MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Notris, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Fourth Quarter and 2008 Year Earnings Conference Call. [Operator Instructions]. I would now like to turn the call over to Ron Slaymaker. Sir, you may begin your conference.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon, thank you for joining our Fourth Quarter and 2008 Earnings Conference Call. As usual, Kevin March, TI's CFO, is with me. 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. A replay will be available through the web.

This call will include forward-looking statements that involve risk factors that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor statement contained in the 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 March 9. We expect to narrow or adjust the revenue and earnings guidance ranges as appropriate with this update.

In this call, all of our financial results will be described for continuing operations including historical comparisons unless otherwise indicated.

In today's call, we'll address key investor concerns such as what is TI's perspective on this economic downturn; can we see a bottom and how long until recovery occurs; and what is TI doing to align its cost structure and preserve financials without sacrificing long-term performance.

Many of us in TI management have been in this industry a long time and have experience with a number of cycles. But while there are similarities between past cycles and the current environment, there is one important difference. The current environment is not simply an inventory correction that will work itself out in three quarters. Instead it is a broad economic slowdown in which consumer consumption has dramatically weakened and likely will weaken further. Recognizing this, we took aggressive action in the fourth quarter to reduce inventory on all fronts: our own, with OEMs, and with distributors. This is why our shipments are below those of OEMs. We will be aggressive with inventory again in the first quarter because it's the best way to align production with true end demand as soon as possible.

We cannot predict end demand for the second half of 2009 or into 2010, but we are not waiting around for an economic recovery that may be slow to arrive. That's why we've made the additional decision to reduce costs and realign our expenses so that our performance remains solid, even in a weak economy. Our cost reductions are focused in non-core product areas and internal support functions. We continue to invest aggressively in analog and embedded processing and in customer support, and are confident that over time, this will translate to good growth and stronger market positions.

Downturns often provide the best opportunities to get strategically stronger, and this downturn is no exception in that regard. The new cost actions we're taking include a reduction of about 3,400 jobs, 1,600 of them voluntary and 1,800 of them involuntary. The job reductions begin immediately and although the majority will be completed by the end of the current quarter, they will continue through the third quarter this year. We expect annualized cost savings of about $500 million when these job reductions are complete.

As a reminder, we expect additional savings of about $200 million from the actions we announced in October to refocus our Wireless business. Total annualized savings between the two actions will be about $700 million. To help with your models, we saw about $10 million of savings in the fourth quarter from the previously announced Wireless action. We expect an additional $40 million of savings in the first quarter from the combination of actions that are underway. The remainder of the savings will spread across the second through fourth quarters. Therefore, in the fourth quarter 2009, we should see the full $175 million quarterly savings or $700 million annualized. In the end, about 50% of the annualized savings will be in R&D, about 30% in SG&A, and 20% in cost of revenue. Of course, cost of revenue has a lot of other moving pieces in addition to these structural savings as direct manufacturing labor and materials will vary with our production levels.

From a restructuring charge perspective, total charges for all actions will amount to about $435 million. This splits out as $300 million for the new action announced today, about $110 million for the Wireless action, and $24 million for our 2007 action.

The fourth quarter results included a total of $254 million of restructuring charges, $121 million for a portion of the actions just announced, $109 million for the previously announced Wireless action, and $24 million for asset impairments related to an action announced in 2007 to shut down an older digital factory. Moving forward, there are $180 million of total charges remaining for these actions. We expect $50 million in the first quarter and the remaining $130 million spread across the second and third quarters. For your convenience, we have summarized this information on restructuring charges and savings in a chart that is posted on our website.

Please note that we have changed the presentation of restructuring charges on our income statement. Instead of reporting these charges in cost of revenue, R&D, and SG&A as we previously did, we are now reporting restructuring charges as a separate operating expense line. Our intention is to make these charges easier for you to track. We have also adjusted the prior period statements to conform to this approach.

The fourth quarter restructuring charge of $254 million had an EPS impact of $0.13. Therefore, our reported EPS of $0.08 would have been $0.21 excluding these charges. The EPS guidance range of $0.10 to $0.16 that we provided in December included $0.01 impact from restructuring charges, as we said at that time.

The EPS upside that we achieved was partly the result of revenue coming in near the top of our guidance range. More important, however, was gross profit and margin holding stronger than we had expected as we were able to minimize the impact of low utilization by idling our factories late in the quarter. Operating expenses also declined as we implemented expense controls and employees took accrued vacation days in the quarter.

To update you on the potential sale of our wireless merchant baseband products operation, we have discontinued our efforts regarding this sale. As we progressed, it became clear to us that a sale would not achieve the same value that we will accomplish by retaining this operation and reducing the investment levels to the minimum required to support our existing customer engagements. The associated cost and savings are included in what I just covered.

I'll also note that effective with this quarter's financial reports, we have changed our segment structure consistent with what we described to you back in July. Our segments are now Analog, Embedded Processing, Wireless, and Other. Our calculator products are included in the Other segment.

In addition to the segment revenue that we have been reporting for the past couple quarters, we are now also providing operating profit results for each segment. On our website, we have provided historical revenue, operating profit, and restructuring charges for each segment to aid you in adjusting your models.

In the Analog segment, we continue to describe our revenue trends in two product categories, specifically High Performance Analog and High Volume Analog and Logic. Beginning with the first quarter of 2009, we will also include a new category called Power Management. Currently, Power Management revenue is included in HPA. This product line's revenue has grown rapidly and it's currently about 25% of total Analog revenue. Therefore we will begin using Power Management as a separate descriptor within overall Analog consistent with the change we made to our Analog organization.

So let's go through our results. Revenue in the fourth quarter was $2.49 billion. Although this was a 30% drop from the year-ago quarter and 26% drop from the third quarter, it was at the top end of the guidance range that we provided in December. Revenue in every segment was down with Wireless leading the decline at a 42% decline from a year ago; and Analog and Embedded Processing both faring the best with declines in the low 20s. The revenue results by segment are described in our release, and I won't review them here so that we can have more time for Q&A.

