MANAGEMENT DISCUSSION SECTION

Operator: Good day. Welcome to the Texas Instruments second-quarter 2010 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over-to Mr. Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon and thank you for joining our second-quarter 2010 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. A replay will be available through the web.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor Statement contained in the earnings release published today as well as TI's most recent SEC filings for a more complete description.

Our mid-quarter update to our outlook is scheduled this quarter for September 9. We expect to narrow or adjust the revenue and earnings guidance ranges as appropriate with this update.

In today's call, we'll provide an update on our strategic progress, discussing how the quarter's results align with our longer term objectives.

Our core businesses of Analog, Embedded Processing and the smartphone focused applications processors and connectivity products in our Wireless segment collectively made up 67% of our revenue in the second quarter. They grew 11% over the first quarter and 53% from a year ago. They are also the areas where we have focused our R&D investments with 88% of our total second- quarter R&D spend focused in these areas. These are the growth engines for the future.

Part of the attraction of our Analog and Embedded Processing businesses is the breadth of their position across the electronics industry. With these products, we have the potential to sell into literally every electronics product that is produced. This includes computing applications such as fast-growing tablet computers, and at the other end of the market spectrum includes industrial applications such as smart meters.

As we've seen over the past year, these end markets often move as different speeds. The recovery that began in the first half of last year initially began with the high-volume computing and communications markets, with the industrial markets not beginning their recovery until late in the year. Although some of the high-volume markets are now normalizing into their more typical seasonal growth patterns, the industrial market has continued its recovery. For TI this is evidenced in the strength of our various catalog product lines, such as catalog microcontrollers and digital signal processors in our Embedded Processing segment as well as High-Performance Analog and power management products in our Analog segment. These catalog products are typically sold through distribution, often in low volumes to a large number of customers across the world.

Our revenue in the U.S. and Europe regions are both weighted toward industrial applications and both areas performed well in the quarter. These catalog product lines will particularly benefit over time from the size of TI's field sales and applications force and the breadth of our product portfolio as we have a stronger capability to call on more customers and sell more products to those customers.

The notable area of weakness in the second quarter was in Wireless where we experienced an unexpected slowdown late in the quarter. We believe this weakness was a customer-specific issue and not a broader reflection on the market. I'll discuss that more in a few minutes.

Overall, TI revenue in the quarter was up 9% sequentially and up 42% compared with a year ago. Analog revenue grew 11% sequentially and was up 56% from the year-ago quarter. All three of our major Analog product areas were solid contributors to this growth in both comparisons, although sequential growth was most significant in High-Performance Analog due to its strong position in the industrial market.

Over the past five quarters, HVAL revenue has continued to pace well with our other Analog areas and was up more than 50% from the year-ago quarter. This provides additional confirmation that HVAL has turned the corner and should be a strong contributor to our growth in the years ahead. Embedded Processing revenue grew 17% sequentially and was up 47% from a year ago. Catalog microcontrollers and digital signal processors were the areas of strongest growth in both comparisons.

The relatively large size of the microcontroller market combined with the potential for TI to gain significant share represents our most significant embedded processing opportunity. Microcontrollers led our Embedded Processing growth in both the sequential and year-on-year comparisons as our investments in this area are producing results.

Wireless revenue was up 1% sequentially and up 18% compared with a year ago. Revenue of $311 million from applications processors and connectivity products for smartphones was up 6% sequentially and 52% from a year ago. These products are redefining our Wireless segment and are delivering strong growth.

Baseband revenue, which as expected, continued to decline, was $416 million, down 2% sequentially and about even with a year ago. Basebands are now 12% of total TI revenue compared with 17% in the year-ago quarter.

As you know, we made a strategic decision to exit the baseband market and as we do, we are maximizing profits during our multiyear wind-down of this product line, and using these profits to fund growth in other areas.

Revenue in our Other segment comes from a mix of product lines, mostly DLP products and calculators as well as royalties. Although there will be significant variance in growth across these product lines, collectively, they will have relatively lower growth. Nonetheless, they have strong profitability. In the second quarter, revenue in our Other segment grew 9% sequentially, calculator revenue increased seasonally, and more than offset a decline in royalties. From a year ago, revenue in the Other segment grew 42%, mostly due to strength in DLP products.

From a geographical perspective, Asia-Pacific, Europe and the U.S. regions grew sequentially while Japan declined. All regions were up from a year ago.

Turning to distribution, resales, or sales out of our distribution channel, were up almost 15% sequentially. Once again, we believe this represents share gains for TI across multiple distributors. Even with the strong resale growth, we were able to help distributors build some inventory to support future growth. Distributors' inventory remains low by historical standards at about five weeks of inventory, similar to the past few quarters.

Now Kevin will review profitability and our outlook.

Kevin March, Senior Vice President and Chief Financial Officer

Thanks, Ron, and good afternoon, everyone. As we have shifted TI's focus to Analog and Embedded Processing we are addressing better opportunities and our financial results are reflecting this through higher levels of profitability, better earnings per share, lower capital requirements and higher returns. Our gross profit expanded by 12% sequentially this quarter as revenue grew and grew in the right areas.

Gross margin also increased by 150 basis points to 54.2% of revenue. Operating expenses increased $41 million from the first quarter. Almost all of this increase was focused on our core businesses. Operating expenses declined to 22% of revenue in the quarter.

Restructuring charges in the second quarter were $17 million. This is for U.S. pension plan settlement accounting associated with actions that occurred in 2008 and 2009. The distribution of these charges across our segment is included in our earnings release.

