MANAGEMENT DISCUSSION SECTION

Please stand by. Thanks so much for holding, everyone. Welcome to the Texas Instruments fourth quarter 2009 mid-quarter update call. Just a quick reminder. Today's call is being recorded. Now at this time I'll turn things over to our host, Mr. Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President, Investor Relations

Good afternoon. And thank you for joining TI's fourth-quarter mid-quarter financial update. 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 to the upper half of our previous range. We now expect TI revenue between 2.90 and $3.02 billion. This is a range of sequential growth of 1% to 5%. As a reminder, our calculated revenue will seasonally decline about $120 million from the third quarter. Our semiconductor revenue is expected to increase in a range of 5% to 10% sequentially. Once again, we expect analog to be the biggest driver of sequential growth.

We expect earnings per share between $0.47 and $0.51. For comparison, EPS was $0.42 in the prior quarter and $0.08 in the year ago quarter.

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'll provide you the opportunity to ask a follow-up question. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Slaymaker. [Operator Instructions].

We go first to Jim Covello with Goldman Sachs.

<Q – Jim Covello>: Hey Ron. Thanks so much for taking the question. I wonder if you can give us any update on any of the lead time issues or shortages that you had previously been experiencing.

<A – Ron Slaymaker>: Okay. Jim, I guess, you know, there is a, certainly an intertwine there. I will reiterate probably what we've said similarly over the last quarter or so, which is if you consider the rapid and really unprecedented sequential increases we've seen in demand over the past few quarters, demand does continue to lead our supply of components. So we're working to address bottlenecks in our operations. But supply definitely remains constrained currently.

Specific to lead time, again I would say our operations have done exceptionally well in responding to the increase in demand. But nonetheless, as demand has outstripped supply, lead times for our products has generally moved out. We're working hard to resolve it, but that remains the situation today.

And they've moved out, really, fourth quarter compared to third quarter. Do you have a follow-on, Jim?

<Q – Jim Covello>: Yeah. I mean, just related to that as a follow-up, have you lost any business that you think you won't able to get back or do you think that customers will just stick with you and come back in next quarter?

<A – Ron Slaymaker>: Well, I think when you talk about near-term business, most of what we sell are differentiated products. And customers generally don't just move in and out from supplier to supplier on those types of products. It's possible in some cases that customers literally could have different board designs that comprehend different components, but generally I would say that's not the case. The other thing I would say is that I think our lead times and the pressures that the rapid increase in demand have placed on us are not dissimilar from what many of our competitors are seeing as well.

So I don't know exactly where their lead times would be, but customers frequently tell us we're not their only issue in terms of availability of components and in many cases, we're not their biggest issue.

So, okay, Jim, thanks for those questions. And let's move on to the next caller please.

Operator: Move on to Chris Danely with J.P. Morgan.

<Q – Christopher Danely>: Thanks Ron. Now that we're in the, I think it's the third quarter in a row for above seasonal performance, can you just talk about Q1 visibility and do you see Q1 be above seasonal too.

<A – Ron Slaymaker>: Chris, as you're probably aware, at this point being a mid-quarter update, we're really focused on the current quarter. And it's our practice really not to try to move out and have a lot of discussion on the out quarters, so I will abide by that. And of course, we'll have more to say about first quarter expectations in January when we report. Do you have a follow-on?

<Q – Christopher Danely>: Yes actually a follow-up to James' question earlier. Do you guys have any idea of when you think these lead times can come in?

<A – Ron Slaymaker>: I wish I had a clear answer to that. But I guess what I would say is that we added – as you'll recall, we said previously that our operational constraints are really in the back end of our operations, so more the assembly/test area as opposed to the wafer fab areas. And we added assembly/test capacity last quarter, and we plan to continue to add capacity over the next couple of quarters. So, as we go along with that process, we'll assess demand trends. But we certainly understand the timeline of our capacity plan, but the specific demand trends over that time period certainly are less predictable, as they've been over the last couple of quarters. So with that, I don't have a specific date at which we would expect to be caught up. Okay? Can we move on to the next caller please, operator?

Operator: We'll move now to Uche Orji with UBS.

<Q – Uche Orji>: Ron, hi. Thank you very much. Two questions. One is on the gross margin trend within this guidance. With calculators coming down and analog rising in the mix, can you give us any idea as to how directionally gross margins should move for the current quarter?

