MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jennifer, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2009 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions].

Thank you, Mr. Slaymaker. You may begin your conference.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon, and thank you for joining our first-quarter earnings conference call. As usual, Kevin March, TI's CFO, is with me today. For any of you who missed the release, you can find it on our website at ti.com/ir. This call is being broadcast live over the web and can be accessed through TI's website. The 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 earnings release published today as well as TI's most recent SEC filings for a complete description.

Our mid-quarter update to our outlook is scheduled this quarter for June 8. We expect to narrow or adjust the revenue and earnings guidance ranges as appropriate with this update. In today's call, we'll address key questions such as what drove the upside on revenue and EPS from our mid-quarter guidance and does this upside indicate that we are now in a cyclical upturn. We'll also update you on the progress of our actions to reduce inventory and costs at TI.

Business in the quarter did in fact exceed our expectations. Revenue of $2.09 billion in the quarter was above our guidance, as well as the $0.01 of earnings. You will recall that at the mid-quarter update, we raised the middle of our guidance range and referenced that 3G communications infrastructure in China was the most notable area of better-than-expected strength.

In the last few weeks of the quarter, in addition to base stations, we also saw better-than-expected demand from notebook computers, some areas of the handset market, as well as from LCD-based HDTVs. Regionally, most of the strength is coming from Asia, while the other regions remain subdued. Therefore, we wouldn't characterize this stronger demand as broad based, as it was concentrated in a few high-volume end markets and the Asian region.

Nonetheless, it is encouraging to see our revenue stabilizing, albeit at what remains a low level. We also caution that the stabilization is likely being driven by customers that are slowing their inventory reduction and not by broad-based increases in end consumption or by customers rebuilding inventory.

Let me explain. Over the last few quarters, we saw a dramatic drop in demand for our chips because customers slowed their production and began to reduce the chip inventory they had in stock. Now that they've realigned their own production with a lower level of consumer end demand and reduced their existing chip inventory, order trends for our chips have started to improve.

This leads us to believe that the worst of the inventory drain is now finished and our shipments will more closely reflect our customers' production levels. However, the most important determinant of our business levels in the second half of this year will be the real end consumption trends.

From our perspective, there remains significant uncertainty about the direction of end consumption. As a result, we are careful not to misread the completion of inventory reduction as a return to higher end demand. Our approach is that we will keep our operations highly flexible to respond to whatever direction demand will track, while remaining highly diligent to inventory and cost.

Our execution in the quarter was solid. Most notably, we reduced our own inventory by $277 million in the quarter and worked with our distributors to reduce inventory in our channels by $132 million, and we achieved this despite the headwind of a $405 million sequential decline in revenue.

At this point, we have essentially completed our inventory reductions and have begun to increase loadings in our factories again. As a result, we expect utilization to increase in the current quarter from the record low mid-30s first-quarter level.

Over the past couple of quarters, we disclosed factory utilization levels to help you understand the decline in our profitability. As our inventory correction has now wound down, factory utilization will begin to more closely track our revenue trends and we will stop detailing this going forward.

Another execution highlight is that we are achieving our cost reductions ahead of schedule, and as result are seeing these deliver savings earlier than we had planned. Kevin will provide more of these details in a few minutes. Importantly, with these actions now largely behind us, our employees are moving forward to execute on our strategies for growth in Analog and Embedded Processing.

Also, we now have a higher proportion of our resources focused on these areas than we did previously. Moving early and aggressively to realign our operations with the realities of the economic environment has allowed us to get these issues behind us while also accelerating our transition into an Analog and Embedded Processing company.

Let me make just a few brief additional comments about our revenue in the quarter. TI revenue of $2.09 billion declined 36% from a year ago and 16% sequentially. The decline is broad based with our Analog, Wireless, and Other segments, all tightly clustered in a decline of 35 to 40% from a year ago. Our Embedded Processing segment fared a little better with a decline of 26% from a year ago due to relative strength in communications infrastructure revenue, which was up. The details of revenue performance for each segment are included in the release.

At this point I'll ask Kevin to review profitability and our outlook.

Kevin P. March, Senior Vice President and Chief Financial Officer

Thanks, Ron, and good afternoon everyone.

As Ron said, we reduced TI inventory by $277 million in the first quarter. Over the past three quarters, we have reduced our internal inventory by more than $550 million and have worked with distributors to reduce almost a quarter billion dollars of inventory out of our channels. At the same time, our revenue is down 38% over that period. The combination of low customer demand and our aggressive inventory reduction resulted in our factory utilization declining to a record low level in the first quarter. We discussed previously that we were challenging ourselves to remain profitable in the quarter, while also committing that we would not trade off our future financial performance to achieve that short-term goal.

Due to the determined efforts of many TI employees around the world, we were able to remain profitable while also completing our own inventory correction and realigning the company's costs in what will likely be a sustained weaker economic environment. The combination of lower revenue and manufacturing costs that were expensed in the quarter due to underutilization of assets resulted in lower gross profit.

Gross profit of $806 million declined by $950 million from a year ago and $291 million from the fourth quarter. Gross margin was 38.6% of revenue in the quarter. Although this was well below our 55% long term-goal, it was a reasonable level considering the low level of factory utilization in the quarter. In fact, as factory utilization increases in the second quarter, we expect a corresponding increase in our gross profit and gross margin.

We reduced operating expenses in the quarter by $258 million or 27% from a year ago and by $101 million or 13% sequentially. Both R&D and SG&A expenses were reduced. Restructuring charges in the first quarter were $105 million or 5% of revenue. The distribution of these charges across our segments is included in our earnings release.

You will recall at the mid-quarter update, we expected restructuring charges of $80 million. The difference was primarily due to actions being executed ahead of schedule. As a result, operating profit for the quarter was $10 million. Excluding the restructuring charges, operating profit was 115 million or 5.5% of revenue. We had a $5 million discrete tax benefit that resulted in a $2 million net credit for our tax provision in the quarter. Net income was $17 million or $0.01 per share. Excluding the restructuring charges, net income was $85 million or $0.07 per share.