Operating profit for the quarter was $1.11 billion. This is the best operating profit TI has ever produced. Operating profit was 17% higher than the prior quarter. From the year ago quarter, operating profit was up $764 million. In both comparisons, the higher operating profit reflects higher revenue and the associated gross profit.

Operating margin in the second quarter was 31.7% of revenue. Not only did our core businesses drive most of our revenue growth this quarter, they also drove 75% of the incremental profit. Net income in the second quarter was $769 million or $0.62 per share. An interesting comparison is to the third quarter of 2007. Prior to this past quarter, 3Q '07 was our high watermark for operating profit. This quarter's operating profit exceeded that quarter's by 9% even though revenue in that earlier quarter was 5% higher. Earnings per share is an even better story, up $0.10 or 19% compared with 3Q '07 as our operating profit gains have been further amplified by our stock repurchases.

These results clearly represent the power of the portfolio changes we've implemented and the benefit they are providing to our financial results. 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 was $562 million. This was down from last quarter due to income taxes that we paid in the quarter. Cash flow from operations was about the same as a year ago.

Capital expenditures increased to $283 million in the quarter. Expenditures included the purchase of Analog wafer fab equipment as well as assembly-and-test equipment. Recall that we announced earlier in the quarter that we had begun the build-out of Phase II of our analog capacity expansion at RFAB with the purchase of additional 300-millimeter equipment from Qimonda's bankruptcy proceedings.

We will continue to make opportune capacity investments to support our analog growth as these opportunities arise. Just last week, we announced that we will buying additional 300-millimeter equipment to help complete the RFAB Phase II build-out as well as an operational 200-millimeter fab and an additional fab facility that can be equipped with 200-millimeter or 300-millimeter equipment as needed in the future.

These facilities are located in Japan and were purchased as part of Spansion Japan's bankruptcy proceedings. The purchase price on this manufacturing capacity is attractive and these purchases will help give us the capability to significantly grow our Analog business while providing strong returns on these investments.

I should note that in the second quarter, our return on invested capital moved up to 31%. Our strategy is to continue to improve the efficiency of our manufacturing operations while making sure we have capacity in place before we need it.

We used $750 million in the quarter to repurchase 29.7 million shares of TI common stock and paid dividends of $147 million in the quarter. We were able to increase our inventory by $73 million in the quarter while inventory days held steady at 76. We have continued to improve our delivery performance and our lead times have continued to decline as we bring additional manufacturing capacity online and get better positioned with inventory.

Even as we have continued an orderly process of reducing lead times, demand from our customers has remained strong. Orders in the quarter increased to $3.73 billion. TI's book-to-bill ratio was 1.07 in the quarter.

Turning to our outlook, we expect TI revenue in the range of $3.55 billion to $3.85 billion in the third quarter or 2% to 10% sequential growth. We expect earnings per share to be in the range of $0.64 to $0.74.

Our estimates for 2010 R&D and depreciation are unchanged from last quarter. Our estimate for 2010 capital expenditures has increased to $1.2 billion from our prior estimate of 900 million reflecting the additional manufacturing equipment acquisitions.

In summary, we continued to execute a strategy that will allow us to grow our Analog and Embedded Processing business significantly faster than their respective markets. Results from the second quarter confirm the attractiveness of this strategy both in terms of the top-line growth that can be produced as well as the earnings potential of these businesses. And we've continued to pave our path to long-term growth with low-cost acquisitions of manufacturing capacity that will provide us competitive advantage while not burdening the company with unmanageable fixed costs.

With that, let me turn it back to Ron.

Ron Slaymaker, Vice President, Investor Relations

Thanks, Kevin. Operator, you can now open the line 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]. Our first question comes from Chris Caso from Susquehanna Group.

<Q – Chris Caso>: Hi, thank you. First I guess if you could comment on the bookings in the quarter and you talked about the press release up 2% sequentially, that looks like it's slower than the growth we've seen the past couple of quarters. It sounds like the book-to-bill was actually a bit stronger than that from what you just said. If you can give some color about what you're seeing there?

<A – Kevin March>: Sure, Chris. What we saw was bookings actually broadly across all of our products and markets and across all the regions. We actually think the book – the orders are coming in probably more consistently with underlying demand. You may recall that last quarter our book-to-bill was 1.14 and this quarter at 1.07.

We believe what we're seeing here is the effect of us in an orderly fashion beginning to pull our lead times in, has given our customers more confidence they don't have to place orders on us quite as far out in the future as they have for the last few quarters. And in addition the underlying demand that's going on is increasing orders as well as the market share gains. So combined, we think the order pattern is beginning to line up consistently with the change in lead times and just underlying growth through market growth as well as market share gains.

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

<Q – Chris Caso>: Yes. Thank you. If you could talk a little bit about inventory, you talked about that you built some inventory at distributors during the quarter. What's the plan going forward? Obviously, you've got plans to add a bunch of capacity and in addition to that, I guess you're also moving to a consignment model with some of those distributors. Can you talk about as you build that inventory, is that showing up in the revenue number or is that going mainly to consignment at this point?

<A – Kevin March>: Chris, I believe we talked about our resales at distribution went up about 15% last quarter and in addition we were able to build some inventory in the distribution channel. I would point out that that the turns in that channel continue to be at historically low levels at about five turns overall.

On the point of consignment, that inventory, of course, when it was previously carried on the distribution books is now moving onto our books and will constitute some growth that you'll begin to see in our held inventory. But at 76 days, I'd characterize that as continuing to be very lean inventory balances overall.

As we go forward, we continue to move – we will continue to convert more distributor inventory to a consignment arrangement and so that will shift from their books onto our books. But that will be over the next year or year and half or so before we complete that process.

