FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning. I will be your conference operator today. At this time, I would like to welcome everyone to the financial reporting structure conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS) Thank you. Mr. Slaymaker, you may begin your conference .

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

(Begin audio difficulties)Good morning. We will use a few slides in our presentation this morning. You can access the slides through our web site at ti.com/ir. This call is being broadcast live over the web and can be accessed through TI's website. A replay will be available through the web. This call will include forward-looking statements that involve risk factors that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor statement on TI's website, where you can access this slide as well as TI's most recent SEC filings for a complete description. In our presentation today, Dave Pahl and I will provide an overview of the changes that will be made to the category we supplied to you in reporting our financial results, beginning with our second quarter 2008 report on July 21. Our intention is to make these changes that were discussed at our May 20 analyst meeting. Our plan today is to provide the framework to help you understand these changes so that you can adjust the structure of your models before our report if desired. Our objective is to avoid any confusion in the interpretation of our earnings release.

I realize that any time a company makes changes in its financial reporting structure there are a lot of changes and even skepticism. Our objective in making the change is simply to provide you with more meaningful information to help you assess the opportunity for -- and the performance of your product line. The financial reporting structure will also be aligned at a deeper level with our organizational structure and how we manage the Company.

In our second quarter 2008 earnings report, this will affect our description of our revenue trends. Our expectation is that over time, we will transition our segment reporting to this structure, providing both revenues and operating profit. After we walk through a short presentation on the changes, we will address any questions that you might have.

This slide shows major product categories for which we will be describing our revenue. Analog, Embedded Processing, Wireless Handsets, as well as in Other categories, that sweeps the remaining product areas. For each of these areas, we will report quarterly revenue beginning with our July report. We plan to provide revenue and revenue trends in each of the four major categories shown on this chart. This chart also identifies the subcategories that feed into the major categories. We may use these subcategories to describe revenue trends in each of the major product categories. For example, we might describe that revenue in Embedded processing in a quarter is changed due to demand for catalog products. We do not intend to provide revenue or revenue trends for the subcategories.

As you might imagine, these new descriptions will not overlap perfectly with our traditional DSP and analog technology categories that we previously used to discuss our revenue. The prior approach accumulated revenue across all TI product organizations according to commonly accepted market analyst descriptions of analog and DSP product technology. The new method draws lines that more closely match organizational boundaries. The benefit of this approach is that it will allow us to identify specific operating profit for each area, and transition over time to full segment reporting for ease. As a result, you'll note that there are differences between the analog and wireless revenues that we're describing now and what we've previously reported for 2007. We'll try to clarify these differences for you today. I'll ask Dave to now review the details of each product category. Dave?

Dave Pahl - *Texas Instruments - Director, IR*

Thanks, Ron and good morning everyone. As you see from the chart, Analog is our largest product group, with revenue of $4.91 billion in 2007 or about 35% of our total revenue. Analog is the product line and complete organization that is managed by Gregg Lowe and includes both high-performance analog products and high-volume analog and logic or HVAL products. With this approach we'll make several changes in how we discuss Analog.

The first difference is where we report analog for wireless handsets. Included in HVAL will be the custom products that are developed for handset customers. The analog products that are found in chipsets and connectivity will be included in the Wireless Handset category because they are developed by that organization. The second difference is that our high-volume standard logic product line is now included in Analog, as it is part of our HVAL organization. It shares similar attributes to our standard linear product lines and a common organization is simply the best way to manage these product lines and our relationships with their common customers. The final difference is that some analog technology is included in the Other category. These are products developed outside the Analog organization, almost all of which are application- specific products, such as those in RFID, cable modems or our divested DSL product line.

Moving to Embedded Processing, this revenue was $1.61 billion in 2007, or about 12% of our total revenue. All of embedded processing is in Mike Hames organization. Embedded Processing, as we described at our analyst meeting, consists of TI processors, both DSP and microcontrollers, for which our customers make R&D investments in the form of software that runs on these processors. This area is attractive in that once a customer writes software, they tend to want to reuse that software investment from generation to generation of their product. As a result, relationships with these customers can be long-lasting and strategic.

The three subcategories that fall under Embedded Processing are, first, a diverse area of catalog products including digital signal processors and general purpose microcontrollers. As well, the two more focused areas of automotive processors and communication infrastructure processor products. Mike also is responsible for product lines that are not included in the Embedded Processing category but are included in the Other category.

The category of Wireless Handsets reflects everything that is under the umbrella of Greg Delagi's organization. This revenue was $4.20 billion last year or about 30% of our total revenue. The subcategories for Wireless Handsets, our digital basebands , application processors and connectivity products such as Bluetooth, GPS and Wi-Fi. The difference compared with the $4.9 billion that we previously reported for our 2007 total wireless revenue is that we now only include handset revenue and no longer include infrastructure revenue that is part of Embedded Processing. In addition, as we already discussed, we will no longer include custom analog handset revenues that is included in Analog.

