think about that issue relative to very, very strong sales, which sometimes can mean a problem in a deep cyclical industry versus the increase in content per box in the automotive space, which may be mitigating some of that risk? Thanks.

<A – Ron Slaymaker>: You sure left me with an interesting one there, Jim. I mean, you're exactly right. Both are coming into play. I mean, there's a lot of, I guess I would say, incentive creating stimulus on the demand side for automobiles. That's certainly part of it. At the same time, the navigational, the entertainment systems, are getting more advanced. The safety features that are chock-full of electronics, both in terms of microcontrollers, as well as digital signal processors, as well as analog functionality, that's going up as well. So it is a combination of incentives driving higher consumer demand for automobiles, and then certainly the features that consumers are showing a preference for basically being driven by heavier embedded processing and analog content as well. So it's both of the areas that you identified, Jim.

Do you have a follow-on?

<Q – Jim Covello>: Well, I'll just keep my follow-on on that. If you had to say what percentage of this strength the record sales are attributable to the incentivized demand versus the content per box, how would you break that out?

<A – Ron Slaymaker>: We'll have a short response there. I don't know, Jim. I think, again, as I said, the feedback I get from our product organizations is that both are benefiting our revenue. I have no idea how it divides out between the two. But I think that would be a great project for an analyst to look into. And I'll look forward to reading your report on that tomorrow.

Okay, Jim. Thank you. And we'll move to the next caller, please.

Operator: Our next question comes from Chris Danely with JP Morgan.

<Q – Christopher Danely>: Hey, thanks, Ron. Just a follow-up on your answer to Uche's question. It sounds like basically everything's going according to plan so far this quarter, except maybe a little bit of weakness or a little bit weaker than expected business out of the PC space. So is that true? And then why keep the midpoint?

<A – Ron Slaymaker>: I agree with what you're saying at the high level. Now, I think there are always nuances inside of there. So I think you're right. We saw a period of during the month of February where PCs were a little weaker than what we had expected. But at the same time, we also saw, as I described, by the end of February, we were seeing improvement there. And I don't know – PCs are 15% of our revenue, and that includes both what we sell into the PC manufacturers directly, as well as the hard disk drives that we sell into PCs. I think what it comes down to, Chris, is there just wasn't enough of a roll-off there considering the noise of the various other product organizations that we needed to move off of the midpoint with our guidance.

Do you have a follow-on, Chris?

<Q – Christopher Danely>: Yeah. Anything you could offer up on bookings trends or book-to-bill so far, and what we should think about a typical Q2 in terms of sequential revenue growth?

<A – Ron Slaymaker>: Okay. I'd probably – well, let me just talk about orders maybe and wait until April to give you some specifics on book-to-bill. Book-to-bill is always trickier just because there's a numerator and a denominator.

But from the standpoint of orders, we have seen orders build through the quarter. I would say based upon what we're seeing through the first two months, we would expect that orders will be up solidly compared to the fourth quarter. Other than that and whatever you may want to pull out of that with respect to second quarter, I can't say much more, other than I will give you just kind of five-year average. For TI, sequentially we would see second quarter up 9% compared to the first quarter. Keep in mind that 9% includes a pretty robust 18% in the second quarter of 2009. That's pulled that average up a little bit. But at the same time, the other consideration there is we'll get somewhere between 2 to 3 points of that top-level growth just from seasonality in our calculator business, which typically will essentially double from first quarter going into second quarter. So again, those are average numbers, and we'll see what this second quarter holds, and we'll give you more detail in April.

Okay. Thank you, Chris, and we'll move to the next caller, please.

Operator: We'll take our next question from Edward Snyder with Charter Equity Research.

<Q – Ed Snyder>: Thank you very much. Ron, couple things. Can you speak to areas geographically of strength and weakness, especially with regard to some of the PC stuff and the console? And then also, strategically you've been looking at lead times as a competitive advantage, especially with some of the inexpensive capacity you picked up here. A lot of your competitors are reporting that capacity is easy to come by – or relatively easy to come by – now, and the lead times are shrinking anyway. Does that change your view of strategically what's going to happen in the next couple of quarters? Thanks.

<A – Ron Slaymaker>: Okay, Ed. And I'll just move through both of those. So from a geographical perspective, what we're seeing thus far is European revenue we would expect to be up. U.S. we would expect to be roughly even with fourth quarter, and then Asia and Japan we would expect to decline at kind of single-digits type of levels.