<A – Ron Slaymaker>: Just as a correction, distributor weeks of inventory are about 5 not turns.

Okay, Chris, thank you, and let's move to the next caller please.

Operator: Our next question comes from Uche Orji of UBS.

<Q – Uche Orji>: Thank you very much. Can I just focus a little bit on your Embedded business where you've seen some really strong growth? You mentioned microcontrollers being the key driver. Any color you can give us as to specific end-market strength that's driving that strength in Embedded? And just as a matter of explaining whether that's share gains or whether the overall industry gained some strength in Embedded, that would be helpful. Thank you.

<A – Ron Slaymaker>: Uche, I can try to give you some. However, you also have to keep in mind that the area that we said was growing most significantly in Embedded Processing were the catalog products, so just by definition, those catalog products go into lots of different end markets and it's not any particular end market that's driving it.

What I would say is just in addition, catalog grew strongest but we also saw growth in comms infrastructure and automotive as well but it was catalog products that were growing most significantly. And when you think about that, think about applications – metering was one that I think I mentioned previously, motor control, you get equipment like safety equipment, medical equipment, those types of applications that come in.

Do we believe we're gaining share? I believe so. And you know, we haven't seen the competitor's report, but with 17% sequential growth in that business, I would venture to say that probably represents pretty clear market share gains from TI in that area, pretty similar to what you've seen for the last five years from TI in that area, where we have been growing well above market growth rates in Embedded Processing. And you know, the reality is we're kind of fueling the investment in that area as well. So if anything, over the course of time, we would expect to maintain that relative outperformance versus market overall if not even accelerate that.

Do you have a follow-on, Uche?

<Q – Uche Orji>: Yes, I do, actually. Can I just ask you about Wireless? Okay, so it would probably be fair to say that we are seeing early signs of the Nokia share shift, toward the other suppliers into Nokia. Baseband drove some of the revenues; I'd like to get a sense as to how much this contributes to your profit for the quarter? And also as we go through the rest of year, you know, any sense as to how much of the baseband revenue is 3G versus 2G and should we still be modeling this going down to zero say by 2013? And that's my last question. Thanks.

<A – Ron Slaymaker>: Okay. Uche, I'll take the latter part and then I'll let Kevin make any comments he would choose about the profitability there.

The composition of baseband these days is 80% of that revenue is 3G, and then that would leave 20% basically representing the older technologies. By comparison, in the year-ago quarter, 50% of that baseband revenue was 3G. So we've seen a very significant market shift over the course of the past year away from the older technologies and toward 3G.

And I believe you commented, but I would agree that in terms of competitive pressure, at Nokia where, again, they have acknowledged and they have a strategy to multisource those products, this year basically the competitors that they have on board will be addressing those older, non-3G technologies, which represent 20% of our baseband technology, and then the 80% that is 3G, to the best of our knowledge, it will be 2011 before they have any other alternative suppliers on board with 3G basebands there.

Kevin, the question regarding contribution of baseband profitability to TI.

<A – Kevin March>: Yeah, Uche, on that question, we've talked in the past about the baseband products operating about a 40% gross profit margin level, and we've described in the last couple quarters how we've removed pretty much all of our R&D spending on that product line. We, of course, still have support for that, customer service support and order entry and things of that nature, factory planning that still goes on with that. However, given the nature that that basebands are largely going to a single customer, we don't really think it's appropriate for to us give any further commentary as to the profitability that we have at this time for that particular product family.

<A – Ron Slaymaker>: Okay, Uche. Thanks for your questions. We'll move to the next caller.

Operator: Our next question comes from Tristan Gerra of Robert Baird.

<Q – Tristan Gerra>: Hi, good afternoon. Regarding the Richardson fab, can you give us a sense of what percentage of that fab output potential could be in production by year end, assuming the current end demand trends remain stable and when you would expect full ramp?

<A – Ron Slaymaker>: Tristan, which fab were you referencing?

<Q – Tristan Gerra>: Your new 300-millimeter fab.

<A – Ron Slaymaker>: RFAB. Okay, do you want to give an update on that, Kevin?

<A – Kevin March>: Sure. RFAB is still on schedule to have our first production products exiting that factory by the end of this year. We announced, of course, Phase I of the equipment going into that factory late last year that would give us an incremental $1 billion of revenue capacity when fully up and running, and then last quarter, we announced Phase II, which would give us a second incremental $1 billion, so total about $2 billion of delta revenue capability when fully up and running.

Of course, Phase II will be fully up after Phase I, so expect that next year or beyond. But the quick answer is that by the end of this year, we expect to have qualified products shipping from that factory able to begin to generate revenue.

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

<Q – Tristan Gerra>: Also, on the Wireless revenue growth for G3, would you expect seasonal or below seasonal output or trends quarter-over-quarter and do you think that the 3G mix will continue to increase?

<A – Ron Slaymaker>: Tristan, that's probably – I think over time it makes sense that that 3G mix will continue to stay on the trend that it has been, but whether that holds for any particular quarter is probably more precise than I would want to give. And then similar just in terms of our outlook, we try to keep it at the company level as opposed to individual segments or product lines. So I really don't have a forecast for you on what we would expect from Wireless there. But, again, in general, we would expect to track over all the general performance of our customer in that market.

Okay, Tristan, thank you for your questions. Let's move to the next caller.

<Q – Tristan Gerra>: Thank you.

Operator: Our next question comes from Srini Pajjuri of CLSA.

<Q – Srini Pajjuri>: Thank you. A couple of questions. Kevin, given that the lead times are now coming in, what are you expecting for the turns business this quarter versus the past few quarters?