This leaves $3.12 billion or about 23% of our revenue in the Other category. Most of these products can be considered mature product lines where profit contribution is attractive but where our investments are minimal and growth expectations are lower. In some cases, promising incubator products might be included in this Other category. DLP products, Education Technology, RISC microprocessors, ASICs and royalties make up the majority of others. With that let me turn it back to Ron.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Thanks, Dave. Let me touch on a couple of final points before we turn to your questions. First, the growth objectives that we described at our analyst meeting are unchanged. Our objective is to grow TI revenue over the 2008 to 2013 time frame by 10% on a compounded annual growth basis, driven by our focus on analog and embedded processing. This assumes, as before, that the Semiconductor market is growing at about 8% over that same period. Our expectation is that Analog revenue can grow 20% CAGR over this period, and that Embedded Processing can contribute at a 15 to 20% level.

Finally, for guidance going forward, we'll provide quarterly guidance for TI overall, essentially as we've done in the past. We won't provide guidance for the product category level or for our segments. Guidance will include TI revenue and EPS as we've done previously.

Operator, you can now open the lines for questions. As usual, please limit yourself to a single question. We'll provide you the opportunity for one additional follow-up question. Operator?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Uche Orji with UBS.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Yes, Uche, go ahead, please.

Uche Orji - *UBS - Analyst*

Ron, I'm not sure whether you can hear me. Most of the presentation was difficult for us to follow because the line was faint. But one question I wanted to ask you is do you say, to what extent, you'll give us margin visibility along these new product lines as well?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Our intention is to move the full segment reporting by the end of the year, so at that point we would be providing for each of those, what we're today calling major product categories, operating profit. The intention is not break it out at gross margin, operating expenses but we would report revenue and operating profit for each of those future segments.

Uche Orji - *UBS - Analyst*

Okay.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Did you have a follow-on, Uche?

Uche Orji - *UBS - Analyst*

No, thank you very much.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Thank you.

Operator

Your next question comes from the line of David Wu with Global Crown Capital.

David Wu - *Global Crown Capital - Analyst*

Can you hear me. During your presentation you were breaking up in between. But I was wondering if you -- at this point, when I look at your four segment breakdown, I assume the operating margins would be the highest in the three categories of Analog, Embedded and Other, the Wireless would be below those three. Is there any color you can give us on the relative margins at the operating level between the Analog, Embedded and Other?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

I think you're -- you described something that we described at our analyst meeting, so certainly you're right there that Embedded, Analog and the Other category tend to run above corporate average profitability and Wireless would be the one area that would balance that out. I don't have specific numbers for you at this point. I think we said at the analyst meeting that Embedded Processing historically has run about a 30% operating margin level. The only thing I would caution on that is when various managers at TI quote their operating margin, historically that has been before they receive full allocation of corporate expense, stock option expenses, sales expenses, some of those types of things, and when we move to full segment reporting, our intention will be to basically allocate all of those expenses to these various segments and so you probably would need to allow for a discount of about 5%, 5 percentage points, in terms of what was historically described as a product group operating margin and what would that translate to once it's fully loaded. So that would probably put Embedded Processing probably closer more to 25% historically. Analog, I think we've historically described as both high-volume and high performance Analog we're running above 30% operating margin, and again you probably have a similar 5 point.

David Wu - *Global Crown Capital - Analyst*

Just one other clarification on this thing. I assume your overhead allocation is by revenue?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Well, it will vary to some degree. So part of the -- for example, stock option expenses, we can take it down based on where those expenses are incurred, based upon where the options are awarded. There are other (inaudible) in the case sales expenses we are somewhat more refined than just allocation based on revenue because, for example, an area like Wireless Handsets will tend to utilize less of the sales force in terms of number of players and more catalog product areas such as, I don't know, such as high-performance analog or some of the Embedded Processing areas. So in some cases, it will be based upon a revenue type of allocation, in other cases it will be more specific. Those are the details, frankly, that we're working through over the next six months or so to get to the point where we can fully do it as a segment.

Okay. David, thank you for your question. Operator, is there another caller here?

Operator

Your next question comes from the line of Tim Luke with Lehman Brothers.