<A – Ron Slaymaker>: I think if you have time to kind of work through the model – and it will depend upon where we land within that range – but I guess if you are looking to the middle or the top end of that range, you probably will calculate some continued increase in gross margin. Probably not as extensive as you've seen over the last couple of quarters, but it should continue to move up toward higher levels this quarter. Do you have a follow-on, Uche?

<Q – Uche Orji>: Sure I do. If I look within the analog business, any comments you can make as to the split of high volume versus high performance. And the reason I ask is a lot of the industrial exposed companies recently have raised the outlook significantly if you look at the FPGA guys who have both industrial and comm equipment. So any sense as to how we should think about HVA/HPA at this point?

<A – Ron Slaymaker>: Sure. I think if you look inside Analog, really as we've seen over the last couple of quarters, we're seeing solid growth once again in fourth quarter across all three of the major product lines. Meaning High Performance Analog, the Power products as well as the High Volume Analog area. When you look at it from a market perspective, I would say the growth is pretty diverse. It includes automotive growth, consumer, some of the storage products that we're selling into for computing applications or hard disk drive applications, as well as industrial.

And just speaking more generally about industrial beyond just analog, you'll recall – I think last quarter was really the first quarter where we saw some of the high-volume areas be complemented by growth in industrial as well. And I guess it's encouraging that we're seeing that industrial growth continue into this current quarter as well.

Okay, Uche? And I believe that was your follow-up question. Let's move to the next caller, please.

Operator: Next now to John Barton with Cowen.

<Q – John Barton>: Thanks, Ron. I wonder if you could comment on the recent trends, particularly post Thanksgiving weekend, any comments you can make with respect to the backlog, booking trends, et cetera.

<A – Ron Slaymaker>: Oh, John I really don't have it down from a week-by-week perspective or anything that reflects kind of a post Thanksgiving type of detail. But what I would say, just in general, October and November were both strong months. In terms of the guidance that we're providing, we're not sitting here relying on an exceptionally strong December to meet our guidance.

But we also see no reason to believe, based on anything we've seen at this point, that December would be exceptionally weak either. Do you have a follow-on, John?

<Q – John Barton>: The guidance for EPS, that includes one cent of restructuring charge still or...?

<A – Ron Slaymaker>: That is the assumption. I really don't have an update for you on restructuring charges. But the guidance that we had provided back in October was $0.01, you are correct on that. Okay, John. Thank you for your questions. And operator, next caller please.

Operator: We move next now to Stacy Rasgon with Sanford Bernstein.

<Q – Stacy Rasgon>: Hi Ron. Thanks for taking my question. Top range of your revenue range didn't move, but the top of your EPS did. I'm just wondering are there any other EPS drivers in there that are different from where you were in Q3?

<A – Ron Slaymaker>: I don't know that they're different from where we were in Q3. But as you might imagine, there is certainly multiple factors inside EPS that are at work. You know, of course the higher revenue is a factor. In addition to that, expectations for higher factory utilization are playing out in Q4. And then I guess the final area I would mention is that mix continues to benefit us. For example, as I mentioned already, Analog from a product perspective continues to lead our growth. And analog profitability, as you know, does quite well. So those are probably the multiple factors that are coming in as to why EPS is doing a little bit better in terms of growth of EPS even – I should say even better than the revenue growth.

Do you have a follow-on, Stacy?

<Q – Stacy Rasgon>: Yeah. I do. And the follow up with that on the gross margin question then. So if mix is now maybe a slightly better factor than you thought it was at the end of Q3, does that actually imply – I know you said gross margins even back then were going to be up a little bit – does that imply that your outlook for gross margins for this quarter now are maybe a little more incrementally positive than they were after your Q3 report?

<A – Ron Slaymaker>: Yeah, that's probably – again depending where you are in the range of EPS growth we provided. But the reason EPS moved up a little better than the revenue range is really reflective of gross margin.

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

Operator: We move next now Ramesh Misra of Brigantine Advisors.

<Q – Ramesh Misra>: Good afternoon, Ron. Thanks for taking my question. In terms of your stretching lead times, would that mean that your pricing is relatively more stable even in the High Volume Analog parts?