I'll leave most of the cash flow and balance sheet items for you to review in the release. However, let me make just a few comments. Cash flow from operations decreased to $251 million in the quarter. Much of the decline from last quarter was associated with the increase in receivables that resulted from strengthening of business late in the first quarter as compared with the deteriorating conditions late in the fourth quarter. We continue to constrain capital expenditures spending just $43 million in the quarter. We used $101 million in the quarter to repurchase 6.6 million shares of TI common stock and paid dividends of $141 million in the quarter.

We ended the quarter with $2.43 billion of cash and short-term investments. Our balance sheet continues to remain strong. The reduction in inventory that we achieved resulted in inventory days declining to 77 at the end of the quarter compared with 94 days at the end of the year-ago quarter, and 89 days at the end of the fourth quarter. TI orders in the quarter were 2.19 billion, up 18% sequentially. After a five-month slide, product orders bottomed in the month of December, and increased each month through the first quarter. TI book-to-bill increased to 1.05 in the quarter from 0.75 in the prior quarter.

Turning to our outlook, we expect TI revenue in the range of 1.95 billion to $2.40 billion in the second quarter. You will note this is a decline of about 7% to a growth of about 15%. Our range continues to be wider than normal reflecting the potential for upside and downside that continues to exist.

This outlook includes about $60 million of seasonally higher calculator revenue. We expect earnings per share to be in the range of $0.01 to $0.15. This EPS estimate includes $0.05 per share negative impact resulting from about $100 million of expected restructuring charges. For 2009, our estimate for R&D, capital expenditures, depreciation, and the annual effective tax rate are unchanged and are described in the release.

In summary, we are encouraged by the stabilization in our revenue, although we remain cautious about the overall weak economic environment. We are pleased with the progress we made in reducing inventory and costs and are confident that our early and aggressive actions in these fronts will serve us well.

With that let me turn it back to Ron.

Ron Slaymaker, Vice President, Investor Relations

Thanks, Kevin. Operator, you can now open the lines up for questions. In order to provide as many of you as possible an opportunity to ask your questions, please limit yourself to a single question. After our response, we will provide you an opportunity for an additional follow-up. Operator?

QUESTION AND ANSWER SECTION

Operator: Our first question comes from Doug Freedman from Broadpoint. Your line is now open.

<Q – Doug Freedman>: Great. Thanks for getting me first in line there guys. You talked about where we are in the cycle and could you go into a little bit more detail on what you guys are looking for that would enable you to think that we are at the beginning of a new semiconductor cycle.

<A – Kevin March>: Doug, I would just comment that as Ron pointed out, what we saw was just one region, primarily Asia, and just a couple of large verticals, primarily the comms [communications] infrastructure, notebooks, and some handsets, and LCD TVs, as picking up a little bit late in the quarter. We did not see it, importantly, in other regions around the world, and we did not see it in the industrial or consumer sectors.

So until we see demand pickup in other regions, as well as in other sectors, we don't believe that we are looking at something that suggests that there is an overall increase in demand to be anticipated. Right now, it feels more to us like our demand is lining up our orders, but our customers are lining up to their end demand, which is at an overall lower level than it has been for quite some time

<A – Ron Slaymaker>: So I would just add also Doug, I think there's – as – call it 'the end of the inventory correction' moves outside of that one region and other end markets, that is still phase one, which is just getting through the inventory correction. We'll also look at more at a macro level for signs that end demand is picking up and economies are stabilizing as opposed to just what's a near-term effect of an inventory correction coming to an end.

Do you have a follow-on, Doug?

<Q – Doug Freedman>: Sure. And great job on the cost savings. Kevin, do you care to offer us a new target of how much ultimately you're going to save. Is this you're faster to your $700 million cost savings or are you going to actually ultimately save more than the 700? If you could offer some maybe implicit guidance on the absolute total OpEx that you expect to trough out and when.

<A – Kevin March>: Yeah, Doug, we're not revising the cost savings outlook just yet. What we really had was an acceleration versus our prior plan, and for the rest of the folks listening, you may recall that we had characterized and expected $700 million annualized cost savings by the end of the year. And that split was going to be about 20% in cost of revenue, about 50% in R&D, and 30% in SG&A.

It will be – as I said, we've pulled a fair amount of that forward into the first quarter. The target will still be the same, it'll probably just be incrementally a little bit smaller over the next couple of quarters with about the total run rate occurring in the fourth-quarter actuals.

<A – Ron Slaymaker>: Okay Doug, thank you for your questions. And let's move to the next caller, please operator.

Operator: Our next questioner is David Wong from Wachovia. Your line is now open.

<Q – David Wong>: Thank you very much. With your current level of capital spending, could you give us some idea of how your total capacity will be changing over the next few quarters in Analog and in digital?

<A – Kevin March>: David, our CapEx for the quarter just came in at quite a low level of $43 million. And clearly with our overall factory utilization in the mid 30s, our need for capital is going to be quite a bit constrained versus what we've had in recent years. I'd also remind everybody that in the last year, we've been building a new factory in the Philippines, which was part of what actually had our CapEx at the level it was at last year. That's now largely behind us as we've begun to qualify that factory.

Going forward, we anticipate for this year that we would spend upwards of $300 million on capital for the year and principally that's going to be going into our back-end or in the assembly/test sites, namely that new assembly/test site I just mentioned a moment ago. I would also just mention that in this environment, we will not be adverse to taking advantage, should we find certain equipment become available, as other manufacturers decide to sell equipment. That's certainly an attractive alternative to us. So we will not artificially bound ourselves by that CapEx number I just mentioned, if an opportunity should come up that would give us capacity at extremely low values.

