

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Texas Instruments first quarter 2010 mid-quarter update. At this time I'd like to turn the conference over to Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon and thank you for joining TI's mid-quarter financial update for the first quarter of 2010. In a moment I will provide a short summary of TI's current expectations for the quarter, updating the revenue and EPS estimate ranges for the company.

In general, I will not provide detailed information on revenue trends by segments or end markets and I will not address details of profit margins. In our earnings release at the end of the quarter, we will provide this information.

As usual with our mid-quarter update, we will not be taking follow-up calls this evening. Considering the limited information available at this point in the quarter and in consideration of everyone's time, we will limit this call to 30 minutes.

For any of you who missed the release, you can find it on our website at TI.com/ir. This call is broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

This call will include forward-looking statements that involve 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 news release published today as well as TI's most recent SEC filings for a complete description.

We have revised our expected range for TI's revenue and earnings to the upper half of our previous ranges. We now expect TI revenue between 3.07 and \$3.19 billion. This is a range of sequential growth of 2% to 6%. We expect earnings per share between 48 cents and 52 cents.

Operator, you can now open the lines for questions. In order to provide as many of you as possible the opportunity to ask a question, please limit yourself to a single question. I will provide you the opportunity to ask a follow-up question. Operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. Our first question will come from Tim Luke with Barclays Capital.

<Q – Tim Luke>: Thank you so much. Ron, first I was just wondering, in raising your expectations for the revenue towards the upper end of the range, could you give us some sense of which arenas you've seen that strength in, whether it's in Analog, High-Volume Analog, High-Performance Analog, High-Volume Analog or in some of the Wireless areas?

<A – Ron Slaymaker>: Okay, Tim, let me describe it in terms of trends compared with our fourth quarter. So in general we expect all of our segments to grow sequentially this quarter with the exception of Wireless, where in Wireless, baseband revenue will decline what would be a seasonally typical amount. Analog and Embedded Processing are both strong and even selected areas inside of our Other revenue are doing well. For example, DLP, where digital projection and 3D are now must-have technologies for cinemas, and 3D also has become a differentiator even in the educational projector market.

So, again, compared to fourth quarter, we expect all of the segments to be up sequentially, again, with the exception of Wireless.

Do you have a follow-on, Tim?

<Q – Tim Luke>: Thanks so much. Could you give some color on the degree to which you may have been successful in lowering some of your lead times and how has it differed perhaps in some of the different areas and to what extent have you been successful in building some inventory for this quarter? Thank you.

<A – Ron Slaymaker>: Okay. Let me hit the first part of your question. So, with respect to what have been some supply constraints and extended lead times, I would describe that in fact we are making progress. You'll note this marks the third consecutive quarter where we've had elevated capital expending for TI, and as this capacity has come on line we're now seeing some demonstrable results. We've been able to reduce lead times for some products this quarter, although we still have many products that continue to have extended lead times.

And, Tim, I should be clear that this is the result of capacity increases at TI, especially in the assembly-and-test areas. The reduced lead times are not due to any softening of demand. So far, we've seen both revenue as well as orders quarter-to-date have remained strong, and they've remained strong even as we've begun to reduce the lead times.

For your additional follow-up question that you asked about our inventory expectations this quarter, I would say that we do expect to be able to build some inventory this quarter, and in fact we could see a few days' increase from the 76 days of inventory that we held at the end of last quarter. This certainly should better position us to support our customers and help us get our service metrics back to levels that our customers are used to seeing from TI.

Okay, Tim, thanks for your questions and let's move to the next caller, please.

Operator: Our next question will come from Tore Svanberg with Thomas Weisel Partners.

<Q – Tore Svanberg>: Yes, I was hoping you could talk a little bit about the distribution channel, what you're seeing as far as inventories and also sell-through of your products, please.

<A – Ron Slaymaker>: Okay, Tore. We expect what I would characterize as solid re-sale growth this quarter compared with last. From an inventory perspective, we expect distribution inventory, oh, probably to hold about the same level as what we saw last quarter from a turns basis or a weeks of inventory basis.