Okay, on your second question, the – I'm trying to read my writing here. You're talking about just in general do we think lead times are a strategic advantage? I think, yeah, and it really just comes down to more our view on industry capacity investments or the lack thereof. So over the last couple of years, you've seen industry capital spending first of all decline very dramatically as we moved through the downturn. And even though 2010 capital spending was up compared to 2009, the data I've seen said that even in fourth quarter we were not back up to normalized investment levels as a percentage of industry revenue.

So that says to us – and, well, let me make another point. That was spending on new capacity. In addition, a lot of existing capacity was taken offline during that same period. So capacity was taken offline. Spending was maintained well below normalized levels, and the end result is – I think I read in somebody's report today that compared to the peak third quarter of '08, fourth quarter '10 capacity was 9% below that peak level. So that sets up, we believe, the industry. In fact, I think the other thing I saw was that utilization in the fourth quarter was 93%, which says we don't have a lot of room for growth at the industry level.

So as our competitors enjoy that experience of customer demand rising while they have no incremental capacity to be able to support that, we're making sure our salespeople are sending a very clear signal to our customers today that we have plenty of capacity due to the investments that we made through the course of that downturn. And I don't think I need to walk through it again, but we again are very well positioned to support growth. In fact, just to summarize, we added capacity that would support an incremental \$5 billion of growth from a fab perspective over the last 18 months. So again, we're in great position.

Okay, Ed. Thank you, and I think we have time for one more caller.

Operator: We'll take our next question from Glen Yeung with Citi.

<Q>: Hi, this is Ji for Glen. So Finisar actually just pointed to a slowdown in business in China overall. And, Ron, just to follow up on Jim's question, wondering what you're seeing in China in particular?

<A – Ron Slaymaker>: Okay, I'm sorry, Ji. Who referred to a slowdown in China?

<Q>: Finisar.

<A – Ron Slaymaker>: Okay. I think it's interesting because China has been growing so fast that when people talk about a slowdown, they're – it means different things, I think, to a lot of Americans versus when we hear about a slowdown in our economy over here. I guess what I would say is other than the data I provided about Asia where we expect revenue to decline single-digit level, I don't really have anything more specific to provide on China.

Do you have a follow-on to that, Ji?

<Q>: Sure. And can you talk about the inventory levels that you're seeing in communications infrastructure?

<A – Ron Slaymaker>: Okay. I think that's more one where that market has been growing so fast and really growing – what's driving that growth is both the U.S. and European base [inaudible] so therefore it's developed markets, basically just layering in 3G WCDMA systems as those service providers are trying to expand capacity to support higher data traffic, and the higher data traffic coming from higher smartphone sales. So we're well positioned in that infrastructure equipment with DSPs as part of our embedded processing segment and also with analog products.

Anytime you have a market that has been trying to deploy as aggressively as the infrastructure market, you can get, call it, pockets of inventory here or there. I would describe it more as pockets, though, as opposed to our view – we don't have a view that we're going to have a big inventory-driven slowdown in infrastructure. I think it's just particular customers that are maybe winning more than other customers are, and the guys that are winning less had hoped for better results.

But, again, we just go back to the fundamental driver of that capacity expansion being higher smartphone sales. We don't see that trend slowing; therefore, we don't believe the underlying infrastructure trends will slow either.

Ji, one thing I'll do real quickly is somebody had asked a question earlier about the just broader inventory perspective. And I guess I would hit two areas: One is distribution. I think I described at the end of fourth quarter in our January call, we thought we had distribution pretty much right where they wanted to be at that time with distribution inventory level little changed this quarter, I would say they continue to be where they want to be. And just as a reminder, at that point in fourth quarter, they were roughly about six and a half weeks of inventory. That could change somewhat this quarter depending upon resales. But again, I would say in general they're where they want to be, and that's at a good level.

Outside of distribution, again, it kind of is back to what we said in January, where we had largely made it through the correction. We said largely because there could be customers here or there that will report, and they would describe maybe that their inventory levels are higher than they would like. But generally we think the inventory correction is largely behind us, and we're going to soon start moving back into a customer – even first quarter – a customer demand driven market.

Ron Slaymaker, Vice President, Investor Relations

Okay. With that, we'll wrap up. Before we end the call, let me remind you that the replay is available on our website. Thank you, and good evening.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2011. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.