<A – Kevin March>: Srini, I don't have a specific forecast for you on that. I would just note that turns have been pretty quick at five weeks for an extended period of time right now, and so those things tend to change at a fairly slow pace. But beyond that, I don't have a specific forecast for you.

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

<Q – Srini Pajjuri>: Yes, just on the Wireless, Ron. You said that one of the customers were weak late in the quarter. I'm just wondering, was it specific to the baseband business or was it more broad based across all the product lines? And also, if you can, address whether you expect that business to come back this quarter? Thank you.

<A – Ron Slaymaker>: Okay. Srini, I think in that customer's own preannouncement, they describe general weakness in their high-end business. So as you might expect, that goes across more than just basebands. It would be across apps processors and connectivity products in terms of where we saw some unexpected weakness.

Now, that being the case, if you look at sequential trends, the one you'll note is that basebands were down where the other areas collectively still went up. So, again, that was – but from what we were expecting with, let's say, early June when we gave mid-quarter guidance, all those areas softened up somewhat because of that particular customer.

Okay, Srini. Thank you for your questions. And we'll move to the next caller.

Operator: Our next question comes from Ramesh Misra of Brigantine Advisors.

<Q – Ramesh Misra>: Good afternoon, Ron and Kevin. In terms of putting your growth numbers into historical perspective, can you give us an idea of where historically Q2 growth has been, and where Q3 growth has been?

<A – Ron Slaymaker>: Okay, Ramesh, what I would say is Q2 if you look at just the last five years, the average has been at 10%, but also, you kind of have to allow at least consider last year's Q2 was exceptionally robust with 18% sequential growth. If you just move to the – take that out and look at the prior – the five years prior to that, it would have been 2 percentage points less, so 8%. So again, what we just reported, you know, I would say generally right in that range of seasonal Q2.

With respect to Q3, again, the five-year average is 8%. Last year's Q3 was similarly robust with 17% sequential growth. So if you look at the five years prior to that and basically exclude third quarter '09, you would get to a 5% growth number for sequentially Q3.

Okay, Ramesh, do you have follow-on?

<Q – Ramesh Misra>: Just a quick one, Ron. In terms of gross margins, obviously, very strong last quarter. I presume that was mostly mix related. But where should we be thinking of gross margins kind of through the rest of the year or any visibility that you can provide beyond Q3? Thanks.

<A – Kevin March>: Yeah, Ramesh, we've talked in the past about the portfolio should produce gross margins, over time, averaging around 55%. This is going to be just really a change in our mix as we move over time. I think we just did 54.2% this most recent quarter. Our focus as we move out in time now is really on top line. We believe the portfolio has – is able to deliver the kind of margins we've talked in the past and the focus now is shifting really to accelerating our top-line growth and being considerably more aggressive at market share gains.

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

Operator: Our next question comes from Jim Covello of Goldman Sachs.

<Q – Jim Covello>: Great, guys. Thanks so much for taking the question. I'm sorry if I missed it but I didn't hear, I don't think, where were lead times start of the quarter and where are they today? Where do you think they'll be at the end quarter?

<A – Kevin March>: Jim, lead times, we didn't actually characterize a number on there. That's why you didn't hear it.

<Q – Jim Covello>: [Laughter].

<A – Kevin March>: It – they came down a little bit again in second quarter as you saw in the first quarter. So we continue to make progress as we bring more capacity on line and you could actually see the way we're supporting that is through restocking our finished goods inventory. If you actually look on our balance sheet you'll see that's where most of our inventory build was at.

As we continue to bring capacity online, notwithstanding variability in demand going forward, we'd expect that lead time to continue to come down. It's coming down pretty much across the board so that is – those items that were at greater than 16 weeks, we saw some of those coming down to less than 16. Those that were greater than 14, we saw some of those come down to less than 14 and so on in each of those tranches as you take a look at them. We would expect continued progress on that front.

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

<Q – Jim Covello>: Yeah, my follow up would be about maybe competitor lead times. What are you hearing about what competitor lead times are doing as yours come in a little bit?

<A – Kevin March>: The sort of anecdotal evidence that we're hearing, Jim, is that at least some of our competitors are actually experiencing extended lead times. We, of course, don't order from them so we don't know exactly what that means but we are hearing those kinds of things. And we're having customers coming to us and asking us if we can't help out with some of those issues.

Customers are also recognizing that unlike our competitors, we in fact have been pretty aggressive in putting in capacity not only opening assembly test sites at the bottom of the downturn last year but starting RFAB late last year and more recently the announcement we just did last week of the acquisition of the Spansion Japan factories. That seems to be resonating well with our customers and, in fact, we believe is helping us win additional orders that should accelerate our growth going forward and accelerate our gains against those competitors from a future standpoint let alone current lead time issues that some of them are starting to experience.

<A – Ron Slaymaker>: Jim, I just will reiterate some data I think that we shared at the analysts meeting. If you look at capital spending between the year 2007 and 2009, TI's capital spending was basically up 10% over that time period where when we look at general the math of our competitors collectively, they were down – and I believe this is an Analog specific comparison, they were down on average 57%. That doesn't even comprehend the fact that many of these Analog competitors took a lot of capacity off line. So in addition not to spending on new capacity, they were taking capacity off line.

Customers see that data. They see the spending we're doing, that we did through 2009, plus what we've done in addition to that, and frankly, they know how that – they know how to extrapolate into the future, know what that situation is going to result in, in terms of availability of product, and that's why I think the situation Kevin's describing is there. They're already seeing some of these various competitors start to extend lead times while at the same time they're seeing TI pull in lead times plus, as Kevin said, really lay the path for our future in terms of these capacity investments. So frankly, we think that's big and we think it's going to be a big differentiator for TI over the course of the next few years.