Do you have a follow-on, Tore?

<Q – Tore Svanberg>: Yes, could you also just comment on your visibility, whether you feel like visibility is getting better, deteriorating, or is it about the same as last quarter?

<A – Ron Slaymaker>: I would say probably not significantly different. And, Tore, you'll recall that with lead times extended, we've noted that customers have tended to give us more visibility in terms of what I would call extended backlog, and I would say that is really unchanged at this point. So probably not a lot of difference in visibility, but we do have good visibility out in time in terms of what our customers are telling us that they need at this point.

Okay, Tore, thanks for your questions and we'll move to the next caller.

Operator: We'll hear now from Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon>: Hi, guys. Thanks for taking my question. Regarding the inventory build you thought you were going to do this quarter, does that imply that your utilizations will also potentially be up a little more – or more than you thought as of your last quarter's report?

<A – Ron Slaymaker>: No, Stacy, I think what we said last quarter – or when we reported last quarter that we expected to hold first-quarter utilization at about the same level as fourth quarter, and that remains unchanged. So about the same level of utilization this quarter as what we had last quarter.

<Q – Stacy Rasgon>: Got it.

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

<Q – Stacy Rasgon>: Yeah, I do. Regarding the consignment program that you've got at distribution, it looks like the 25% level of the disty inventory that you have in consignment has actually been held for a while. I know your plans, I think, eventually were to bring that to 50%. Any comments on when you think it might get there and any comments maybe on increased visibility or anything you're getting from the distys due to the consignment program?

<A – Ron Slaymaker>: Stacy, what I would say is we're probably a little over 25% to-date, as you noted, so somewhere in the 25 to 30% range. We began that program in June of 2008, so we're, what, 18 months or so into it. You're right that our expectation is that over time we'll have probably 50% range of our distribution revenues supported by consignment, and that remains unchanged. So general timeframe would probably be late next year, 2011, based on the pace that we're at, and there certainly are some complexities in implementing a program like that. For example, our distributors have to have certain IT capabilities to be able to tie their systems into ours, and so that kind of surges, I guess I would say, in time and it's also based upon the various warehouses that we're shipping into, the capabilities at those various sites. So we're still on pace, but probably achievement of that 50% level late in 2011.

As to visibility, I would say the program is working as planned. The fact that we have our systems tied into theirs, one, gives us very direct visibility into what's happening from a re-sale perspective on those programs, but then also gives us visibility into what those distributors are expecting over

time in terms of forecasts. So we're pleased with the program. It will continue to deploy probably at about the pace that you've seen thus far.

Okay, Stacy, and I believe that was your follow-up question. So let's move to the next caller, please.

Operator: We'll now hear from Srinu Pajjuri with CSLA (sic) [CLSA] .

<Q – Srinu Pajjuri>: Thanks. Ron, you said demand remained fairly healthy throughout the quarter. Just wondering, has the demand improved a bit here or is the upside coming from the fact that you have a better supply now?

<A – Ron Slaymaker>: That's a good question, Srinu. I would say most of what we're describing here in terms of the uptick has to do with the demand side as opposed to the supply side. So again, we've made some improvements on lead times, but for the most part I would say what we're seeing inside of this quarter has more to do with upticks in demand versus supply. But there certainly could be some supply side advantage as well.

Do you have a follow-on, Srinu?

<Q – Srinu Pajjuri>: Yeah, just a quick one. To the previous question you said the utilization will remain flat. I'm just curious if demand is better and your inventories are going higher, why wouldn't the utilization – why would the utilization just remain flat? Why wouldn't it go higher?

<A – Ron Slaymaker>: Well, I think what we said, even last quarter, when we had gotten our – first of all, keep in mind, utilization is a measure of wafer starts. So there's a period of time from which you start a wafer, whereas from an inventory standpoint that wafer will gain value on the balance sheet as it's processed, and so what we were saying last quarter was the average utilization last quarter we thought was appropriate to handle what we anticipated demand looking like into this quarter as well as what our inventory trends were. I don't believe last quarter when we announced we stated specifically what – how much inventory we expected to build. So maybe that's part of it there as well.