A bright spot in the quarter was our inventory reduction. We lowered our own inventory by $200 million in the quarter. In addition, we worked with our distributors to reduce inventory in our channels by more than $70 million, as we had expected. Although this channel inventory reduction put additional pressure on our revenue in the quarter, getting inventory levels down is the right thing to do in this environment, and we will remain diligent on this front.

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

Kevin March, Senior Vice President and Chief Financial Officer

Thanks, Ron, and good afternoon everyone. As Ron said, we significantly reduced inventory by $200 million in the fourth quarter. Along with lower revenue, our inventory reduction had a direct impact on our factory utilization levels, lowering the average utilization by about 20 percentage points from the third quarter to 48% in the fourth quarter. This again resulted in unutilized manufacturing costs that were expensed in the quarter, and therefore, significantly decreased the fourth quarter's gross profit.

In total, gross profit declined $834 million from a year ago and $546 million from the third quarter. The decrease was attributable to both lower revenue and to the costs associated with lower factory utilization. Gross margin was 44% in the quarter, a reasonable performance considering the low levels of factory utilization of which we were operating. The operating flexibility and long-term financial benefits that our manufacturing strategy and our focus on Analog and Embedded Processing provide are clear.

We reduced operating expenses in the quarter by $137 million, or 15% from a year ago and by 12% sequentially. Both R&D and SG&A expenses were reduced as we implemented spending controls and employees took accrued vacation time.

Restructuring charges in the fourth quarter were $254 million or 10% of revenue. The distribution of these charges across our segments is included in our earnings release. As a result, operating profit for the quarter was $51 million or 2% of revenue. Excluding the restructuring charges, operating profit was $305 million or 12% of revenue. Other income and expense declined to a loss of $15 million, mostly due to a reserve associated with a former business as well as investment losses.

Net income was $107 million or $0.08 per share. Excluding the restructuring charges, net income was $272 million or $0.21 per share. As we expected, net income included the $67 million or $0.05 per share tax benefit from the reinstatement of the federal research tax credit, which was signed into law in October and was retroactive to the beginning of the year.

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. Although our fourth quarter earnings release – earnings were lower, cash flow from operations increased to $1.11 billion in the quarter due to lower working capital requirements, and we ended the quarter with $2.54 billion in total cash. As we discussed in October, we tightly constrained capital expenditures, spending just $76 million in the quarter as we simply do not need additional near-term manufacturing capacity in this weak demand environment. We will continue to constrain capital spending in 2009 as well.

We used $386 million in the fourth quarter to repurchase 20.3 million shares of TI common stock, and paid dividends of $141 million in the quarter. At current stock prices, our dividend yield is now about 3%.

We discussed previously that we reduced inventory by $200 million in the quarter to $1.38 billion. However, inventory days increased to 89 as a 13% reduction in inventory was less than the drop in our revenue.

TI orders in the quarter were $1.86 billion, down 42% sequentially. Product orders have trended sequentially lower each month since July.

Turning to our outlook, we expect TI revenue in the range of 1.62 billion to $2.12 billion in the first quarter. You will note this is a decline of about 35% to a decline of about 15%. Our range is wider than normal, reflecting our lower level of backlog. We expect earnings per share to be in the range of an $0.11 loss to a $0.03 profit. This EPS estimate includes $0.03 per share negative impact resulting from $50 million of estimated restructuring charges.

The EPS range also reflects that we could be operating at a loss in the first quarter. We are working hard to prevent this, but not at the cost of future financial performance. If we do operate at a loss, we would have a tax credit in the quarter that would partially offset the loss.

EPS and profitability in the first quarter will be pressured by lower factory utilization as we once again drive another significant inventory reduction. We expect to operate our factories below 35% utilization or at about 15 points lower than the fourth quarter. We will minimize the impact of low utilization on our operations by idling many of our factories for several weeks in the month of March in addition to the idlings that occurred early this month.

For 2009, we expect R&D expense at about $1.5 billion compared with 1.94 billion in 2008. We expect capital expenditures of about 300 million in the year, down from 763 million in 2008. We expect depreciation expense of $900 million in 2009, down from 1.02 billion in 2008. And we expect the annual effective tax rate to drop to about 24% compared with 28% in 2008.

In summary, we believe we are realistic about the changes underway in the economy and are moving early, quickly, and thoughtfully to take the actions that keep us playing offense. We have a clear view of our opportunities in Analog and Embedded Processing, and we're using this downturn to focus on our core businesses and strengthen our long-term position.

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: [Operator Instructions]. And your first question comes from the line of Glen Yeung [Citigroup].

<Q – Glen Yeung>: Ron, I think you said at the beginning, you would address the issue of bottom. And we have heard some companies suggest we may be seeing one. Any thoughts that you or Kevin may have as to whether or not things have gotten as bad as they're going to get?

<A – Kevin March>: Glen, we are not anticipating that we're at a bottom. We think that the economy is shaping up to be, as we've heard many economists talk about here recently, probably the worst one that most of us have experienced in our working lives. With the contraction in credit going on in the economy, we expect that will probably cause a smaller global economy as well as a U.S. economy in 2009, and so we're taking actions to get ready for that. We are not anticipating an upturn any time on the horizon.

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

<Q – Glen Yeung>: Yes, I guess in light of that, Kevin, I understand now that you're not selling your Merchant business, let me just clarify that I heard that right. But as you then look forward into the next couple of years, are you already rethinking the overall Wireless strategy and really if you could address merchant costs, also OMAP in that?

<A – Kevin March>: You're correct; we are not selling the Merchant Baseband Business, Glen. We decided that based upon our discussions last quarter with potential buyers, that it is more financially worthwhile for our stockholders if we just run that internally as an end of life business.