Tim Luke - *Lehman Brothers - Analyst*

Ron, I think when you were doing the analyst day you had provided some -- the gross margin ranges as well as the broad parameters of operating margins for the different segments. Could you just remind us what those are for the four different segments?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Tim, so again, this is just rough historically and we do not -- I will just reiterate -- we will not be breaking gross margin out in our Q2 report. But I think in the Embedded Processing revenue, Mike Hames described that gross margins there generally run about 60 points. In the case of Analog, it will vary somewhat, depending upon whether we're talking high-performance analog or application-specific or high-volume area. And again, you'll also recall that last year roughly those were pretty much evenly divided. Analog revenue was between those two areas.

So in the case of high performance, I think we described gross margin in the -- we described our goal was to run that operation with gross margin 65 to 70%, and we said we were still a few points below that goal. In the case of the application-specific or high-volume area, we've described that gross margin there probably with 50 points or so, more closely aligned with where the corporate average was. Wireless historically has run mid-40s and I don't know on Other, because it's kind of a whole range of product areas. But hopefully that addresses. And that's an unloaded number. You wouldn't have -- the five points that I was describing of allocation would be at the operating expense level. Some of that might impact gross margin but I don't know specifically between gross and operating margin allocation.

Tim Luke - *Lehman Brothers - Analyst*

Other is generally above the corporate average; right?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

What was that? Could you repeat?

Tim Luke - *Lehman Brothers - Analyst*

The Other gross margin and the operating margin is generally above the corporate average; is that correct?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Yes, if I just look at those major areas, DLP, Education Technology, RISC, royalties, yes, certainly they would run above corporate average gross margin. That's correct.

Tim Luke - *Lehman Brothers - Analyst*

Ron, just to be clear, you're going to begin to report these four segments with which quarter and how far back will you be providing us with the historical information for when you begin to report like this?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Tim, our intention is it will be a transition to full segment reporting. In July, we'll start reporting revenue along these lines and then the expectation at this point is that the end of the year, therefore our January report, we would have all the accounting details worked, such that we can do full segment reporting at that point, meaning for the full year 2008. And my understanding is that history would be for three years prior to that. And again, we like to have all the history information for you here today but we're not able to. Let me maybe even give you some insight on -- even on the revenue side.

There are some adjustments that we need to make on historical revenue for these different product lines in order to account, for example, for reserves we take against revenue for sales into distributors, as well as the SAB104 accounting rule for adjustment based on the timing of transfer of title for a product shipment. So historically, we made all those revenue-related adjustments at the Semiconductor segment level and so we're doing over the course of, actually scrambling even today, is to work through all the details, many of which are done product by product, that are required then for us to be able to accurately report revenue with those adjustments, according to these new product categories. Again, I think what we provided you for 2007 has those adjustments made, but by the time we do full segment reporting at the end of the year, we will have those adjustments made for additional years back from that.

The one thing else, Tim, I would point you to is until then, I think the revenue trends that we provided you at our May analyst meeting are likely very close to what even the results with the adjustments will show. You'll recall at that meeting we showed, for example, a CAGR for Analog was 12%, '03 to '07. The best we can tell, even with the adjustments that we're describing in terms of the definition of the product category and some of the things that we're talking about here, that historical growth rate remains unchanged. So I don't expect there will be a lot of change from what we showed at the May meeting, so I would reference you back there. But until we get the details of all the historical adjustments made, I'll have to actually wait until the end of the year.

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

Operator

Your next question comes from the line of John Dryden with Charter Equity Research.

John Dryden - *Charter Equity Research - Analyst*

Hi, Ron. In the press release will you still include the one liner on HPA year-over-year and Q-over-Q?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

John, we do not plan to -- kind of as we said, in my mind a lot of the details that we provided on HPA growth or HVAL or application-specific growth in the past was really intended to help you maybe just add some color on profitability inside of Analog and trends in terms of what may be driving profitability. Our thinking is that given now that we're moving, providing you operating profit for Analog overall, it's not our expectation or intention to provide the details of HPA growth versus application-specific growth. We will on a quarterly basis talk to you about what grows total Analog results so we'll talk about potentially a change in analog was due to growth in HVAL or growth in HPA, but we don't intend to give you the individual revenue level for the individual growth trends for those subcategories that we defined for Analog or the Other areas.

Do you have a follow-on, John?

John Dryden - *Charter Equity Research - Analyst*

Is that effective on this report or that's the effective in January when you go to the full reporting?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

No, we really want to transition to this new format in July. I think it's -- it will get real confusing if we try to report it the new way and the old way when we have common terms like analog that are used in both. So that's what we're trying to do here is make sure everybody understands the details of what's in, what's out, all that, such that July we can make a full transition in terms of how we're describing the revenue trends.

John Dryden - *Charter Equity Research - Analyst*

Thanks for taking my question.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Thank you, John. Let's move to the next caller, please.

Operator

Your next question comes from the line of Erik Kobayashi-Solomon with Morningstar.