Okay, Srinu, thanks for your questions and let's move to the next question.

Operator: Adam Benjamin of Jefferies has our next question.

<Q – Adam Benjamin>: Thanks, Ron. Just on the extended lead times, a follow-up. Did you have any – so far in the quarter, have you seen any delivery issues there?

<A – Ron Slaymaker>: I'm not sure I understand that question, Adam.

<Q – Adam Benjamin>: Just what I'm asking is, with extended lead times, have you had any inability to deliver product or meet customer demand? You've previously talked about in other quarters that even with the extended lead times you have satisfied those orders. So I'm just curious so far this quarter if you're meeting at least the deliveries so far?

<A – Ron Slaymaker>: Yeah, I think we're meeting the deliveries to those extended lead times. So in terms of our, call it delinquencies or whatever, we're holding well. But those extended lead times are longer than what we and our customers want from TI. So we're not satisfied with the performance from the perspective that the lead times are that extended. But at the same time, we are meeting the commitments that we're making to customers for the most part to those extended delivery commit dates.

Did you have a follow-on, Adam?

<Q – Adam Benjamin>: Sure, and kind of along those same lines, lead times coming in, although slightly, it sounds like – and you've mentioned that orders are firming, should we assume that you haven't seen any order cancellations?

<A – Ron Slaymaker>: Cancellations have not trended up this quarter. And that's actually something that I know you guys are watching as well as we are. But again, as we're pulling – as we're able to reduce the lead times thus far, we haven't seen cancellations.

And maybe if I can spend just a minute on that. I think it's true that as we reduce our lead times, that customers don't necessarily need to have the same extended backlog if lead times are shorter versus if they're longer. But there are several considerations here. One would be TI literally has tens of thousands of products and lead times adjustments basically happen by product, by package, by technology.

So we'll watch cancellations. We'll watch the backlog over time as we go forward to assess whether any adjustments in our customer backlog or orders reflect what I would describe as the noise of changing lead times versus the real signal of changing demand. But again, thus far we haven't seen anything in the overall order trends.

Also on that same front, there are a couple of other considerations. One is that about 45% of our business today is conducted via EDI with our customers and various distributors. And under this arrangement, basically we're building to a customer's MRP forecast and there really is no traditional order backlog. In these cases, if lead times change, there really would be no impact to TI's backlog for this business because there is no backlog.

And then final point I would make is that our method of recognizing orders provides some backlog protection against changing lead times in environments like this. So, for example, for the 30% of our business that goes through distribution, we only recognize distributors' orders that are scheduled to ship within the next three months. Outside of that window, the shipment is scheduled from an operations perspective, but it's not included in our backlog of orders from a financial perspective. OEM customer orders are handled similarly, except for OEM customers, the recognition window is six months.

So think about that system basically serving as a governor to prevent overstatement of orders in strong markets. So it's kind of a combination of those considerations why as lead times reduce, we may not see a big adjustment in terms of backlog and customer order trends.

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

Operator: We'll now hear from Chris Danely with JP Morgan.

<Q – Christopher Danely>: Hey, thanks, Ron. Given that utilization rates are flat and the mix appears to be improving, could we see flat-to-up gross margins this quarter?

<A – Ron Slaymaker>: Chris, I probably really don't have a lot of input on gross margins at this point in the quarter other than a more general statement that, first of all, over the longer term we believe gross margin has room for additional expansion, but whereas factory utilization has been over the last, what, year, really a big factor, maybe the biggest factor, in gross margin expansion, considering that today we're really back at normal utilization levels, going forward that will be less of a factor, and the biggest driver of gross margin will probably come down to product mix. And that's really over time, as Analog and Embedded Processing continue to grow faster, and those areas have profitability levels above the corporate average.