As far as outlook for Wireless, that has not changed. Our view is still the same, and that is that as the baseband has standardized, the growth opportunity in cell phones will continue to be in the smart phones, the 3G type phones, those phones where the user interface becomes a lot more important to customers, and therefore the applications processor becomes considerably more important. So our view is the same as it has been the last year and half or so for the Wireless business.

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

Operator: [Operator Instructions]. Your next question comes from the line of Uche Orji [UBS].

<Q – Uche Orji>: Thank you very much. Ron, let just ask you a couple of questions on your inventory and utilization rates. Can you just tell me what was your utilization rate exiting the quarter? And within that, can you tell me if you have a way of targeting what inventory will be at the end of Q1?

<A – Ron Slaymaker>: Uche, we are not providing a profile of utilization, so I don't have an end of the quarter number for you. All we have are the average utilization rates. And as you'll recall, just to even go back to the third quarter, I think the average utilization in the third quarter was, I believe it was 67%. We just reported the average utilization fourth quarter to be 48, and we expect the average utilization in the first quarter to be about 15 points down from that 48, so in the 33% range. But I don't have month-by-month profile for you. Do you have a follow-on, Uche?

<Q – Uche Orji>: Right. The follow-on was regarding inventory. How do you plan to target – you talked about using inventory in Q1. Is there any target way to measure it either by absolute dollars or by turns?

<A – Ron Slaymaker>: I think the way to measure it in terms of when we talk about an inventory reduction, specifically what we're describing is the absolute dollars of inventory. So just as you saw a significant reduction in the fourth quarter with $200 million of reduction, we would expect another significant reduction. Although we don't have a specific amount for you, clearly that will vary depending upon where we land within that revenue range. But nonetheless, we're planning on another significant reduction in the first quarter. Okay, Uche, thank you for your questions. Let's move to next caller please.

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

<Q – Tore Svanberg>: Yes, thank you. So if we look at inventories in the channel, you continue to make sure that comes down. Could you just qualitatively talk about where you stand on inventories in the channel and how much further do we have to go before we start matching real consumption?

<A – Ron Slaymaker>: Tore, I think I can give you some statistics on what happened in the channel that maybe will help you appreciate what we're doing there. If you just look at, for example, the difference between sell-in and sell-out trend, in the fourth quarter, resales or point-of-sale or sales out of the channel were down by 19% compared to the third quarter. Our sales into the channel, where again we recognize revenue, were down by 28%. And the impact of that difference on inventory was basically an 11% reduction in inventory or about $70 million.

But you'll note with inventory going down 11% and the sales out of the channel going down more significantly at 19%, just as you saw for TI's own inventory where days of inventory moved up, you would see the same thing in distribution. So what the distributors' plan in the first quarter, we'll leave for them to comment on. But if you look at fourth quarter levels, they made very significant progress I would say in terms of reducing absolute levels, but from a days or weeks measurement perspective, they would have called them out. Do you have a follow-on, Tore?

<Q – Tore Svanberg>: Yes, that was very helpful. And also in your new category of Power Management, should we assume going forward that there will be no Power Management then in HPA and HVA? Is that completely separate?

<A – Ron Slaymaker>: That's exactly correct. So it's a new organization. And the categories that we provide as descriptors of our Analog revenue will be power, the high-volume Analog and Logic, and then separately HPA. And of course, that HPA revenue will be same as what we historically described with the exception that all Power Management will be moved into that new category. Okay, Tore. Thank you for your questions. And let's move to the next caller please.

Operator: Your next question comes from Chris Danely [JPMorgan].

<Q – Christopher Danely>: Thanks, guys. A question for either of you, so now that we're clearing out all the yucky stuff from Wireless, can you guys give us a sense of what you expect Wireless to be after all the restructuring in terms of percentage or revenue, growth rate, and margins?

<A – Kevin March>: Chris, I think that it has already come down as a percentage of total TI. I believe the most recent quarter, Wireless was about 26% of TI's revenue. For the year, it was about 27%. I think last year it was – the year before, it was a higher percent than that. I don't recall the exact number. We would expect that it would – as the cross currents that we've been talking about on the Baseband, the Multi-Supplier, and so on go about, that the revenue in the Baseband area would continue to decline over time. We would look to the Applications Processor revenue to increase over time, but by the sheer size of the Baseband, it will be a while before the Applications Processor revenue can offset the rate of decline there.

Our focus continues to be of course in the Analog and Embedded Processing, which even though they also declined here in this most recent quarter, declined at a considerably smaller rate than what Wireless did. And so proportionately, it will become a larger piece of TI at a faster pace just because those markets tend to operate differently. Ron, do you have anything to add?

<A – Ron Slaymaker>: No, I think that said it. Chris, do you have a follow-on?

<Q – Christopher Danely>: Yes, just on the same question, I guess do you expect the Wireless business to have margins similar to the rest of the company or Analog, or will they remain below the corporate average?

<A – Kevin March>: I think we've talked in the past that that market is such that it probably will not be able to deliver margins that you see inside Analog, which of course can pushing north of 30%. It will probably continue to be not too far off of what we've seen in the last couple of years if you just take a look at the data we provided for you on the website.

<A – Ron Slaymaker>: Okay, Chris, thank you for your questions. And Operator, we'll move to the next caller.

Operator: Your next question comes from the line of Quinn Bolton [Needham & Company].

<Q – Quinn Bolton>: I wanted to ask first on the actions you're taking or you announced today, are there any asset impairments or anticipated asset impairments? And taking a look at some of the fabs, not part of the actions today; are there opportunities to reduce some of the fixed manufacturing overhead given that you're now substantially below 50% utilization?

<A – Kevin March>: Quinn, there were some asset impairments in the quarter that we just – inside those charges. Ron mentioned there were about $24 million having to do with older digital fab that we closed in 2007. And really, there were a number of things there. That included some equipment that we had held for sale, but given the current market environment, we don't believe there's much opportunity for that.