<A – Ron Slaymaker>: Ramesh, for most of our differentiated products, the near-term environment really doesn't impact pricing. So, for example, on a lot of the high-volume type product areas where we may be sole source or providing custom product, typically we have longer term price agreements with those customers. So again, I would encourage you not to think about pricing for most of our product areas moving around with near-term environment. For the small part of our portfolio, however, that is commodity – and again I always want to quantify that this is less than 5% of our revenue that I'm describing – prices are in fact moving up. So for that small part, pricing is beneficial. Do you have a follow-on, Ramesh?

<Q – Ramesh Misra>: Very quick one. Any read on whether this demand from your customers is more inventory resale versus actual end demand or any read on the end demand for your customers itself?

<A – Ron Slaymaker>: Yeah. We don't have direct visibility into let me call it end consumption. What I can say is that our customers are increasing their production levels, and that's what's driving their higher demand on TI. In terms of what they might be doing from an inventory perspective, I would say overall we believe inventory continues to be lean. Specific to our distribution channels, I would say inventory for the quarter could be up or down a little, really depending upon how the remainder of the quarter unfolds here.

From an OEM or a contract manufacturer perspective, certainly we have less visibility there. But again, we believe that inventories even at those customers are generally being well managed. Okay. Ramesh. Thank you for your questions. And let's move to the next caller, please.

Operator: A question now from David Wu with GC Research.

<Q – David Wu>: Ron, the – you know in your guidance initially for Q4, there was some caution that you factored in cancellations and other overbooking as your lead times went out in Q3. I guess from your current guidance that suggests that cancellations or any of these de-bookings never came through for you. Should I read that?

<A – Ron Slaymaker>: That's a good observation, David. I mean I think – if I remember right, in Q3, we had a 1.08 book-to-bill, and...

<Q – David Wu>: Yes...

<A – Ron Slaymaker>: ...yet our revenue guidance was, you know, the middle of the range anyway was something like 1%. So you're right. We're moving back a little more to reflect the full effect of the orders that we received in Q3. Now, also I will say just due to lead times not all of those Q3 orders were for our shipments in Q3 or even in Q4. Some of them were extended out into early next year. Specific to your question, you're exactly right. Cancellations are very normal. We are not seeing any signs of heightened cancellations at this point. Do you have a follow-on, David?

<Q – David Wu>: Yes. Follow-on is, since the lead times have gone out even further from the third quarter, should the caveats that you use for Q3 be applicable for Q1 of next year, which is seasonally a weaker quarter?

<A – Ron Slaymaker>: Caveats in what way? I mean -

<Q – David Wu>: In terms of possible cancellations and book-to-bill being somewhat artificially high at this point.

<A – Ron Slaymaker>: That, I would, you know, let me – so it really kind of comes down to are we seeing double ordering. And I guess I would kind of restate what I said back in October that we have no evidence of double ordering. But we wouldn't expect to. And so we kind of rely on our experience. Our management team has worked through many of these cycles in the past, and we generally know what to expect as we kind of move through this type of upturn. So it is very important that we work closely with our customers, make sure we're understanding exactly what they need, when they need it and then do our best to support it. And so that's the process we're going through here. And we'll continue to go through it as long as demand is as strong as it is.

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

Operator: Your next question now from Sumit Dhanda with Bank of America/Merrill Lynch.

<Q – Sumit Dhanda>: Yes. Hi Ron. First question, on the baseband business in the fourth quarter, is it is fair to assume that that's tracking to the low end of your semiconductor business? And has there been much impact from the ramp of a competitor at your largest customer in Q4 and any visibility on that into Q1?

<A – Ron Slaymaker>: Okay. What I would say, first of all, is that your assumption is correct. That – I think I said earlier that, or possibly not, that baseband we would expect to continue to decline as a percent of TI's total revenue. I probably did not say that before. So it could be up a little bit. But in general, we expect that it will not be growing at the same pace as our semiconductor business is overall sequentially. And in fact, your point about are we feeling the impact of a competitor ramping at Nokia. You know, to the extent that competitor ramps at all, it will, it means that's product we wouldn't be shipping we would otherwise have been shipping. But at the same point, I would say that's really a very small factor at this point.