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

Operator: Our next question comes from Ross Seymore of Deutsche Bank.

<Q – Ross Seymore>: Hi, guys. Ron, pretty much on the topic you were just talking about, between the Spansion addition and then the Qimonda equipment, you talked about adding $3.5 billion of revenue capacity. I guess two questions on that. First, can you tell us how much you paid for those Spansion assets? And secondly, the $3.5 billion is about 2.5 to 3 times how much dollar growth you've seen over the last four years in your Analog business. Are you just getting more optimistic about how fast you can grow revenues or is this kind of a pull forward of CapEx? How should we think about that kind of big investment you're making?

<A – Kevin March>: Ross, I'll go ahead and answer that. I think – we started talking last year that as we were coming into the downturn and watching what was going on there that we would remain poised to be opportunistic to go ahead and take advantage of acquisition of capacity as well as companies that potentially it made sense for, the smaller companies that we've been buying, because the prices are so attractive.

This is just a continuation of what we talked about back then. We have been able to acquire these manufacturing assets at extremely attractive prices. In the case of Qimonda, we were able to discuss what that pricing was. In the case of Spansion, we have not disclosed that but I can say to you that our estimate is that the original acquisition cost of that capacity that we bought is close to $2 billion, and we spent – got it for a very attractive price, one that we are not at all concerned about will cause us to have an undue level of fixed costs to have to incur should the demand take a long time to play out.

But to go back to what Ron said a few moments ago, with the underinvestment that we've seen from our competitors standpoint, we expect our growth rate, in fact, should be poised to accelerate versus our competitors', and we may look back on this a couple years from now and find this very inexpensive capacity acquisition to be a very opportune move for us to make the company much larger.

<A – Ron Slaymaker>: So safe to say versus that $2 billion original acquisition price or cost, what we paid was a small fraction of that? Is that correct, Kevin?

<A – Kevin March>: A very small fraction.

<A – Ron Slaymaker>: And, Ross, the other thing I would point out is when you're looking at $3.5 billion of incremental capacity or revenue generation, I mean, look at our Analog business alone: second quarter '10 over $1.5 billion, so annualize that and call it a $6 billion business. I think last year we were at 4.2 billion and it's still growing. So as we said, the strategy is to have that capacity in place before we need it, and we're not trying to forecast exactly over what time period we will fill it up, but just keep in mind we're at a $6 billion run rate in terms of that revenue level today.

Do you have follow-on, Ross?

<Q – Ross Seymore>: Yeah, it will be a quicker one, I promise. What did the calculator business do in the quarter? I thought you guided it to be up about – well, even more than that entire Other segment grew?

<A – Kevin March>: Ross, I think that we had suggested that calculator is typically up around $65 million 1Q to 2Q and it came in a bit stronger than that but it was within its normal pattern that we've seen in years past.

<A – Ron Slaymaker>: I think we also described in the release that there was some offset with lower royalties to that higher revenue as well. So calculators did complete – was completely consistent with our expectations and maybe even a little bit more.

Okay, Ross. Thank you for your questions. And we'll move to the next caller.

Operator: Our next question comes from Craig Ellis of Caris & Company.

<Q – Craig Ellis>: Thanks, guys. Just a quick follow up on the CapEx. What percent equipped will Richardson be after the Spansion assets are added?

<A – Kevin March>: Craig, we think that it will be close to half the clean room will be – will have equipment in it, so we'll still have half the clean room available for future expansion.

<Q – Craig Ellis>: Any thoughts on when the company would be looking to build that out then, Kevin?

<A – Kevin March>: That's going to be a function of when we continue to find the kind of opportunistic equipment acquisition that we've got in these last couple of quarters. We really – our interest there is to build that in a very cost effective fashion and not to build it at any cost. So you'll probably continue to see us do what we have done. That is, when we see the right price for the right equipment, we will go ahead and pursue it and that will likely be in advance of when we actually need it.

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

Operator: Next question comes from Sumit Dhanda of Bank of America Merrill Lynch.

<Q – Sumit Dhanda>: Yes, hi. First question, you know, Kevin or Ron, in terms of the outlook for the third quarter, the sales increase you're talking about, outstripping the order growth, which hasn't actually been how you've guided revenues in recent quarters here, so just want to get some more detail on the thought process around that and is the backlog build stronger either the anticipation of that later into Q3 and also further out into Q4, any color you could shed on that?

<A – Ron Slaymaker>: Sumit, let me ask you just a clarification. When you're saying our revenue outlook outstrips our orders, again, our book-to-bill in second quarter was 1.07. Can you explain what you mean when you say outstrip our orders?

<Q – Sumit Dhanda>: I meant growth rate, the growth rate revenues versus the growth in orders witnessed in recent quarters.

<A – Ron Slaymaker>: Okay. I would just say again, I think what – as Kevin explained previously, part of the reason that book-to-bill is coming down to probably what would be levels that would be more consistent with true end demand is what a lot of you guys have described for some time, although it's probably happening in a more orderly fashion than what some of you would have projected in that as lead times have – as we progressed in reducing lead times, customers no longer need to provide us the very extended visibility that they had done, let's say, six months ago when lead times were kind of out at their peak level. So with that lower visibility, the new orders are basically coming in to replenish at a level that is consistent with their true demand as opposed to the rate of orders basically reflecting a backlog that was extending out over time. So probably that's about the best I can do in terms of trying to explain that.

Do you have a follow-on, Sumit?