On a go-forward basis, the restructuring plans that we talked about do not entail any anticipated asset impairments going forward. To as far as reducing our fixed costs on a go-forward basis, you will note that our CapEx forecast for 2009 is $300 million, less than half of what we just spent most recently. And so naturally as that money gets spent, it will result in lower depreciation in future time periods. So we would see the fixed cost begin to decline consistent with that capital.

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

<Q – Quinn Bolton>: I do. In the actions taken today, can you address any impact that might have on the Other business? I know it's not something that you look at as a revenue driver, but it still looks like it's the most profitable – at least at the operating margin level, most profitable part of the business. So can you address how that business is impacted by the actions taken today?

<A – Kevin March>: Yes, you will notice if you look on the website again, you'll see that there is an impairment for, excuse me, a restructuring charge for each of the four segments. And that includes both costs created by those segments as well as their pro rata share of the corporate allocated costs. What we have done with this action that we just announced is that we are reducing principally our support areas, and we're also reducing areas of spend that are not in Analog or Embedded Processing. So consequently, the Other area is seeing some of that reduction and consequent restructuring charges as well.

<A – Ron Slaymaker>: Okay, Quinn, thank you for questions. And Operator, we'll move to the next caller.

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

<Q – Tim Luke>: Thanks so much. In recent discussions, Rich had signaled that he thought that the decline, much like product lines, might be something that would take at least three quarters of sequential decline. I was wondering, Kevin, having seen the rapidity of the declines at 27% and now down 25% at the midpoint in terms of sequential guidance, are you feeling that you'd be unlikely to see another quarter of decline, or how do you see the shape of things? Thanks.

<A – Kevin March>: Yes, Tim, we're not – we've got a wider than normal range for first quarter because visibility is pretty rough. And so I don't know that I can give you any meaningful commentary as to what we think second quarter might shape up to. That's probably beyond our realistic ability to really give you some meaningful thought there. I would just say that at the highest level, the way we're looking at this is we're expecting both the global economy and the domestic economy will be smaller in 2009 than it was in 2008. And this will probably take some time to work itself out. And so consequently, the restructuring actions we've just announced are designed with that in mind. That is that we will see a smaller economy that we'll sell into. We have to resize ourselves to be ready for that. And that to the extent the economy does finds its bottom, it will probably be a while before we begin to see any growth in that economy. And consequently, that would have a similar impact on us as well.

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

<Q – Tim Luke>: Yes, a clarification and then a follow-on. You mentioned on your other income line, it was negative 15. I think you mentioned that there were some one-time – maybe some write-downs in there on investments. Would we think that you'd now revert back to a more normalized other income level in the calendar first quarter? And then separately, you gave some specific guidance on R&D being 1.5 billion, down around 23%. Would the SG&A line be down by a fairly similar percentage?

<A – Kevin March>: Tim, on the OI&E, we don't forecast the separate lines, but those investment losses don't occur very often. And so I would hope to be able to report to you 90 days from now that we haven't had a recurrence, and in fact, that will go back to a normal trend.

<Q – Tim Luke>: What was that number?

<A – Kevin March>: As to the SG&A, the $700 million of savings that Ron mentioned during his part of the discussion, we expect that to split out to where it's roughly 50% of that will be in R&D, 30% of that will be in SG&A, and 20% of that will be in cost of revenue. So you can take a look at where we just came from and do your math to figure how much SG&A will come out.

<Q – Tim Luke>: Thank you.

<A – Ron Slaymaker>: Okay, Tim, thank you for your questions, and we'll move to next caller, please.

Operator: Your next question comes from the line of Manish Goyal [TIAA-CREF].

<Q – Manish Goyal>: Yes, hi. Can you hear me?

<A – Ron Slaymaker>: Yes, go ahead, Manish.

<Q – Manish Goyal>: Yes, hi. I was just wondering, your primary customer, Nokia, talks about transitioning to other chip vendors. Do you have a better sense what the timeline looks like? Is that more of a 2010 event or do you think that has been indefinitely delayed? How are you thinking about that?

<A – Ron Slaymaker>: Manish, I think we believe certainly that customer is fully committed to it. I think to some degree, they have at least one of those other vendors in production today even on the low end of their product line. I don't think we believe it represents a very significant impact in terms of our revenue today, but we fully expect that that pressure will continue to build.

At the same time, we're committed to that customer, and we're doing what we can to make sure we take out, take down new programs that fit with our Wireless strategy as we've discussed with you guys for some time, being custom product on the baseband side as well as OMAP applications processors. But we do not have 100% share in any of the areas where Nokia is planning their multi-supplier strategy, whether it's Basebands or Analog products or OMAP applications processors. So again, we don't have a 100% share today, and we don't expect that going forward. But we don't have a specific profile for you that we can lay out in terms of what their ramp-up of new suppliers might look like either. Any assumptions we would have made even a couple of years ago would have been wrong on that front. So we'll let the customer and those suppliers talk about their execution and plans to ramp. Do you have a follow-on, Manish?

<Q – Manish Goyal>: Yes, if I may just follow-up a little bit, I'd like to see if the transition were to occur in 2010, is there any new growth drivers for you that can offset some of that, or 2010 could again be a down year, which will be probably the fourth year in the row for TI for the first time? I'm just looking at what the growth drivers can be that could offset if the transition at Nokia were to occur in 2010.

<A – Ron Slaymaker>: Again, I think you have to be a little careful that this transition at Nokia is not going to be a step function transition. It happens model by model and in some cases generation by generation, meaning as you're well aware they have a different supplier for their low end of the product line versus their EDGE products versus 3G, and there are different schedules that even from day one, they had mapped out for each of those. In fact, I think in the case of 3G, which is where most of our Wireless revenue is centered up these days, I think they're playing a record if everything goes according to their – playing a record with 2010 in terms of initial production. So again, we don't view this as any kind of step function where all of a sudden, we are facing a big drop in revenue with Nokia, but rather one that will take time and will build fully over the course of time.