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<A – Ron Slaymaker>: Think of it probably in terms of maintenance-level spending plus targeted new capabilities. For example, the Philippines assembly/test site will have a wafer chip scale packaging capability that brings in some new technology capabilities for TI to service our customers, but not broad-based capacity increases. What's your follow-on question, David?

<Q – David Wong>: Well, just a clarification of that comment then. So what you're saying is your wafer manufacturing capacity does pretty much flat over the next quarters then, neither up nor down, is that correct?

<A – Kevin March>: Yeah, David, our utilization is very low. So there's not much need there. There may be certain bottleneck needs as we bring in certain new production lines, but by and large, most of the expense is going to be on the assembly/test side of the house.

<Q – David Wong>: Right. Thank you.

<A – Ron Slaymaker>: Thank you David. Let's go to the next caller, please.

Operator: Your next question comes from Craig Berger from FBR Capital Markets. Your line is now open.

<Q – Craig Berger>: Hey guys. Thanks for taking my question. What do you expect utilizations to rise to in the second quarter and what's – how should we be thinking about the increase in gross margins for Q2?

<A – Roy Slaymaker>: Craig. We're not providing a specific level for our expectations. I think as we indicated in our prepared remark, certainly as our inventory adjustments basically are now behind us, our utilization will move up accordingly in the second quarter. And of course along with higher utilization, gross profit and gross margin will trend positively as well.

But, again we are not providing that specific targeted level. And in fact, it very well may flex as we move through the quarter depending upon how we see development of demand for third quarter and what that might necessitate in terms of inventory adjustments as well.

Do you have a follow-on, Craig?

Operator: Your next question comes from Quinn Bolton from Needham. Your line is now open.

<Q – Quinn Bolton>: I was just wondering if you guys could talk about the guidance. It sounds like you said the first-quarter recovery, especially in the month of March, was really from Asia and a couple of the end markets. Any outlook when you think U.S. and European demand will recover or is that still fairly uncertain?

<A – Kevin March>: I think you answered the question well there, Quinn. It's fairly uncertain at this point in time. Looking at all the macro indicators, it's not clear to us when we'll see a recovery on that front and so we have prepared ourselves for what would be a sustained weaker economy than we have seen for a number of years now.

<Q – Quinn Bolton>: Okay. But just – it does sound like some of the lift in March was really the end of the inventory correction and those – in Asia and the specific end markets, but it sounds like you still feel we have that end of the inventory correction ahead of us in Europe and the US?

<A – Kevin March>: Quinn, we – I think to maybe answer that a little differently, we probably get around 60% of our revenues out of the Asia region. And so it's pretty important to us when we see the inventory, signals for inventory correction there. As to the other regions, our sense is, is that the inventory correction is largely done for our material and so we don't expect to see much more adjustment on that front from our customers. The real key is are there pockets that need to be replenished at their levels as they try to meet their end demand levels, the lower expected end demand levels.

<Q – Quinn Bolton>: Okay

<A – Ron Slaymaker>: Follow-on Quinn?

<Q – Quinn Bolton>: On the inventory you talked about you think you are at the end of the inventory reduction efforts, should we read that, that you're looking to try and keep your inventory levels now roughly flattish or do you think you may actually see inventory on your balance sheets grow in the June quarter.

<A – Kevin March>: Quinn, that's going to be really a function of where our revenue lines up at. Our inventory is really destined for what we think our revenue expectations are going to be and you'd note that our guidance is actually quite wide. So if we come in at the lower level of that revenue range, then our inventory levels are apt to be a little higher than perhaps what the midpoint would suggest. If we come at the upper end, it would probably cause us to drain inventory again.

<A – Ron Slaymaker>: And certainly it's not only revenue in the second quarter. It's also our outlook for the third quarter that will drive our inventory moves as well.

Okay. Operator, maybe we move to the next caller please.

Operator: Yes, sir. We have Craig Berger from FBR Capital Markets. He did not finish his follow-up.

<A – Roy Slaymaker>: Okay. Go ahead, Craig.

<Q – Craig Berger>: Thanks for the second shot, guys. Can you just comment on whether you're seeing any lead time increases yet for any products and also what you're seeing in pricing in Analog? Thank you.

<A – Ron Slaymaker>: Craig, lead times and pricing, I would say in both cases are stable. And even in – I think we've made the comment at the mid-quarter update, and it remains unchanged. Even in some of the commodity areas, pricing is stable. And that's not necessarily what you would expect, but it is the case. So Analog overall pricing – in fact, I'll make the statement broader – probably for our businesses overall even beyond Analog, I'm not aware of any significant pricing anomalies or trends.

With respect to lead times, I would say the same thing. Lead times tend to be relatively short. Customers are able to place demand on us with not a lot of long-term visibility, but that's the nature of where we are in this cycle. And it's a good thing, because we don't have customers trying to – in a market where they have minimal visibility for their own product demand, they don't have to get out ahead of that visibility with placing orders on us. So again, lead times short and stable and then pricing also stable.

Okay, Craig. Thanks for your follow-up call and patience. And we'll move on to the next caller please.

Operator: Your next questioner is Tore Svanberg from Thomas Weisel. Your line is now open.

<A – Ron Slaymaker>: Hello, Tore?

<Q – Tore Svanberg>: Yes. Thank you very much. Could you talk a little bit about your distribution channel at this point, where you are in inventories? Do you feel like you are now matching real consumption or are you maybe still under-shipping what true demand is?

<A – Ron Slaymaker>: Well, Tore, let me just make a couple of comments in terms of what we saw in the first quarter. As we noted before that we continue to work with distributors to reduce in channel inventory in the first quarter. Think of it along the lines of sell-out or resale decline, but of course, our sales into the channel were well below that, resulting in the inventory reduction that we referenced was 132 million.