<Q – Sumit Dhanda>: Just along those same lines, anything that you could offer up in terms of the momentum or the trajectory of orders that you saw through the second quarter and then initially here into July and then what's the inventory outlook on your balance sheet into the third quarter?

<A – Ron Slaymaker>: Okay. I don't know that I can sit there and describe a trajectory as we move through second quarter. I would say that orders, quarter to date, have remained strong and fully consistent with the outlook that we just provided in terms of revenue.

In terms of our inventory expectations, we do not at this point try to project any kind of inventory plans because our inventory plans for the third quarter really have more to do with our outlook for the fourth quarter. So we may give you more visibility as we move to the quarter. But at this point, we typically don't.

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

Operator: Our next question comes from Glen Yeung of Citi.

<Q – Glen Yeung>: Thanks. Maybe just following up on that last question, when you think about third-quarter guidance is slightly above what would be considered normal seasonal, can you give us a sense as to what part of your business you think may be tracking ahead of plan – or ahead of normal?

<A – Kevin March>: Glen, I'd say it's broad based. We do need to keep in mind that third quarter is typically the quarter when customers will order material in anticipation of fourth quarter holiday sales and even some orders in anticipation of the first-quarter Chinese New Year holiday sales. So this seems to be shaping up consistent with that. In other words, we've got a global economy that's still growing, albeit at a pace that may be adjusted a little bit downward at least in some areas, on the second half versus the first half, but still growing nonetheless. And the order pattern that we have seen reflects that. It's broad based. It's probably been very strong and as we indicated earlier in the industrial and automotive segments that Ron talked about and has probably gotten more to a normal seasonal kind of demand pattern in some of the other areas such as computers and handsets.

<Q – Glen Yeung>: Okay. Thanks. And as a second question, you know, you guided 2010 depreciation, I think, the same guidance you had before. But I'm thinking about you've now added some incremental capacity, obviously through both Qimonda and Spansion acquisitions. And I'm wondering if you were to conclude Phase I of RFAB and then basically do nothing else with the assets that you've bought, what would be the increment to depreciation we would expect to see in 2011 or 2012?

<A – Kevin March>: Glen, I don't have a forecast for you out quite that far, but I would just kind of point you back to some our spending over the last few years. Our depreciation over the last 12 months has run a little bit less than 7% of the last 12 months' revenue. Our CapEx, if you include the most recent acquisitions, has been running about 9%. We've been talking about a CapEx target of between 5% and 8%. I'd say the spending is pretty consistent with that sort of kind of goal. And that is that you probably see depreciation in the 5% to 8% kind of range over time and looking forward with the CapEx that we're doing right now, it's probably going to be still inside that range just fine. Of course, that's a function of what you wind up with, with revenue after 2011, '12 but with anticipation of growth there, which, of course, is what we're expecting with the capital acquisitions that we're making, I would expect to see that depreciation kind of stay inside that range without actually getting into a dollar amount right now.

<A – Ron Slaymaker>: Kevin, what we have, I guess, disclosed up to now is for RFAB, the Phase I purchase of that Qimonda equipment was a little over 170 million. Is that correct?

<A – Kevin March>: Right, 173 million.

<A – Ron Slaymaker>: And then we bought additional Qimonda equipment that was roughly 75 million, if I remember right, plus then some incremental equipment that we didn't disclose the amount of from Spansion and, Glen then, you take those numbers, make an estimate maybe for some incremental equipment from Spansion and our depreciation schedule 5 years will get you roughly into the ballpark and that would be pretty much the full Phase I plus Phase II of RFAB. So at least that will help.

And then, Kevin, just a clarification on Spansion, the 200-millimeter fab is an operating fab currently and when we first purchased it. So that – any additional depreciation associated with that fab is already in our depreciation guidance, which was unchanged, that we just provided. Is that correct?

<A – Kevin March>: Correct.

<A – Ron Slaymaker>: Okay. So obviously, the incremental depreciation, Glen, associated with that 200-millimeter Spansion fab is not very significant.

Okay, Glen. Thank you for your questions. And we will move to the next caller.

Operator: Our next question comes from Craig Berger of FBR Capital Markets.

<Q>: Hi. This is actually Kyle asking a question on behalf of Craig. For your gross margin, you were talking about over time you were looking to get to 55%. However you qualified that saying your shorter term focus is going to be top-line revenue. When do you envision getting to the 55% level?

<A – Kevin March>: Yeah, Kyle, actually, our shorter term and longer term focus is on revenue growth. We believe the model is well on its way there. And at this point in time, rather than really kind of focusing on that kind of model and discussion of that, our focus going forward is on the top line because we believe with the portfolio we have, it will deliver the kind of results that we've talked about and this is how we will maximize our earnings growth in the future is by growing our top line.

<A – Ron Slaymaker>: And, Kyle, I'll just remind you, we just reported 54.2% gross margin. We're almost to a point where we'll be rounding to 55%. So hold your breath.

Do you have a follow-on, Kyle?

<Q>: Just a quick one. Your WiLink 7 product on the multimode radio product, how is that doing? Can you make – add some color to that, please?

<A – Ron Slaymaker>: Kevin, I believe that one would be for you.

<A – Kevin March>: I going to have to confess I don't have very much knowledge on that front, Kyle, I'm sorry.

<A – Ron Slaymaker>: Okay, Kyle, unfortunately, I don't think either of us probably have a lot of specific insight into where we are with that product line, unfortunately. Although if it's a product for handsets, which is where most of our Wi-Fi focus is, we have a very strong position. I think I mentioned before that connectivity for TI is really focused on both discrete GPS chips as well as Wireless LAN. I'll just note that industry analysts would estimate that last year we had about 55% share of handsets or really smartphone Wi-Fi market share.