So where do we see revenue growth coming? In the same kind of areas that we talked about, certainly Analog is going to be impacted by economic weakness just given its diversity. But at the same time, if you look over the course of time that growth engine is well proven and not only in terms of top line, but also the contribution it can provide to our bottom line. Embedded Processing, you look over the last five years, I haven't recalculated for 2008, but at least the periods leading up to 2007, we had a 22% CAGR and we fully expect that – and in fact, we're investing such that that will continue to be a growth driver for TI in the years ahead. So those are the areas that we'll see growth.

And in Wireless specifically, we expect it's going to come out of the OMAP applications processor, as Kevin outlined earlier. That's not saying we won't have some pressures on revenue, but certainly we have a lot of tailwinds that we expect to be blowing us along and hopefully offsetting any of the headwinds that may be there. Okay, Manish, thank you, and we will move on to the next caller.

Operator: Your next question comes from the line of Brian Piccioni [BMO Capital Markets].

<Q – Brian Piccioni>: Yes, thank you for taking my call. You've given us a lot of useful information with respect to modeling, and I can understand that you'd be hesitant to talk about cost of goods sold, but we are both you and us dealing with fairly unprecedented change in terms of rapidity with which things are moving. Can you give us some indications of how we might model things like utilization and that in our cost of goods sold model?

<A – Kevin March>: Brian, I would just point back to perhaps the last couple of quarters. I think this most recent quarter, our utilization dropped by approximately 20 points, and our gross margins dropped by about four points. And we're projecting our utilization will drop again next quarter by about 15 points and so we would expect a corresponding ratio of decrease in our gross margins going into 1Q.

<Q – Brian Piccioni>: Okay, great.

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

<Q – Brian Piccioni>: Yes, it's a little awkward to get into, but at least one of your Wireless competitors is acting like it may be approaching some significant financial challenges. Is that an offset with respect to design wins that basically the financial health of at least one of your competitors versus yourself?

<A – Ron Slaymaker>: Brian, I don't know that I would translate that to: one, any different longer term outlook in terms of where our strategy and Wireless is taking us. Clearly, our view of the growth opportunity in that market has changed from the perspective of – you're just not going to see going for the same kind of unit growth in handsets that we saw in the past. Based upon that, our view is we need to do things differently from an investment perspective to make sure that we're continuing to generate the appropriate financial returns from those investments as opposed to overdriving the investment too far, too long I would say.

Now to the extent that there is opportunity that may be presented because of competitive issues on whatever front, we're certainly open to take advantage of those within the strategic boundaries that we've identified for you. So once again, if a major customer with a significant opportunity would like to pursue custom opportunities in baseband with TI, we're totally open to that type of engagement. I don't believe you'll see reversing course and laying down a significant investment to try to grow the merchant business. That would be a shift in strategy; and frankly, we're not planning to head there. Okay, Brian, thank you for your question, and we'll move on to next caller.

Operator: Your next question comes from the line of Tristan Gerra [Robert W. Baird].

<Q – Tristan Gerra>: Hi, good afternoon. Looking at your top line guidance down about 45% Q1 versus Q3 and your utilization rates, even if we were to assume a double digit increase at the top line for two consecutive quarters of around 12 – 15%, we're still getting to a revenue run rate that's about 30% below where it used to be first half of 2008. How should I reconcile this with your comments that you don't have plans for now to reduce fab output and that basically the gross margin benefit going forward will be on lower depreciation only? In other words, when would you expect to resume normalized utilization rates given the environment?

<A – Kevin March>: Tristan, I think I followed your question. The plan right now is what I've indicated a while ago; that is there are no plans for taking any kind of factory impairments or factory changes other than the loadings that we have inside them. You can see that we're already reducing inventory as well as revenue coming down and maintaining pretty solid profitability because of the hybrid foundry model that we put in place after the last big semiconductor downturn.

We would expect that at some point, even if revenue just goes flat, we no longer have to reduce inventory. And so you can deduce that you'd start at least stabilizing your loadings in your factories if not even in fact beginning to pick them up a little bit as you go out. So even without revenue growth, you could anticipate something like that will come in a quarter or two. And so consequently that underutilized pressure on gross margins will begin to decline somewhat if for no other reason that just because you stopped draining inventory. So consequently when you put all that together, we do not see a need at this point in time to make any adjustments to our manufacturing footprint around the world and we're leaving it as is, as I indicated earlier.

<A – Ron Slaymaker>: Tristan, I would just add the kind of math you just went through to the extent I followed it is exactly why you see TI taking the actions that we've taken today to basically realign our expenses to get in sync with that kind of environment, and that goes across all lines whether it's cost of revenue, SG&A, or R&D. We are planning for a weaker economic environment that could be around for a while. And so whether it's in the factories or whether it's on the R&D line, we're not standing idly by watching. We're taking action to get TI positioned for success in that type of environment. Okay, Tristan, thanks for your questions, and let's move to the next caller.

Operator: Your next question comes from the line of the David Wu [Global Crown Capital].

<Q – David Wu>: Yes. Kevin, I just wondered given your guidance about not expecting any major comeback in the GDP numbers and your actions taken, I was wondering. Are you satisfied as far as this year is concerned that you will not have losses during the year even though first quarter is going to be pretty tight, nip and tuck. And also on a longer term basis, have you changed your outlook for growing your CAGR at 10% top line, which is I guess the '08 to 2013 numbers?

<A – Kevin March>: David, on the losses for year, right now we're just forecasting the current quarter, as we normally do. And as I pointed out earlier, the range is wider than normal because of the uncertainty that we see out there, and it encompasses both a loss as well as possibly a profit in the quarter. I would just point out that even if we wind up with a sideways economy for quite a long time, by virtue of the fact that we're removing about $700 million of cost, that should help protect the bottom line and give us some degree confidence that we know a way to keep the company profitable as we go through time.