So inventory levels were just over eight weeks in the first quarter, and that's about the range where they've historically run. I would say generally, eight to nine weeks. So eight – where they finished the first quarter was just probably at the low end of that range. And I'm not aware of their specific plans for second quarter that we would want to be trying to communicate at this point. So we'll just have to move into the quarter to see how distributors are feeling about their demand before we have visibility to provide you on their inventory trends in the quarter.

Do you have a follow-on, Tore?

<Q – Tore Svanberg>: Yeah. What are the variables on your wide guidance. Is it just simply turns business or is it something else?

<A – Ron Slaymaker>: I guess, turns business from the perspective of – and I'll put in that same category a lot of the revenue that we do with consignment customers, where there is a fair amount of variability and flexibility that they're provided on exactly when they take the product that's in those consignment hubs. But yeah, generally, how the inventory correction plays out followed by, 'do we see any changes in end demand', and how all that plays to us in terms of turns business through the quarter.

You'll note just from the book-to-bill, clearly, we had backlog increase through first quarter, but that was also off of a very low level coming into the first quarter. So visibility increased somewhat versus coming into the quarter, but we would characterize it as still at historically low levels.

Okay, Tore, thank you for your questions. And let's move to the next caller, please.

Operator: Your next questioner is Chris Danely from JP Morgan. Your line is now open.

<Q – Christopher Danely>: Hey, thanks guys. Can you just talk about why Wireless is a little stronger than expected during the quarter? Do you think that that's end demand or share gains or maybe the fall in Wireless revenue isn't as rapid as you thought?

<A – Ron Slaymaker>: Chris, I would characterize it as just simply that some of our customers in that space move through – move pretty aggressively on getting their inventory corrected and came out of it a little faster. So that inventory correction began pretty aggressively in the fourth quarter and so I would just characterize it as a question or a consideration of timing for when that – those customers got through their inventory correction.

Do you have a follow-on, Chris?

<Q – Christopher Danely>: Yes. And then looking at the rest of the year, how do you guys expect the Wireless business and Wireless profitability to trend throughout the rest of the year?

<A – Ron Slaymaker>: Chris, I think to try to provide quarter-by-quarter guidance on Wireless is more than what we're prepared to do.

<Q – Christopher Danely>: Maybe just roughly or relatively for the rest of the year versus quarterly?

<A – Ron Slaymaker>: Yeah. I can – I'll try to move maybe a little bit longer term. We've clearly talked about our investments in baseband are in the process of winding down. That revenue we would expect basically to wind down over the next, I guess, three to four years, basically by the end of 2012, we would expect that revenue to be wound down.

So quarter-by-quarter, likely it's going to have some bumps in it. But a general trend of – from where we are today, that revenue will decline until the end of 2012 would be our best estimate at this point.

Okay Chris, thank you for your questions. And let's move to the next caller please.

Operator: Your next questioner is Daniel Berenbaum from Auriga USA. Your line is now open.

<Q – Daniel Berenbaum>: Yeah, hi. Thanks for taking my call. Maybe a little bit related to that, when you talk about your revenue perhaps matching demand a little bit more closely, do you think we're going to see would've been roughly historical seasonal patterns for TI? Seasonal patterns, perhaps, if not seasonal magnitude.

And then the follow-up on that would be specifically in the Embedded Processing business, which maybe performed a little bit better because of China's 3G, would we expect to see seasonal patterns there? A little bit less, because you saw China 3G, or a little bit more because you continue to gain share?

<A – Ron Slaymaker>: Okay, Dan, I'll start and Kevin may have something to add on. But I would say in general, other than our calculator business, which has a very specific seasonality with that revenue increasing second quarter – as Kevin said, I think we have built into our guidance a $60 million sequential increase second quarter – stays strong, potentially even gets stronger in third quarter and then declines again in fourth. Beyond that, I don't think we want to try to go out on the limb, or at least I don't, I'll leave that for Kevin, on any kind of seasonal patterns, just because there are too many other forces that are potentially stronger than seasonality as we move through the year. Second quarter as we said, we're actually just highly encouraged to see revenue stabilize as we get through the inventory correction that our customers have been moving through for the last couple of quarters. Once we move into second half, as we indicated in our prepared remarks, it really just is going to depend upon what end consumption does.

If the economic forces that are there at a global level start to show some signs of stabilization and that opens up for more seasonal patterns associated with the holidays that would be great news. But as we described, we would just say those end consumption trends to us remain highly uncertain. So that's probably all I would say. Kevin, any other comments there?

<A – Kevin March>: Yeah. I think the only thing I would add, Dan, just if you look at the last five years or so of history, for us there has been a seasonality in our semiconductor revenues where it's typically up about 5% in the second quarter.

But clearly we are not in a time right now that compares to anything in the past five years of history, so that's more a point of reference as opposed to a guidepost to the future.

<A – Ron Slaymaker>: Okay. Dan, do you have a follow-on question?

<Q – Daniel Berenbaum>: Just follow on with more specifically on the Embedded Processing. We saw an updraft from 3G said, should I – and maybe it's not really relevant given your answer to the first question, but should I expect, or can you comment on, what that boost gave you -- is that one time, does that trail off?

<A – Ron Slaymaker>: I'm sorry, Dan. I missed the part, what were you referring to?

<Q – Daniel Berenbaum>: On the Embedded Processing where I think you had mentioned you got a boost from the China 3G buildout.

<A – Ron Slaymaker>: Yeah. Right. I guess we have some questions on that because, clearly some of the strength that we saw driving growth there in the first quarter likely had to do with customers in that space. And this is probably the only space we would identify where you probably had customers out building inventory. Otherwise, we would say customers outside of that space were generally just stopping the end of correction or reducing the correction and not actually moving to the point of building inventory.

But I think due to the strength of some of that China 3G infrastructure demand, we saw customers that were associated with that actually putting inventory in place, getting ready for shipments through the rest of the year. So we liked what we saw in first quarter. It's a natural positioning that will take place, but we are not sure at this point that we would see that same level of strength continue through the course of the year.