So, again, that doesn't get to the specific product that you were describing or asking about, but we have a very strong position and you can rest assured we're doing what we need to do in terms of new product development to extend, if not expand, that share. So the other thing I would just point out on that is of all of the connectivity options in a handset, Wi-Fi is the least penetrated but is also the most rapidly expanding. So our – we like that combination for our connectivity product in that we have share in the connectivity technology that is growing fastest in the handset. So we think we've seen great growth in terms of revenue, in terms of that product line, and we expect more going forward.

Okay, Kyle. Thank you for your question. And we'll move to the next caller.

Operator: Our next question comes from Shawn Webster of Macquarie.

<Q – Shawn Webster>: Yeah, thank you. Just to clarify real quick: the new CapEx guidance, that includes the Spansion acquisition?

<A – Kevin March>: Yes, it does, Shawn.

<Q – Shawn Webster>: Okay, great. And on the gross margins, can you walk us through what changed sequentially from Q1 to Q2 and comment on utilization rate trends and do you think utilization rates will be up, flat or down for Q3?

<A – Kevin March>: We – Shawn, I guess, probably about three or four quarters ago we stopped discussion of utilization specifically. We were discussing it when it was illustrative of what was going on, it was dropping so fast and coming back up so sharply. Our utilization levels are back to a much more normal level, or somewhat elevated right now given the strong demand, which is why we're adding capacity. Our utilization levels really didn't change that much last quarter to this quarter and I wouldn't expect them to change too much going to the next quarter partly as a function of we're bringing on additional capacity; so we're kind of staying ahead of it now.

Did you have a second part to that question?

<A – Ron Slaymaker>: Just what else changed in driving gross margins.

<A – Kevin March>: Gross margins. Really what we wound up with is mix, as I had in my opening comments not only was the majority of our revenue delta in our core product areas but the majority of our profit dollars came through with that and that mix contributed on the GPM line as well as the operating profit line.

<A – Ron Slaymaker>: So, again, just to reinforce, Analog grew 11% sequentially last quarter. Embedded Processing grew 17%. So as those areas continue to pace faster than our revenue overall, we'll continue to benefit.

Okay, Shawn. Thanks for your questions. Let's move to the next caller.

Operator: Our next question comes from Chris Danely of JPMorgan.

<Q – Christopher Danely>: Thanks, guys. You talked about continuing to make progress on the lead times. Do you think those will go back to normal levels by the end of the year?

<A – Kevin March>: Chris, I can't give a precise answer on that. I sure would like to be able to say yes, but that's going to be not only a function of the order mix that comes in but also a function of just how fast the top line continues to grow. I guess I would be fairly safe in saying, if we're growing at the upper end of our guidance, it's going to be harder than it is if we're growing at the midpoint or the lower end of our guidance, but beyond that I couldn't give you a specific forecast.

<Q – Christopher Danely>: Sure. And then as my follow up, can you just give us a sense of how much your capacity is going to increase, say, over the next six months, and then also in the first six months of next year with the new fab coming on?

<A – Kevin March>: Yeah, I think the biggest capacity increase really are on two fronts over the next six months. We've already discussed with the RFAB, and that is the 300-millimeter RFAB coming up and actually getting production material out of it by the end of the year. That will be in relatively low volumes at first as you can expect but it will ramp up all through next year. And then as to the new Spansion fabs, we will get started pretty quickly here on getting processes adjusted in there so we can start wafers in those fabs by the end of the year but I don't expect to see them qualify for production until sometime in the middle of next year when we can start actually generating revenue on product coming out of that.

<A – Ron Slaymaker>: So near term over the next six months the capacity expansion is a combination of 200-millimeter equipment that we've redeployed and fanned out through various fabs as well as assembly/test equipment. And then as we move through 2011, first half will be primarily affected by RFAB increasing and then second half would be a combination of any further increases at RFAB as well as the 200-millimeter Spansion fab that would be in production by, call it mid 2011.

<A – Kevin March>: Correct.

<A – Ron Slaymaker>: Okay. Great. Thank you, Kevin. And thank you, Chris. And let's move to the next caller.

Operator: Our next question comes from Doug Freedman of Gleacher and Company.

<Q – Doug Freedman>: Great, thanks guys for taking my question. Kevin, you guys have had a very successful acquisition strategy that's worked along the way and helped drive some of the market share gains you're seeing. Is it possible for you to quantify for us what impact your acquisitions have had on market share gains and how you're looking at acquisitions going forward?

<A – Kevin March>: Doug, actually, I can't comment on that because I don't know the specific answer to that question. I'm sorry. It's clearly important to us in that most of these acquisitions that we've done are quite small, and when we expose – to the extent that they come with products and we expose it to our sales force, we've found those very attractive because oftentimes we can sell the products fast enough to recover our purchase price in fairly short order. But beyond that to say how much it's actually increasing our market share gains, I'd be a bit hard pressed to really articulate a number right now because I just don't know the answer to that.

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

<Q – Doug Freedman>: Sure. If I could focus a little bit on what's happening with all the cash. You guys did a nice job of buying back some stock this quarter. Can you let us know, is there any change in thinking between buybacks and dividends? And then also what your thoughts are on your hiring plan and if you could, what is your outlook for your own internal IT budgets?

<A – Kevin March>: I heard three questions in there, but I'll give it a try. [Laughter].

<Q – Doug Freedman>: I tried.

<A – Ron Slaymaker>: You have multiple choice, you can pick your favorite.

<Q – Doug Freedman>: You didn't answer the first one.

<A – Kevin March>: Oh, okay.