On the long-term growth rate for the company, we have not taken our eye off the ball on that. We have talked about though that that growth rate presumed a normal semiconductor growth rate of around 8% annually, and clearly it does not appear that we're in that environment at present. But nonetheless to the extent that the industry begins to find the bottom and shape back up to that kind of presumed growth rate, then yes; I would indicate to you that we do still believe that we should be able to gain market share and hence grow a couple points faster than what the industry itself is growing at.

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

<Q – David Wu>: Yes; Kevin, if I were to just look at your ex-special charges in Q4 on that other – on your investments, you've been running all the way if I go back to March of last year from 10 to $30 million a quarter of other income. Are we back in that range assuming no further write-downs?

<A – Kevin March>: Yes, David, our presumption is that we've gotten those write-downs behind us. Of course in this market, you never say never when you're trying to predict that sort of thing. But our presumption right now would be that that's behind us in the fourth quarter, and we should see something similar to the levels of the past few quarters reappear back in that line.

<Q – David Wu>: Okay, thank you.

<A – Ron Slaymaker>: Okay, David, thank you for your questions. And Operator, I believe on the last caller with Tristan Gerra, I did not give him an opportunity for a follow-up question. So Tristan, if you have a follow-up, please dial or queue back in and we'll try to get you in for your follow-up question. Okay, Operator, can we listen to the next caller please?

Operator: The next question comes from the line Jim Covello [Goldman Sachs].

<Q – Jim Covello>: Great, thank guys so much for taking the question. Going back to the question from a few folks ago about the margins, understanding that a 20-point drop in utilization caused a 400 basis point decline in gross margin, is it exactly symmetrical on the way back up that we need to get – every 20 points of utilization increase is 400 basis points in gross margin? I know mix, are there any other factors there?

<A – Kevin March>: Jim, I don't believe I would go so far as to say it's perfectly symmetrical in both directions. I think right now, we just can give you an indication of where it is on its way down. When we go back up, I think there are so many things affecting that, which is what rate of growth do we see, or inventory restocking do we see, what's the mix of revenue, and so on. There are too many moving parts that actually impact that. So I'm going to forgo actually trying to forecast that until we will begin to see some growth in revenue in the forecast.

<Q – Jim Covello>: Kevin, maybe just another way, and I don't know Ron if this counts as my follow-up but maybe just...

<A – Ron Slaymaker>: I will.

<Q – Jim Covello>: ...what do you think about how we can think about some historical precedent for what margins might do off the bottom? Have utilization rates ever been this low before and if, when just so we can go back in time and make sure we have the relevant comparison?

<A – Ron Slaymaker>: Jim, the records that we show do not have utilization down into the low 30s such as we're expecting in the current quarter. I don't have the data right in front of me. I know the last time we were at 48% utilization was in second quarter '01. And I believe in second half '01, we slipped down come into the mid-40s. But to my knowledge, I don't believe we've been into the 30s.

And just by comparison, second quarter '01, when we were at that same 48% utilization, we reported 25% gross margins. I believe we had an operating loss actually in that quarter. Now you need to be a little careful with those numbers because we had a Sensors and Controls segment that's included in it. But nonetheless, I think it's pretty clear we're operating better than we did when we were at the same utilization back at that historical point. Okay, Jim, and thank you for your questions, and let's move to the next caller.

Operator: Your next question is a follow-up from the line of Tristan Gerra [Robert W. Baird].

<A – Ron Slaymaker>: You're back; go ahead, Tristan.

<Q – Tristan Gerra>: Is it fair to assume that E&P is basically no longer a difficult comp for you guys in Wireless going forward?

<A – Ron Slaymaker>: They were a wonderful comp. We never called them difficult until they decided to do a JV with a competitor. But in terms of revenue, that revenue is pretty much behind us at this point. So, there was some revenue in fourth quarter, but we really expect that to be the last quarter where there would be any revenue of substance. Now that being the case, be aware that the year-on-year comps – that loss of revenue will continue to weigh on the year-on-year comps through 2009. And if I can just scale it, last year we did a little over $400 million of revenue through our Wireless segment with E&P. So clearly as I said, the 2009 comp will continue to feel that. But from a sequential perspective, probably again there will be a negative comp in first quarter, but from there our revenues essentially zero with E&P. Okay, Tristan, thank you for being patient and coming back in. And Operator, let's move to the next caller, please.

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

<Q – David Wong>: Thank you very much. Can you tell us what percentage of your current Analog business goes into handsets? And in the past, you've talked about Analog attached to baseband chips and handsets. Does that work in reverse? As the baseband business falls, do you lose Analog into handset as well?

<A – Ron Slaymaker>: We actually believe in the case of Analog going into – I'm going to answer the second question first while I'm trying to find the data on the first question. But on the second question, the Analog program, there are some Analog programs that tie to baseband. There are others – many custom Analog programs are totally independent of baseband. In fact at some customers where we would have historically been essentially their sole provider of baseband, they similarly had other companies – competitors that were sole providers of Analog. And with multi-sourcing strategy opening up, although it puts pressure on our digital baseband revenue, it actually has opened up opportunities for us on the Analog baseband side.

So our position with Analog is unchanged really from what I think we've been describing back since the analyst meeting in May in that we believe Analog custom Wireless programs will actually move from what has been a headwind over the past few years to a tailwind as we have some new programs ramp into production beginning in second half '09. And of course the overall Analog revenue trend will depend upon the broader macro environment, but we do have programs in the pipeline on custom Analog for handsets that should begin to ramp in second half of this year.

If you look at the percent of our Analog revenue that ties to handset, it would be about 10 to 15% of our total Analog revenue in 2008. And that's a bit of a rough estimate, but it's probably a pretty close estimate for you. Okay, David, did you have a follow-on question?

<Q – David Wong>: Yes, a real quick one. Your inventory end of this quarter and your expectations next quarter, I'm assuming those numbers don't include inventory write-downs. You didn't take any inventory write-downs, did you?

<A – Kevin March>: David, nothing out of the ordinary. I mean there are always a little inventory write-downs every quarter and you go through things and look for salability and obsolescence, but nothing out of the ordinary. And there is no presumption of anything out of the ordinary going forward.