In any case, we're fully confident that TI has a great position in those systems and we'll participate in whatever demand is ultimately there. But again, the specific pattern is a little bit difficult.

All right, Dan. Thank you. And let's move to the next caller.

Operator: Your next question comes from Steve Smigie from Raymond James. Your line is now open.

<Q – Steven Smigie>: Great. Thank you. I was hoping you guys could talk a little bit about your expectations for Analog revenue in the second quarter in terms of high-volume versus power versus High-Performance Analog?

<A – Ron Slaymaker>: Steve, we don't break our guidance down into the various sub-pieces. The only real product level guidance we wanted to provide was just the remainder on the seasonality of calculators, but beyond that we don't break it down below the top level.

Do you have a follow-on question?

<Q – Steven Smigie>: Sure. You took some charges and I think Analog this quarter was the highest charge if I remember correctly. And I was just hoping you could talk a little bit about what was changed with those charges. What stuff was kept and what was deemed less important?

<A – Kevin March>: Yes. Steve, those charges were a completion of some of the charges that we announced actually in the first quarter. Actually, if you go back and look over the last couple of quarters, the bigger charges in the fourth quarter were in Wireless, and that was attributable to the announcement we made in October about restructuring actions we were doing there as a result of our de-emphasis on the digital baseband space. And then in first quarter, with our announcement there of a restructuring for the company through a voluntary retirement program and some involuntary departures, the rest of those charges have flowed through – and more of those charges flowed through into first quarter.

And frankly, some of those charges are a function of the regions at which we operate where we have to take them as we identify the people in the regions. And this just happened to be the timing of how the charges worked off for Analog this quarter, that in some of the regions the sign-up is higher for them than in other areas.

<Q – Steven Smigie>: Okay. Thank you.

<A – Ron Slaymaker>: Okay, Steve. Thank you for your questions. And let's move to the next caller.

Operator: Your next question comes from Ross Seymore from Deutsche Bank. Your line is now open.

<Q – Ross Seymore>: Thanks. Guys on the revenue guidance, with the $60 million of incremental calculator business, what's the reason why you're expecting the semiconductor business to be flat to very slightly up, given the booking strength and your inventory burn off being completed commentary?

<A – Ron Slaymaker>: Ross, a couple of points I would make there, and keep in mind we have a pretty wide range. So I assume you're focused on the mid-point of that range. But again as we indicated, there is both upside and downside potential of that. But the other consideration, if you just look at some of the pieces, so for example, the 18% increase in orders; remember that orders in fourth quarter were down by over 40% sequentially. So again, that 18% increase is off a very weak compare in fourth quarter.

Also book-to-bill in the quarter that Kevin mentioned of 1.05, you probably have, let me just say, a little bit of help on that from – associated with seasonal calculator orders in preparation for that back-to-school strength. So you just put it all together, and again allowing that, what we're seeing is – or what we believe we're seeing is - end of inventory correction as opposed to clear signs of end consumption gains. We put it together in the guidance that we put in front of you be as what we – it's our best estimate of what we believe will happen. Kevin, do you have additional...?

<A – Kevin March>: No.

<A – Ron Slaymaker>: Okay. Ross, do you have a follow-on question?

<Q – Ross Seymore>: Yeah, on the OpEx and more specifically on the restructuring charges with it, when you guys gave the total amount of charges you expected to take, you gave a remainder for the second and third quarters on how much that would total to. Does the fact that the second quarter restructuring charge, and for that matter the first quarter being larger than your prior guidance, does that take away from what the charges may be further out? And so the third quarter charge might be closer to zero?

<A – Kevin March>: Yeah, Ross, actually that's a good question. We're going to be providing some more color on that later in the quarter, perhaps by the mid-quarter update. We actually have a large activity underway in one of our non-U.S. subsidiaries, and we'll know more about how that shapes up this quarter.

We know enough now that we can give you the estimate that we've given to you. I would anticipate there may be some trailng off in the second half of the year, but it's premature for me to be able to quantify that for you just yet, until we get the final sign-up in those subsidiaries.

<A – Ron Slaymaker>: Okay, Ross. Thank you. And as Kevin has indicated, we'll talk to you more on that at the mid-quarter. Okay, operator, let's turn to the next caller please.

Operator: Your next questioner is Glen Yeung from Citi. Your line is now open.

<Q – Glen Yeung>: Thanks. When you talked about the end of the first quarter, you mentioned wireless infrastructure, some handsets getting better, but when you're looking into the second quarter, which end markets are, do you feel most confident can grow and maybe where do you see some risk from an end market perspective?

<A – Ron Slaymaker>: Glen, I don't know that we have a lot to say there. Again, we'll probably see – I don't think we anticipate seeing any of those where we were seeing some strength start to move into place. We don't necessarily expect to see those fall off, but as Kevin said, our real question – what we're watching, not what we're projecting, but what were watching, will be when do we see some of the other regions start to strengthen; and maybe areas like industrial, that would represent a much broader view of the economy start to strengthen as well. And we're not seeing that, but those are the data points that we're watching.

Do you have a follow-on, Glen?

<Q – Glen Yeung>: Yeah. Maybe just a follow-up on that then. In your comments, you're quite careful to say that you were not seeing restocking of inventory, just a deceleration or decline in the rate of inventory reduction. I wonder if you can just clarify that point – just I want to make sure that that's what I heard was right. And then, maybe address the idea of whether or not you think you're still seeing inventory destocking in some of those regions you're looking for growth, right, so in Europe, or the U.S., or in industrial or consumer?

<A – Ron Slaymaker>: Glen, sure. I'll give it a stab here. I think it's difficult. Not all customers are going to move at the same pace, and as we've said already, you have a lot of variance in different regions. So it's difficult for us to say at this point, whether we think it is totally behind us. We certainly believe the worst of that correction is behind us, but do you still have some of it going on, you very well could.