Erik Kobayashi - *Morningstar - Analyst*

Hi, Ron and Dave, thanks for taking my call. First thing that I wondered is whether or not these changes were driving or mirroring organizational changes. In other words, have you reorganized certain parts of your business or are you putting more kind of managerial resources into certain parts of your business and that's being reflected in this reporting, or is this basically just reporting the way you're thinking about the business?

Dave Pahl - *Texas Instruments - Director, IR*

Erik, this is Dave Pahl. I would -- there really aren't any management changes that are reflected in this reporting. I would say that we're changing -- the stated thing that's driving us to this change is we really want to give more visibility into the opportunity that we've got for the Company, specifically as it relates around analog and embedded processing and in that, we want to move, as Ron has talked about, to reporting full segments and the operating profit and to do that we really need to align more closely to our organizational boundaries. So we are -- that's what's really driving the change.

Erik Kobayashi - *Morningstar - Analyst*

Okay. Thanks. And for my follow-up, I wondered about the Other segment, whether we could expect some divestments of some of those businesses. Is this kind of where you're holding some of the businesses? And I'm speaking specifically of some of the RISC business or some of the ASIC lines, whether we might see a divestment there.

Dave Pahl - *Texas Instruments - Director, IR*

I wouldn't look, just because it's in Other, meaning that it's a parking lot or anything like that. I think you can think of them as mature but profitable product lines. They don't consume a large amount of R&D or capital expenditures to run and often times we'll have incubator products inside of there too, Erik. So I wouldn't consider that as a direction one way or the other.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

I think, Erik, just as an example, microcontrollers, previously we would report that in that kind of Other category and it's been a great business. It's been growing. And it just got to the point in terms of maturity level or size where it makes sense for us to pull it out of Other and from a financial reporting perspective and report it along with catalog DSP products as part of this Embedded Processing category. But even with that change in, call it financial reporting, there has been no change in organizational structure. DSP, the catalog DSP products and that microcontroller business were always managed closely in the same overall organization.

So a lot of what this is is adjusting our financial reporting. Frankly, the change is over time in terms of our business and also changes in our view of opportunities. So that's really what's driving it. Don't view -- I'll reiterate what Dave said -- don't view anything in Other as a first step towards some kind of divestiture. That's not our expectation at all.

Okay. Erik. Thank you for your question. And operator, let's move to the next caller please.

Operator

You have a follow-up question from the line of Tim Luke with Lehman Brothers.

Tim Luke - *Lehman Brothers - Analyst*

Ron, just as a clarification, you're going to provide the current reporting revenue as well as the new when you report in July or until you have the full details of the new reporting system or how should we see that? And then secondly, I was also just wondering, in outlining the revenue growth targets for the embedded and Analog, do you have any color on how we should perceive the revenue growth target for either Other or Wireless? Thanks.

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

No. So what we will do in July in our earnings release is we will describe overall revenue and we will describe revenue and revenue trends for Analog, Embedded Processing, Wireless and Other. The only tie back to the old way we used to report revenue is in the actual SEC filings, since we haven't made the transition in terms of segments, you will see where we will consolidate semiconductor segment revenue and the Education Technology segment revenue. But in terms of the earnings release conference call, we will really be describing it strictly in terms of these new categories.

And then your question in terms of growth, I mean, I think part of what we're trying to communicate is that if you go through the math, if we have 47% of our Company, that being Analog and Embedded Processing, growing at the growth rate that we described, we can achieve the Company-level goal of 10% CAGR over that 2008 to 2013. That's not intended to convey a message of we don't expect, for example, Wireless to grow. We believe there's a growth opportunity there. But we also realize there's -- that's a lightning rod for a lot of debate and what we're trying to communicate is that our 10% CAGR goal for the Company can be achieved simply by -- simply by -- achieving the goals that we've laid out for you on Analog and Embedded Processing. I think if you look at the historical CAGR on Other, it's probably been low single digits and there's probably no reason to expect a significant change in terms of that trend going forward. I think if you look at Wireless, what Greg Delagi showed at the analyst meeting, I think '03 to '07 I think was something like a 16% CAGR historical performance, although, Tim, we will quickly allow that, again, we recognize there's a lot of debate over what the future growth opportunities are there. We think there's opportunity in the Wireless side but we're not building in big expectations or assumptions there in terms of what will be required to achieve at corporate level for us.

Do you have another question, Tim?

Operator

There are no further questions at this time. Are there any closing remarks?

Ron Slaymaker - *Texas Instruments - VP, Manager, IR*

Sure. So let me just say in summary, we believe you're going to find this new reporting structure to be more meaningful to your assessment of TI's opportunities and performance. Thank you for joining the call today. A replay of the call will be available on our website.

Operator

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