And then final point I would say just on a driver of gross margin going forward is we continue to work aggressively to lower our manufacturing costs, and one example of that would be as we're able to ramp RFAB over time and enjoy the benefits of probably what would be some cost advantaged 300-millimeter production of analog products compared with what we've done historically in 200-millimeter for analog.

Did you have a follow-on, Chris?

<Q – Christopher Danely>: Yes, thank you. I guess just a little bit of color on the lead times. Can you just give us a sense of when the lead times started to decline? And it sounds like they've only come in a little bit, so if you could also give us a sense of perhaps when you expect the lead times to normalize and maybe how much they have gone down?

<A – Ron Slaymaker>: Yeah, I probably don't have a lot of satisfying data for you on that, Chris. What I really look at is just thus far in the quarter where lead times in general the distribution of lead times, are compared with the end of the year. And what I would describe is we've made some progress. It's not across all products. It's not across all packaging technologies, but again, nonetheless, it's real progress.

I think the back part of your question was when will we see even more progress, and call it capacity catching up with demand. I would say that I think our manufacturing operations really have done a superb job of ramping to support a demand profile that has been rapidly increasing and also upsidings for the past several quarters.

Our revenue, if you think about it, this quarter will be about 50% above the year-ago quarter's level. We've been expanding our capacity now for several quarters. And we've got to the point where we're now able to start reducing lead times. Certainly as we move forward we will see and expect to see additional progress. And I guess on the one hand our capacity ramp is well understood. But predicting when we're going to have capacity and demand balance also requires a projection about demand. And although we have certainly some internal projections, we're not really at a point where we want to make those public at this point.

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

Operator: We'll go to Uche Orji with UBS.

<Q – Uche Orji>: Thank you very much.

<A – Ron Slaymaker>: Hi, Uche.

<Q – Uche Orji>: Hi. I have a couple of questions, Ron. If I look to one step below on the P&L statement, given this upside to revenue, is there any more thoughts as to how operating expense will have to adjust to match the revenue upside or is there not much a change there?

<A – Ron Slaymaker>: I would say not much of a change there. Are you talking about inside of the quarter, Uche?

<Q – Uche Orji>: Yeah, inside of the quarter.

<A – Ron Slaymaker>: No, I wouldn't expect any change specific to the adjustment in revenue. I think Kevin in the last conference call made some comments about what would be affecting operating expense this quarter in terms of maybe a higher level of profit sharing as we enter a calendar year where we expect profitability for the company to be higher. Then he also talked about

the fact that we'd be implementing raises, annual raises in February. So both of those are, in fact, in place, but we don't expect higher revenue to affect either of those items at this point.

Do you have a follow-on, Uche?

<Q – Uche Orji>: Yes, I do. I don't know if you can talk about specific segments like Wireless or maybe PCs as well. PCs, obviously the commentary has been that PC is running ahead of normal seasonality. Within Wireless, what is your sense as to how that is tracking and you've done so well to continue to increase revenue there even though Nokia, your biggest customer, is about to start moving programs elsewhere. Are we starting to see any signals this quarter that the wireless programs that are supposed to start to go away have started to go away?

<A – Ron Slaymaker>: Yeah, I think, let me address the latter part and then I'll make some broader statements about end markets and demand.

But with respect to the wireless programs, I think the only program that I'm aware of that is on the near-term horizon will be in the EDGE area where, again, there's a supplier there that's coming on board. But I'll also quickly follow that with EDGE really represents a pretty small part of our customer's product portfolio and it will likely require some suppliers coming on board in the 3G area before you would really start to expect it to have a notable impact on our baseband revenue there. And so stay in tune with what those suppliers are saying. I don't have anything specific to tell you, other than listen to those suppliers, listen to our customer on, excuse me, on their 3G plans. But the only thing I'm aware of that's coming on near term will be some relatively small 3G business.