Generally the way new ramps like that work is a customer will provide a new supplier, demand for a phone model or two. They are not going to all of a sudden move over to a very significant part of their product line. So we really don't expect that that will have a big impact on us for some period of time, even going forward.

And what I would also note is that most of what we're shipping in Wireless, even in basebands these days, is from a revenue perspective really is centered up on 3G type of product. And I think it's still going to be some time before we have competitors positioned to support 3G demand at Nokia.

So – and again, that's nothing in terms of end dates or anything like that moving out. We do expect that revenue to decline, and we expect it to be essentially gone by 2013. But we'll see, we'll see what it looks like between now and then as those various competitors try to ramp their new products.

Okay, Sumit. Did you have a follow-on question?

<Q – Sumit Dhanda>: Yes I did, Ron. The lead time extension that you talked about, you noted that much of the bottleneck was in test and assembly. But are you concurrently also planning to continue to ramp utilization into what's typically a seasonally weak Q1 to build die bank inventory too or do you think you've done enough from a utilization ramp perspective into Q4 that that's not necessarily required.

<A – Ron Slaymaker>: Yeah. Let me try not to project what we will do in Q1 other than just making a couple of comments. First of all, we would like to build some inventory in Q4. But we've been somewhat limited in terms of being able to actually achieve that to any significant level really due to this ongoing strong demand. So even in the current quarter, if we can build some inventory in the right areas, we will. And then the other thing is just keep in mind, due to manufacturing cycle times, a wafer started in the beginning of Q1 really is probably not shipping in terms of a product out the door until very late in Q1. So most of our utilization – or at least our average utilization in Q1 – really would reflect planned shipments in Q2 as opposed to Q1. So in general, your utilization, your factory loadings, are leading demand by roughly a quarter. So again, seasonally down Q1 really refers probably more to our shipments as opposed to our utilization and our factory loadings. Okay, Sumit. Thank you for your questions. And we'll move to the next caller.

Operator: And we'll take that question now from Edward Snyder of Charter Equity Research.

<Q – Ed Snyder>: Thanks a lot. You've talked about lead times. So is it safe to assume based on what you're saying here that most of your inventory metrics, to sales, cost and sales which have been running quite a bit lower than average are probably going to remain such, at least through the fourth quarter, and then maybe we could catch up some of that in the first quarter of seasonality is normal because you can probably catch up on some of your inventory then? Is that a fair assumption?

<A – Ron Slaymaker>: I'll just kind of repeat. I don't expect that you'll see a big inventory change from TI in Q4, although we would like to have more inventory coming on board probably than what we will actually achieve. And again, I'll reserve additional comment on Q1 until January.

Do you have a follow-on, Ed?

<Q – Ed Snyder>: The second one, in terms of the strength in your end markets, I mean obviously analog, but it sounds it's fairly broad-based, almost an economic recovery driving this given how widely dispersed the markets and the products, you're seeing growth outside the wireless [inaudible]. Are you tracking any metrics overall to try and get an indication of where the end demand is coming from? Is it a recovery in the economy? Is it GDP? How far into it do you go or is it just take the orders as they come and try to vet as best you can with the customer why orders are picking up?

<A – Ron Slaymaker>: Yeah. We probably read the same reports you guys do in terms of opinions about where the economy is going. So we really don't have anything unique or specific to TI to add to that. We do believe probably the best information source that we have is the dialogue that we have with customers in terms of what they're seeing and what they're expecting.

And again, I would just kind of go back to something I said earlier. Our customers are ramping their production. And especially versus – if you go back to second quarter we really – the driver of growth there was just that we had come off of such a significant inventory reduction in Q1, just the fact that customers were reducing inventory at a slower rate in Q2 drove a lot of growth for TI. Going into Q3, we probably had some of that still going on. And in addition, we noted that we were starting to see customers ramp production. And then I would say current quarter that customer production ramp is probably the biggest factor in terms of what we're seeing. Although there probably still is some impact from just converging our shipment levels with the customers' production levels so – okay. And I believe that was your follow-up, Ed, so let's move to next caller please.

Operator: Your next question now is from John Pitzer with Credit Suisse.

<Q – John Pitzer>: Yeah, Ron. Thanks for taking my questions. A couple here. First, when you look at the Analog business, peak to current you guys are going to be down about two to 5% versus the peer group that's going to be down about 15%. Kind of curious, how much of that can be explained through different rev rec or market share. And if it's the latter, where do you think you're doing the best job on market share.