<A – Ron Slaymaker>: As our low levels of utilization show, I mean we're getting it the hard way David. Okay, thank you for your questions and let's move to next caller please.

Operator: Your next question comes from the line of Doug Freedman [American Technology Research].

<Q – Doug Freedman>: Hi guys, thanks for taking my question. If you could, could you give us – I know the environment is really tough, but clearly you're cutting costs and getting your business in line with the new macro environment. What is your long-term target model now with all the mix shifts in business and at what revenue level do you expect to achieve that model?

<A – Kevin March>: Doug, our model really hasn't changed. The objectives we had in mind haven't changed. The revenue level I don't think I'm qualified to speculate on because really it's going to wind up being a – it's more a mix level is a more appropriate thing. Our goals remain 55% gross margin and 30% operating margin. And as we've said in the past, we expect to get there as Analog and Embedded Processing become a bigger and bigger portion of our total revenue. And we also expect to get there because those two product families allow us to spend considerably less capital in our factories, and so we wind up with less fixed cost or depreciation going to the P&L. So those are still the financial profit margins that we have in line for the company. And as to what revenue size, that's really going to be as much a function of mix as anything.

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

<Q – Doug Freedman>: Yes, if I could, there are a lot of – this downturn really is causing a little bit of a structural change in the industry. You guys have been a consolidator in the industry. At what point do you feel that business might be right sized that allows you to play the role of consolidator again? Is that something you see yourselves doing? And is there more of a reliance coming up on external reps as opposed to internal sales forces going in that theme of there are structural changes that are occurring in the industry?

<A – Kevin March>: Doug, you see us acquire companies quite a bit over the years. For the most part, they have been smaller companies. They're quite frankly easier for us to integrate and to leverage their products under our sales force and turn into revenue quickly. So we would expect to continue doing that. We're mindful of the points that you brought up that certainly things are different right now and that may provide additional opportunities for us to perhaps consider, but we will just continue doing at least what we've being doing in the past.

To as far as reps versus distribution, in fact we're very happy with the channels that we use and the new program that you've heard of talking about that we've been rolling out with our distributors is also being found by our distributors to be a very good program. And they makes them much more attentive to our products, so I expect we'll continue to use that channel very actively as a means of selling our products to market.

<A – Ron Slaymaker>: And Doug, I know you also were asking the question of what about reps versus internal or TI employed sales personnel. We actually do use reps in certain locations, certain customers where they may have a particularly good relationship. But in general, our sales force is absolutely one of our best competitive advantages we believe relative to the various competitors that we're up against. So by no means do we have an effort underway to shift away from that to the extent our competitors are as probably because the success of our sales force is having and maybe pressuring down to go do some different things. But what we have now is working and we're going to if anything put – that's one of those areas that we're trying to identify for you that through this downturn, we're seeing even more of our investment dollars focused into. Really three line items I would identify, Analog, Embedded Processing, and our customer support/sales applications organization; so no change at all on that front. And I think that was your follow-up. So thank you, Doug, and we'll move to the next caller, please.

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

<Q – Ross Seymore>: Hi guys. On the merchant silicon business you're keeping, how should we think about the profile of that business as it – I assume it erodes over time. You mentioned the custom side would be long lived before it would come off and not be binary, but how should we think about the merchant side?

<A – Kevin March>: Ross, when we talked about that before, we indicated that it was about a 350 to $400 million business in the most recent year, and that it would probably take a couple of years to wind itself down.

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

<Q – Ross Seymore>: Sure. And then Ron, you mentioned about the days of inventory rising in the channel in the quarter. Could you give us an idea of what the channel inventory on a days or weeks basis was in the third – fourth quarter as well and then what you think it should be in the first?

<A – Ron Slaymaker>: I think where it has been running historically, Ross, has been in the eight week range. I'll be honest. I don't have the data in front of me that says exactly where we are. I'm sure we're a little bit over eight weeks, below nine weeks is what I would guess in terms of where we are currently, but I don't have the specific data for you. So again, if you just look at the trends, a 11% inventory reduction on a 19% resale to client, clearly their days or weeks of inventory drifted up. Okay, I think that was your follow-up. Thank you, Ross. Let's move to the next caller, please.

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

<Q – Adam Benjamin>: Thanks, guys, just another follow-up on the Wireless business. The business was about a 20% operating margin in '07, and then the revenue declined almost 20% in '08, and you were roughly about 10% operating margin. Given that you expect the business to decline again given the fact that you're pulling back in the Nokia relationship, and combined with the restructuring charges the fact that you're pulling off that business, should we expect that to bounce back on the operating margin level given the pullback even with the revenue decline?

<A – Kevin March>: Adam, I would just point out the 2008 includes a restructuring charge inside that. And so if you adjust for that, it's probably closer to 14% versus the 10% for 2008 that you were just noting.

We had also mentioned that we were expecting about $200 million of cost savings to come out of that business with our merchant chipset strategies change. And in the fourth quarter, we only saw about 10 million of that make its way out so far. So, there is still more to come on that in 2009 and really the percentage profitability of that's going to be largely a function of what the size of the revenue is. But we do expect that that business has plans to bring those levels back up again.

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

<Q – Adam Benjamin>: Yes, I do. Just following up on the inventory in the channel, Ron, can you talk about – I think you mentioned eight to nine weeks on a days basis, but what about on a dollar basis?

<A – Ron Slaymaker>: Yes, I don't have that data for you. So again, I had the turn data that I provided. I do not have the dollars of inventory here to share with you, unfortunately. Okay, Adam, thanks for your questions, and we'll move on to next caller please.

Operator: Your next question comes from the line of John Pitzer [Credit Suisse].

<Q – John Pitzer>: Yes, good afternoon guys, thanks Ron and Kevin for taking my call. Ron, can you talk a little bit about cycle times through the fab because at some point, your utilization this quarter speaks towards some revenue expectations going into the June quarter. So I'm just curious given the drop we're seeing in utilization here what that might bode for the next couple of quarters? Thanks.