You're right. We're not saying there is a restocking process going on. If by use of that word, you mean customers starting to build inventory levels again. I think what customers generally are doing is – are stabilize – they are just like TI. They've basically gone through the worst part of them correcting their own inventory to the realities of a lower level of consumption. They have that behind them and for the most part they're now stabilizing their inventories at targeted levels.

So they're replenishing only to the extent they're pulling TI product out to go put it in finished goods. They're replenishing that inventory, but they are not building their chip level inventory. So hopefully that helps as opposed to further confuses.

Operator?

<A – Ron Slaymaker>: Thanks, Glen, thank you for your questions. Let's move to the next caller, please.

Operator: Your next question comes from David Wu from Global Crown. Your line is now open.

<Q – David Wu>: Yes. I actually have a question really around cost. Should I assume that the base on the schedule of cost reduction that all the economies from the cost reduction would actually be achieved in the September quarter as opposed to the December quarter. Then on the follow-up I was wondering whether – since your capital spending is down to $300 million this year, whether there's going to be a big drop in depreciation from the $900 million you are booking for calendar '09 and calendar 2010?

<A – Kevin March>: David, on the cost front, again most of the activity that remains now for us is in our non-U.S. subsidiaries. Based upon some of the labor laws and other elements that occur in those countries, we don't expect the timing of that cost to adjust much more from what we have already talked about. In other words you'd asked, would it be – would we see the full benefit in the third quarter rather than in the fourth quarter, and I would suggest for your model purposes you continue to keep it as you had and that is expect it in the fourth quarter.

On the CapEx and depreciation front, you are exactly right. With those kind of spending levels, we should see depreciation begin to work its way down. We don't have a forecast just yet, but I would just point out that, if you look at our depreciation over the last 12 months, it has worked out to just a little bit less than 9% of revenue. If you look at our CapEx over the last 12 months, it has worked out to about 5% of revenue.

So by definition that's going to suggest that our depreciation will begin to tail down on those lower level of capital expenditures. But I'll just remind everybody that we generally depreciate our equipment on a five-year straight-line basis, and so you can do the math for your models and figure that out.

<A – Ron Slaymaker>: Okay, David. I think you had both of your questions there. Thank you, and let's move to the next caller please.

Operator: Your next question comes from Tristan Gerra from Robert Baird. Your line is now open.

<Q – Tristan Gerra>: Hi, good afternoon. If we look at the revenue shortfall you had last year in Wireless specific to one customer, which I think was around 400 million, your Analog revenues decline year-over-year was almost the same as in Wireless where you lost market share. Is this because the distys reduced inventories in Q1, which had an impact on your year-over-year comp in Analog as opposed to share loss, and as such should we expect Analog to rebound more than Wireless in Q2?

<A – Kevin March>: Trist, I won't give a forecast on 2Q, but I believe your analysis is correct. In fact, our Analog revenue is down about 36% year-over-year, while our Wireless is down about 40% year-over-year. But in fact, you may recall from our earlier comments that we substantially reduced our inventory not only internally, but also in our channel, in our distribution channel; and a significant portion of the Analog revenue does go through the distribution channel. So what you're really seeing is the effect of that adjustment in their channel as opposed to any similar customer changes you're likely seeing over in Wireless.

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

<Q – Tristan Gerra>: Yes. Also, could you give us a sense of the amount of revenues in merchant baseband that you generated in the quarter and which you said will wind down in 2012?

<A – Ron Slaymaker>: Tristan, you used the term merchant baseband. Let me just broaden that to total baseband. So it will be custom baseband and merchant and that was the reference I was making to the revenue that would decline by the end of 2012. And if you look at it last year as a total, about 75% of our Wireless revenue was baseband and it was approximately that same level in first quarter. So that should give you something to work with there. Okay, Tristan. Thank you for your questions. And let's move to next caller.

Operator: Your next questioner is John Pitzer from Credit Suisse. Your line is now open.

<Q – John Pitzer>: Yeah. Thanks, Kevin, Ron, thanks for taking my question.

Ron, I know there is a lot of different ways to look at the inventory cycle, but when I look at the mid-point of your June guidance, you're down about 35% year-over-year, and I am hard pressed to find any of the end markets that are down that much. So why isn't June considered another quarter where you're shipping below consumption and hence there should be catch-up sometime in the second half of the year?

<A – Ron Slaymaker>: John, again, we don't have perfect visibility into this, but we're giving the best estimate that we can. We've seen stabilization, which is a good sign. We're seeing stabilization of that inventory correction; and therefore, their demands on TI, in what is arguably still a weakening overall economic environment. And so, when you talk about inventory correction being complete, that's based upon certain assumptions of what end demand will look like. And if end demand starts to increase, then more inventory is necessary to support it. If end demand falls, then even less inventory is required.

But in general, what we believe is happening is there is a convergence between those end demand trends, our customers' production levels and our customers' inventory levels in terms of components of TI product. And we're calling it as best we can at this point. Do you have a follow-on John?

<Q – John Pitzer>: Yeah, Ron. I infer from a question earlier, that you don't think baseband will mute a cyclical recovery. I'm kind of curious when you look at some of the initiatives you guys have had in HVA [High-Volume Analog] over the last six to nine months, any expectation that actual market share gains might actually accelerate your growth off the bottom and when could we see that?

<A – Ron Slaymaker>: And you're saying specific to baseband market share?

<Q – John Pitzer>: ...not necessarily that it sounds like baseband revenue, and the disinvestment there isn't going to hurt growth off the bottom, i.e., you talked about that revenue phasing out in 2012. I'm kind of curious, when you look at some of the initiatives you have in HVA around share gains, whether or not we're starting to see evidence of that and that might actually help you grow faster than the industry off the bottom?

<A – Ron Slaymaker>: Okay. I see what you are saying. Again, so just to be clear the baseband revenue will decline year by year, until by the end of 2012, we would essentially expect that it will be gone. So, you are correct that we do have in our High-Volume Analog group, we have programs that are targeted, and addressing handset opportunities that we for over a year now I think have been describing that we expect second half '09 to represent the period when those programs would be ramped into production.