<A – Ron Slaymaker>: Market share or what was the first option?

<Q – John Pitzer>: Revenue recognition policies.

<A – Ron Slaymaker>: Oh, I think revenue recognition policies are not a factor here at all. And the reason I say that is the only place where revenue recognition comes into play is with distribution. And we have been depleting inventory in distribution as opposed to building in inventory and distribution over the last several quarters, which says, if anything, that has been a headwind for us as opposed to a help.

So again, not at all on inventory recognition, which then leaves the option of market share gains. And we believe that in fact is what's happening. So we've talked for some period that our market share gains in High-Performance Analog and Power Analog products have been pretty, pretty significant and consistent probably over the last five years or so. But that in fact, the underperformance in High Volume Analog and Logic had been hurting our share overall in Analog. We were probably still gaining share, but certainly not to the extent that we were performing in HPA and Power.

Second quarter this year, we had HVAL contributing growth at or above the rates that Power and High-Performance Analog were contributing. And I think that in and of itself is a big factor in terms of why we believe we're gaining market share. So again, what was a drag in Analog has become a contributor at the same levels. And as a result, we're gaining market share probably in all three of those businesses compared to the peer group. Do you have a follow-on, John?

<Q – John Pitzer>: Yeah, Ron. Just relative to the back-end capacity constraints, how long does it take to add back end capacity. And given that you guys are still shipping below last cycles' peak, why is there a bottleneck there? Is this longer testing times or what else is going on?

<A – Ron Slaymaker>: Well, let me answer the back part of your question first. It's mix. So unit growth compared to let's say go back to third quarter '08 did not occur consistently across all package types. There are certain package types where growth was much more significant than others which created the constraints for those particular package types. So it's mix related in terms of package type and that's what drove some of those bottlenecks. We brought – we noted that if you even look at our capital expenditures, you'll see third quarter they were up compared to second quarter. That really reflects test equipment that was brought in-house in third quarter. So we've begun the process. And a lot of that was equipment probably we put on order back in second quarter time period.

So we have the backlog in place with the testers. We have basically a pipeline of equipment that we will continue to bring in, oh, probably through second half of 2010 based on what's out there today and we'll – at that point we would expect probably to move, to slow down somewhat going into second half '10, but we'll make those decisions as we move forward.

Okay, operator. We have time for one more caller, please.

Operator: Take that question now from Srini Pajjuri from CLSA.

<Q – Srini Pajjuri>: Thank you. Ron, there's been a lot of talk about lead times. Can you help us quantify what your lead times are in normal times and where they are now?

<A – Ron Slaymaker>: I really can't because they are so, there's so much of a range there. So even today, we probably have some products that's available immediately. And then we have other products that are much more significant in terms of lead times and our ability to supply those products.

So in good times I don't have a range for you on lead times. And I don't have one now either. Do you have a follow-on, Srini?

<Q – Srini Pajjuri>: Yes, just a quick one. Do you anticipate any change to your CapEx plans going forward because of the tightness? Thank you.

<A – Ron Slaymaker>: Probably not at this point. We – first of all, I don't have an update for you, but I will note that in October we had a significant change in our capital expenditure plan. We took

CapEx from what previously was guidance for the year of 300 million up to 800 million. And I think we noted that our capital spending would probably remain elevated through first half of this year, first half of 2010, before it moved back down into what is probably a more normal range of call it five to 8% or so of revenue. We also noted that the elevated capital spending was really for two different considerations. One was the wafer fab equipment that we purchased through the Qimonda bankruptcy proceedings for our RFAB wafer fab. And again, that's going to be a 300 millimeter analog wafer fab. That capital involves both the Qimonda equipment as well as maybe some additional equipment we would need to put around it. And then finally it also included the higher assembly/test expenditures that I just noted that we would be doing really focused on fixing near-term bottlenecks in terms of our capacity. Okay. And Srini, thank you for your questions.

Ron Slaymaker, Vice President, Investor Relations

And before we end the call, let me remind you that the replay is available on our website. Thank you and good evening.

Operator: Thank you. And that will conclude today's conference call. We thank you all for joining us. Wish you all a good afternoon. Good-bye.