Let me make a few comments just more broadly about end market drivers, if I may. So I know I talked a little bit about products before, but from an end market perspective, I would say growth continues to be – in fact, even more so, is broad across end markets. As we had expected, demand is strong this quarter in the industrial markets where that sector really began its recovery later than others and that, therefore, continues in force today.

From a product line perspective, industrial is especially impactful to our catalog revenue both in Embedded Processing as well as in the High-Performance Analog area. We're also seeing continued strength in areas such as comms infrastructure; computing, and its related peripherals that we're engaged with; automotive; and then finally an area I would note would be HDTV. Another area I didn't mention inside of Wireless is that smart phones are strong, especially when compared against the seasonally normal declines that handsets overall would see in the first quarter. So, again, those are some areas of strength in the quarter.

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

Operator: We'll hear from Glen Yeung at Citi.

<Q – Glen Yeung>: Thanks. Ron, you've had obviously periods in the past where lead times have expanded and contracted and vice versa. I wonder if you could compare and contrast how your customers are responding in this environment versus other periods where you've had this kind of movement in lead times?

<A – Ron Slaymaker>: It varies, because what is a little different in this environment is as we've continued to deploy EDI and consignment programs to more customers, more distributors, deeper within those customers and distributors, the concept of traditional component inventory that those customers and distributors own, has lessened, and that's more inventory that we're managing for them, that we're carrying on our balance sheet. So that would be one difference.

Beyond that, I would just say there's a lot of direct communication we're having with customers when products become more constrained and the supply becomes more constrained, that's an important time, both for TI as well as our customers, to have some pretty open and honest discussions about what the real demands are, what's our shipment supply capacity, etcetera. And so we're having a lot of those open, frank discussions, but probably the bigger change is just that we have more on consignment today than what we ever would have had historically.

Did you have a follow-on, Glen?

<Q – Glen Yeung>: Just to clarify: is that to suggest that you would expect to see less volatility as a result of change?

<A – Ron Slaymaker>: I think clearly where we have consignment, there should be less volatility, because the customer doesn't have their own warehouse of inventory that they're either trying to build up or that they're trying to correct over the course of the cycle. So it does have a dampening effect outside of those customers.

And, by the way, that represents between what we have at – on consignment alone is 40% and then what we have in distribution probably takes that number up closer to 60%. That's a very significant part of our revenue these days that we have, call it, pretty clear visibility into. So as I said before, 45% or so of that is directly on an EDI type of program.

So in any case, I think a good part of our revenue is, call it dampened, using your word, in terms of the swings in inventory that might be in the channel or at the various customers. And the remainder, I'm sure we'll see similar type of behavior as we have historically in the past, but even for that we and our customers, I think, try to get better.

Okay. Glen. Thank you for your questions. And let's move to the final caller, operator.

Operator: That would be Ramesh Misra with Brigantine Advisors.

<Q – Ramesh Misra>: Hi, Ron. Thanks for taking my question.

<A – Ron Slaymaker>: Sure.

<Q – Ramesh Misra>: In regards to the improvement on the back-end bottlenecks, is that purely due to improvement in TI's own back-end facilities or is this also happening at your external test-and-assembly partners?

<A – Ron Slaymaker>: I think by far the improvement would be the capacity that we – the incremental capacity that we put in place over the last few quarters and that's inside TI, not through our subcontractors.

Did you have a follow-on, Ramesh?

<Q – Ramesh Misra>: A very quick one. Can you talk about order trends in Asia post the Chinese New Year?

<A – Ron Slaymaker>: I would say demand has picked up in Asia. I mean, again, that gets a bit granular, but in fact, yes, there was a holiday. As we expected, there was a bit of a slow down during that holiday, and we've seen demand accelerating since those customers have gone back to work. So probably what I would say is a pretty normal expectation for impact through the holiday, but demand clearly building after the holiday as well.

Okay, Ramesh, thank you for your questions. And before we end the call, let me remind you that the replay is available on our website. Thank you, and good evening.

Operator: Again, that concludes our conference. We thank you for joining us.

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