And we've also – that that was a – probably since '04, a pressure on that part of our Analog group in terms of revenue, in that we've seen declining revenues for that period. So again the High-Volume Analog wireless revenue is in the process of bottoming, and then in fact we're in early stages of production today on some of those new programs. And we should start to feel it more in terms of second half ramp for those programs.

So absolutely no change to the expectations we previously described. Those programs are being executed and executed well, and we still expect them to be ramped into production. And again it's not one program, but we will see initial programs ramping into production second half of this year, and then continuing into 2010 in terms of other programs.

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

Operator: Your next question comes from Sumit Dhanda from Banc of America-Merrill Lynch. Your line is now open.

<Q – Sumit Dhanda>: Yes. Hi, I guess first a clarification Ron or Kevin, you noted the four areas where you saw some improvement, LCD TVs, notebooks, infrastructure, and then handsets to some extent. But if you look at the magnitude of the beat, which is over $200 million versus your initial projections back in January. It seems like it must have been driven at least in dollar terms by handsets, because the other segments just aren't that large. So I was hoping you would provide some more clarification on that.

<A – Ron Slaymaker>: Sumit, I think you can, again we're talking beat here. But your point was a variance to the forecast as opposed to the absolute dollars. I mean clearly handsets were part of it, but we have a lot of Analog products that get sold into different pieces of the computer market, whether those are power management products going into notebooks, whether they're products that go into hard disk drives. I do not want to minimize the importance of that market to TI and what we saw in the quarter.

I would say handsets and notebooks were probably more significant to us than, for example, the television market, in Asia that we did see some strength, just as you pointed out due to the size of that business relatively. But again, I would say most of the emphasis would be on notebooks as well as handsets in terms of driving the upside to our expectations.

Do you have a follow-on Sumit?

<Q – Sumit Dhanda>: Yes. I did, actually. On the gross margins on the reported quarter, i.e. Q1, any reason you didn't do a little better. Was it just that you despite the revenue upside, it was offset by a bigger drain in inventory than you were initially targeting?

<A – Kevin March>: It was exactly that, Sumit, it was a stronger drain in inventory than we – even our best plans had us at.

<Q – Sumit Dhanda>: Okay. Thank you very much.

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

Operator: Your next question comes from Cody Acree from Stifel Nicolaus. Your line is now open.

<Q – Cody Acree>: Ron, Kevin, hey, congrats on a good quarter. You said 60-ish percent of revs into Asia. Of course that's more of a – correct me if I'm wrong, more of a manufacturing discussion where things are ending up. But how much of this stabilization in this one area versus a global improvement has to do with some of the stimulus that's happening in that market or is it simply that the manufacturing of much of this consumer electronics is happening in Asia and therefore that business is finding an end consumption match?

<A – Kevin March>: Cody, it's a really good question actually, and the information that we get from our sales force in the region indicates that in fact the stimulus in China is probably having some impact on that demand, especially on the LCD TV front. We specifically heard on that front that consumers in China are responding to some of the incentives that the Chinese government is trying to offer to stimulate their economy.

And in coincident with that has been the fact that the Chinese government issued the 3G licenses, which has got the comms infrastructure build out, which has also benefited us. So certainly, a portion of that is attributable to that stimulus. I can't actually quantify for you how much, but it's safe to say that without that stimulus we probably would have had less of an upside than we did.

<A – Ron Slaymaker>: Do you have a follow on, Cody?

<Q – Cody Acree>: I do. The discussion of the Wireless merchant or baseband versus OMAP. Can either one of you give any color as to this uptick that you've seen in little bit of strength. Has it had to do with the applications processor or is it more baseband related?

<A – Ron Slaymaker>: Cody, I would describe it, instead of product-specific or low-end handsets or high-end handsets, think of it again as more just tied to more customer-specific. And the timing of when those customers completed their inventory correction and adjustments versus the timing of other Wireless customers. So again, less a statement about urging or emerging opportunities or smartphones or whatever, and just more of a customer getting through its inventory correction faster than some of our other customers there.

Okay, Cody. Thanks for your question. And let's move to the next caller.

Operator: Your next question comes from Tim Luke from Barclays Capital. Your line is now open.

<Q – Tim Luke>: Thanks so much. Kevin, I was wondering – describing the firmer orders that you saw as you closed the quarter, how have things sort of progressed as you've moved to this point in the current period? Have you seen the continuation of that upward trajectory or have you seen a – I asked this in the – I guess in the last quarter you'd had a 20-point range in your guidance versus your usual 10 and this time you have a very broad range and it's not that it's just broad, but it is also sort of down as well as up and just how have you seen things. And what – if you have color on – where you have visibility too, I guess, is part of the question.

<A – Kevin March>: Okay. Tim, what we saw in the last few weeks of the first quarter has rolled into the second quarter. But I would also mention that to the extent that customers have placed orders on us, they have not placed orders on us way out into the future. In other words, it's still relatively close in requested delivery date, which makes the certainty of the quarter, just as opaque to us as it was 90 days ago when we came into 1Q, hence the wider range that we've provided for our guidance out there.

<Q – Tim Luke>: Kevin, also just if you could frame, as you move from deterioration to stability in the orders or in your broader business, how are you now framing the puts and takes on the gross margin line, and where you think, as you adjust to what you perceive to be this L-shape of no major uptick, but maybe some stabilization. How are you framing the expectation for gross margin as you move to the end of this year and into next year? And maybe just you gave some very precise R&D guidance. Do you think that the SG&A is kind of flat from here? Thanks.

<A – Kevin March>: Okay. Tim, I think there were a couple of points in there that you had. On the GPM front, we don't give specific forecasts there, but I would just remind you that we did mention our utilization is expected to increase in the second quarter, which would in turn have a favorable effect on both our GPM percent and our GPM dollars.