[Laughter].

Doug, on the cash, as you observed, we did pick up our buyback this last quarter. We bought back $500 million of shares in the first quarter, $750 million in the second quarter. As we've been doing – by the way we have about $1.3 billion of unexpended authorization remaining. As we've done over the past few years, to the extent that stock buybacks remain accretive, that will be one way that we use cash. But really it's important to note that the first priority for our cash use is towards growth. And that will be as you've been seeing us do either through acquisitions of companies as you were inquiring about a few moments ago or opportunistic acquisition of capacity. And, of course, the third way that we use the cash is in the form of when the board approves, to deliver back to shareholders in dividends.

On the hiring front, I don't have any specific comments on that other than to say that as we bring on these factories, we've already talked about in the Richardson fab that several hundred people will be hired to staff that fab as the equipment comes online, and we did mention in the acquisition announcement last week of the Spansion factories that we would hire almost all of the people that are there. That's 450 plus people that we'd hire there.

And as to the IT budget, that's something my CIO would like to know and I'll talk to him about it when we do annual plan time for next year.

<A – Ron Slaymaker>: So we'll get back to you on that one, Doug.

Kevin, let me ask you a question just on Spansion. So we have roughly 500 people that we may be having employees – employed and we don't have output until sometime mid 2011 in terms of TI Analog product. How do we – are those costs going to be a drag on TI profitability over the next year, I guess, is the question?

<A – Kevin March>: We expect to be providing continuing transition services. Spansion is already supplying to a customer out of that factory and we expect to continue to do that while we're bringing our own manufacturing processes in there. And to a large extent we would anticipate that those transition services would largely offset our carrying cost of that operation while we're bringing up our Analog processes.

<A – Ron Slaymaker>: Okay. Great. Thank you.

Doug, thanks for your questions and let's move to the next caller.

Operator: Our next question comes from Steve Smigie of Raymond James.

<Q – J. Steven Smigie>: Great. Thanks, guys. I was hoping you could talk about the Analog a little bit here in terms of the High Volume Analog and Logic. Would you say that that is back to levels that you were at, at the peak? I'm just trying to understand what's driving the 50-ish percent type growth there and how we should be thinking about that growth going forward.

<A – Ron Slaymaker>: Steve, I don't – off the top of my head I don't have the data on HVAL back to say second half '07, so I don't know whether we're – how the comparison is as to have we moved back to peak levels. We certainly know we've moved very aggressively off of the – off of, oh, say the last five quarters. I think first quarter '09 was when we saw that revenue bottom and it's grown very nicely since then. And we would say that represents really a turnaround business. It's not just a, call it a cyclical bounce back in that revenue, but in fact, a lot of the things that we had been talking about really since I believe it was the May '08 analyst meeting that we had done to restructure and create efficiencies in that business are in fact coming to fruition.

So, again, the kind of – that's where we would declare it truly as a turnaround as opposed to a cyclical recovery, and we do expect HVAL to continue really what you've seen over the last year, which is to grow consistent with the other two Analog businesses and contribute consistent with those – with the overall Analog revenue as opposed to the drag that it had been previously.

Do you have a follow-on, Steve?

<Q – J. Steven Smigie>: Yeah, if you could, how meaningful is the Logic within that High-Volume Analog? So is growth coming back? Is it really the Analog or is Logic also participating nicely there? and just is it – I know you don't give too much detail in the breakout, but is it meaningful within that HVA?

<A – Ron Slaymaker>: Yeah, Steve, I would describe it this way; it's a relatively small part of that business overall. There is a commodity product more in that area, so we have – I don't want to say it's not meaningful. It certainly is meaningful, although it's a pretty small part of that HVAL business. And even inside of that space, you would have to say there's a trend away from commoditization as they try to address more higher-valued opportunities within there. So it's relatively small and getting smaller as a percent of the total from a logic perspective.

Okay, Steve, thank you for your questions. I think, operator, we're going to have time for one additional caller and we'll stop there.

Operator: Our next question comes from Tim Luke of Barclays Capital.

<Q – Tim Luke>: A familiar slot, Ron. Thanks. Kevin, I was wondering, as you guide up 2 to 10 and bearing in mind that you saw some weakness at the end of the quarter in the Wireless area, are you expecting that to be broadly seasonal now, having seen the softness at the end of last quarter, or how should we think about that?

<A – Kevin March>: Well, I think that Ron characterized earlier that if you take out last year seasonally, you might see 3Q growing at something like 5% and our forecast right now, I think the middle of our forecast is something like 6% right now. So we're probably at around seasonal kind of growth. And honestly, it's pretty broad based. It's across all of our product lines. There's no one area that we're looking at as being different from what we'd normally expect versus any other area right now.

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

<Q – Tim Luke>: Thanks, Ron. Just with respect to the regions, I was wondering if either of you had any color on how you had seen the order patterns from Europe develop as you'd gone through the quarter and as you begin to look at the third quarter? Obviously, one recognizes that your capacity constrained so it may not have too much impact, but can you give some color on what you've seen out of that region?

<A – Ron Slaymaker>: Tim, I don't have data on the order patterns by region, but I do on revenue. And what I would say specific to Europe is, Europe grew pretty much the same pace as our revenue did overall. So if there's weakness to come, it's still ahead of us. We did not see it at all in the second quarter. So, again, Europe revenue grew at the same pace as TI revenue did overall last quarter.

Okay, Tim. Thanks for your questions. And overall, thank you, we're going to wrap up. Thank you for joining us. A replay of this call is available on our website. Good evening.

Operator: And this does conclude today's conference call. We thank you for your participation. Have a wonderful day.