<A – Kevin March>: John, on the cycle time through the fabs, when you underload the fabs like we have, the wafers that you have in queue go down substantially, and so things move quite quickly through the fabs. So in fact, I think maybe what you're indicating is that if in fact business were to come back quicker than our inventory levels might support, would we be able to respond, and I believe the answer would probably be yes. The lines are quite open at these utilization levels and so we can move the wafers pretty darn quickly at this stage.

<A – Ron Slaymaker>: But I think even more so than short cycle times, we believe what stages us well is plenty of inventory right now. So that's what we're – that's the main issue to address and cycle times will help us in terms of response time if we need to. Do you have a follow-on, John?

<Q – John Pitzer>: Yes, Ron, on the follow-on, help me understand the pricing environment going forward because clearly at 33% utilization, the economics of cutting price to try to drive utilization is a lot more favorable than at like 90% utilization. So what's the expectation on pricing from you and from the industry?

<A – Ron Slaymaker>: Right, John, we do not have a strategy to go do anything different on the pricing front in order to fill up our wafer fabs. For the 4 or 5% of our revenue that is commodity, you can affect – we could pick up a bigger share of the demand that's out there by making adjustments on prices at least for the nanosecond before our competitors all met us at that new price.

For the other 95% of our business that is proprietary, typically it's sole source. Any pricing moves only have the impact of influencing new business opportunities, which typically are two years out in terms of when they're going to produce revenue for Texas Instruments, and we're not smart enough to know what that environment looks like two years out. So again, our strategy is follow normal pricing curves. In areas like high performance Analog, pricing is historically very stable. In the big, high volume opportunities, custom opportunities, generally we have agreements with customers upfront on what those pricing curves will look like; so again, no change at all in terms of TI's pricing strategy as we go through this downturn. Okay John, thank you and we'll move to next caller please.

Operator: Your next question comes from the line of Steve Smigie [Raymond James].

<Q – J. Steven Smigie>: Great, thank you. I was wondering if you could talk about given the restructuring in R&D if there's any change – or I guess a better way to ask it, what would be the emphasis in Embedded Processing? Is it other particular areas that will remain emphasis that will get more of the remaining R&D dollar? So is it DSP that gets more or microcontrollers or how do you think about that?

<A – Kevin March>: Steve, that's a bit more specific than we normally share. But I would just say that both those areas will get some dollars. I think the focus that we've had is on where they can be applied, and that is trying to develop products that can help facilitate such things as low power, ultralow power, even no power requirements, both for microcontrollers and DSPs and markets where they can be used as such as medical, security, other kinds of emerging markets. So I wouldn't characterize that we have a preference one versus the other. It's more a question of making sure that we've got a portfolio that can serve these emerging markets out there and we believe both DSPs and microcontrollers would be important to those markets.

<A – Ron Slaymaker>: And Steve, I would just give an example of an area where in microcontrollers we're essentially untouched in terms of competitive dynamics with a very low power microcontroller. We have product line called MSP430. It is by far the lowest power microcontroller in its space. And one of the things that – and that has actually been a big factor in terms of what has been a very attractive growth rate on that product line. So certainly, we'll put the pedal to the medal in terms of that product line, developing it out to new spaces, and moving it forward. Do you have a follow-on, Steve?

<Q – J. Steven Smigie>: Sure. If you could talk in that same manner about the Analog as well, I mean it seems like you have done fairly well in power system that keeps getting some decent funding. But what about converters, amps, et cetera and any particular area added or subtracted?

<A – Ron Slaymaker>: I think that entire high performance Analog space, obviously we see what happens when we can take one area and grow it to the point where basically it breaks out into its own separate business as opposed to the broader high-performance Analog umbrella. But the financial characteristics of Analog in general and high-performance Analog specifically, I don't need to tell you about. They are very attractive and there are few spaces inside of that – underneath that umbrella that we're not interested in moving forward on. So that entire space under high-performance Analog you can assume we'll be pushing very aggressively. Okay, Steve, thank you for your question; and Operator, I believe we have time for one more caller.

Operator: Your next question comes from the line of Sumit Dhanda [Banc of America Securities-Merrill Lynch].

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

<A – Kevin March>: Sumit, last call here, okay.

<Q – Sumit Dhanda>: Can you hear me?

<A – Kevin March>: Yes, we can. You made it just under the wire.

<Q – Sumit Dhanda>: Sorry about that. I apologize, two quick questions. First on the commentary on orders, you had indicated that since July, the orders have declined every month sequentially. We've got few days left in January. Best you can tell, is that going to be the case even for the month of January?

<A – Ron Slaymaker>: Sumit, I guess what I'd like to say is instead of trying to give an outlook for this month specifically, let us to say that everything we've seen in terms of demand coming in thus far in the short period of time is fully consistent with the guidance we've provided, but we'll probably give you a little more of an interim view back on March 9 at our mid-quarter, but not at this point. Do you have a follow-on, Sumit?

<Q – Sumit Dhanda>: Yes, I do. On the operating margins, even as I adjust for the various restructuring charges that you've incurred, it seems like the margins for the Embedded Processing business have dropped out fairly precipitously. And it seems at least last quarter, your infrastructure business outperformed on a relative basis. I'm just curiously still. Is it just that the inventory was too high and so you had to take down – your margins got disproportionately impacted in this particular business? How do we reconcile it?

<A – Kevin March>: Sumit, I think what you see there is the underutilization charge of course is allocated to the respective segments in accordance with which factories they use. And the Embedded Processing of course for some of the DSPs using some of the more expensive internal capacity and so you'll see the impact of some that utilization playing that right through.

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

Ron Slaymaker, Vice President, Investor Relations

Okay, Sumit. Thank you and for the rest of you, thank you for joining us. A replay of the call is available on our website and good evening.

Operator: Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.