In addition, we had mentioned that the restructuring actions that we announced 90 days ago, the $700 million of annualized savings, that about 20% of that was going to come through the GPM line as well, those will be manufacturing efficiencies. So those two forces combined over the balance of the year will put upward movement into the gross margin line.

And then, on the SG&A front, we would expect to see some continued – although somewhat more moderate – decline, in that over the balance of the year, similar – as we just saw in the first quarter, again, that's part of the other 80% of that cost reductions that will pan out by fourth quarter. So we expect it to continue to decline more moderately in the balance of the year.

<A – Ron Slaymaker>: Okay, Tim. Thanks for your questions. Let's move to the next caller.

Operator: Your next question comes from Jim Covello from Goldman Sachs. Your line is now open.

<Q – Jim Covello>: ...all things. First, the connectivity segment was up year-over-year. Is that just a function of the small base a year ago or is there some share gain working in there as well?

<A – Ron Slaymaker>: Jim, I think it's a combination of increased penetration for features like GPS and wireless LAN and more advanced handsets. And then, I think also on top of that is likely some share gain for TI as well. But we're also riding the wave of just higher penetration for those features in the more advanced handsets. Do you have a follow-on?

<Q – Jim Covello>: Which way do I want to go. Yeah, the China 3G that has been so strong across a number of companies in the supply chain, how much do you worry that that could kind of fall off as quickly as it's come up in the latter part of this year, and maybe mitigate some of the improvement that we should see from the rest of the world at that point?

<A – Kevin March>: Jim, that's a very good question, because it certainly is one that's been on our minds as well. We certainly have benefited from the rollout of the first phase of the 3G in China. And as I understand there's a second phase to happen later in the year. So while there may be a little bit of a roll down as that first phase completes its rollout, there should be a second phase occurring later in the year, and as I understand that that may roll into early next year as well. We don't have any precision on that, but that's how we understand that the phase in is going on in China.

<A – Ron Slaymaker>: Okay Jim. Thank you for your question.

<Q – Jim Covello>: Thank you.

<A – Ron Slaymaker>: Next caller please.

Operator: Your next question comes from Alex Gauna from JMP Securities. Your line is now open.

<Q – Alex Gauna>: Yes. I was wondering if I could ask a follow on to that phasing of the 3G opportunity. In your expectations is one larger than the other and how do you see your content playing out in that?

<A – Ron Slaymaker>: You're saying would a second phase rollout be bigger than what the initial phase is?

<Q – Alex Gauna>: Exactly. Because I don't have any color on it myself, what we're actually talking to and the differences between the phases.

<A – Kevin March>: Alex, I don't have a lot of color other than what I understand is that it's the larger cities in phase one and smaller cities in phase two. So one would have to presume there are going to be fewer base stations in smaller cities, so it may not be as large as phase one.

<Q – Alex Gauna>: Okay. And then if I could ask a follow-up, within the Embedded Processing space – and forgive me if this question was asked earlier – Intel is making some noise with the Atom processing and the SoC [System on Chip]. How do you see OMAP playing up against Atom. Are there some sockets in question in their roadmap versus your roadmap, and how would you see that playing out?

<A – Ron Slaymaker>: Alex, our view is, if it's a Vista type of operating system it's one that's going to fit very well with what Intel's history is, the architecture of that Atom processor and where just they have historical strength. If it's outside of that type of operating system, we would expect that they are going to be a competitor, but we also don't expect that they necessarily will have architectural strength. In fact, I suspect you're going to find out over the course of time they'll have architectural deficiencies, especially tied around power consumption of that processor relative to the performance of that processor.

So again, if you're in a traditional Microsoft Vista type of environment that overhead is just part of the necessary trade-off to be able to support the x86 legacy that product has. Outside of that there is no value to that legacy and it's only overhead. So that's our view of it.

Okay, thanks Alex for your questions.

Let's move to – operator, I guess at this point we'll have time for one more question.

Operator: Your last question comes from Adam Benjamin from Jefferies. Your line is now open.

<Q – Adam Benjamin>: Thanks. Just on utilization rates, I know you guys have pegged your factories at about 50% for the rest of this year, and I was wondering if you could comment on whether you expect to have any factory shutdowns this quarter versus what you had I think about four weeks in the March quarter, and then how that would play out? Because given no factory shutdowns, you should be looking at a utilization rate and a gross margin much higher and back to roughly the Q4 levels, assuming pricing is relatively stable, which all indications are that it is or at this point. Thanks.

<A – Kevin March>: Adam, I don't believe that we indicated a utilization rate. What we said was that we just came off of a record low mid-30s utilization first quarter, and we expect utilization to increase in the second quarter, and beyond that it will just adjust according to what the revenue outlook is.

To your specific question about additional shutdowns, we don't – we do not presently have additional shutdowns – of the magnitude that we've done the last couple of quarters – planned. We will continue to do small line adjustments to meet demand, but nothing of the magnitude that we've had in the last two quarters.

<A – Ron Slaymaker>: Okay. Adam, do you have a follow-on?

<Q – Adam Benjamin>: Just a follow-up, Ron, on some comments on the wireless infrastructure side. You indicated that you're shipping ahead. I was just curious if you can give some color as to why that's the case? And then, secondly, just the magnitude of the delta for what you expect you're shipping ahead right now?

<A – Ron Slaymaker>: Yeah. We have no idea in terms of the magnitude. And the only reason I'm saying we're shipping ahead is anytime there's a new program that is ramping volume and increasing that volume, the customers have to get their inventory position in place ahead of that production ramp in order to support the ramp. Nothing beyond that.

So with that, Adam, I thank you for your questions.

Ron Slaymaker, Vice President, Investor Relations

And overall before we end, thank you for joining us. A replay of the call is available on our website. Good evening.

Operator: This concludes today's conference call. You may now disconnect.