MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Texas Instruments fourth quarter 2010 mid-quarter update. Today's conference is being recorded. At this time I would 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 fourth 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'll 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 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 news release published today as well as TI's most recent SEC filings for a more complete description.

We have narrowed our expected ranges for TI's revenue and earnings around the middle of our previous ranges. We now expect TI revenue between 3.43 and $3.57 billion. We expect earnings per share between $0.61 and $0.65. This EPS estimate does not include any expected impact from the gain associated with our sale of the cable modem product line that closed in the 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 will provide you the opportunity to ask a follow-up question. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator instructions]. And our first question comes today from Uche Orji with UBS.

<Q – Uche Orji>: Thank you very much. Ron, thanks for the update. Just very quickly, any comments you can make on segments as to any area where you're seeing relative strength or relative weakness at this point would be helpful.

<A – Ron Slaymaker>: Okay, Uche, as you might guess, considering that we're narrowing to the middle of our prior range, the quarter overall is really tracking consistently with our initial expectations. Maybe the best way to have this discussion is let me compare the trends for the various areas compared with the third quarter.

So I guess first to consider is that calculators should seasonally decline by more than $100 million, as usual, and at the middle of our range, this would then be about half of the total company decline that we're expecting. We also expect most other areas to decline although by varying amounts, consistent with our expectations that we had described back in October.

These will probably be a little more end market descriptions but we can move to segments if you'd like. From an end market perspective, notebooks and associated hard disk drives continue to be weak. Televisions continue to be weak and then I would guess I'd just comment also that the industrial market is not as strong as it was during the first three quarters of the year as its cyclical recovery has now completed.

Conversely a few areas of strength to note would be products that are sold into communications infrastructure are doing well, products sold into video game consoles and products sold into smartphones are all doing well and I guess I should just comment further that, you know, in the notebook area, we're encouraged that it seems that our revenue there has bottomed and is stabilizing so, you know, we went through a bit of a downdraft, it seems like that revenue's bottomed and is stabilizing.

Do you have a follow-on, Uche?

<Q – Uche Orji>: Yes, I do. Just very quickly in terms of the bookings you're seeing at this point, I mean one of the things that happened last quarter was your book-to-bill was a little bit weaker. Has there been any change in terms of the trend for bookings that is going just across the board?

<A – Ron Slaymaker>: Uche, I don't think – typically at a mid-quarter update we don't comment about order trends because orders really tend to be more about our first-quarter outlook than our fourth-quarter results. So we'll give the details on orders when we report in January along with our first-quarter outlook.

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

Operator: We'll go next to Tim Luke with Barclays Capital.

<Q – Tim Luke>: Thank you very much. Can you hear me, Ron?

<A – Ron Slaymaker>: I can.

<Q – Tim Luke>: Could you give some sense of how you've seen your lead times develop? Is that coming in as you would have expected and what sort of impact have you seen, if any, on your order trends as a result of lower lead times? And are we on track to see the lead times be normalized by the end of the quarter?

<A – Ron Slaymaker>: Okay, well, just in general on lead times I would say we continue to make progress, first of all, on bringing up additional capacity, and then I think, you know, that increased capacity along with the softer market conditions this quarter, the combination's allowing us to continue to reduce lead times, you know, in the orderly manner that you've seen from us thus far this year. And as you – as you commented, we do expect that lead times will be generally at targeted levels as we move into 2011, then.

Did you have a follow-on, Tim?

<Q – Tim Luke>: Broadly at this stage should we anticipate that you're moving towards what you have perceived to be normal seasonal trends as you exit this period, then?

<A – Ron Slaymaker>: Well, I think, I guess, you know – I guess, part of that question, you know, ties back to our views on – that I think we even talked about in October of, you know, what – just how we would characterize this correction. And I think we probably at that point were describing that we believed it would be a relatively shallow and short correction and to that degree, yes, if – I would say, if anything our confidence has increased that what we're dealing with is a relatively short and shallow correction and that confidence increasing even since the October call just as we see things such as revenue in the notebook space for us start to stabilize.

As you'll recall, you know, this correction began in the third quarter. I would characterize that it's significantly progressing this quarter. And, you know, I don't want to – I don't want to try to comment on the out quarters yet but for reference, as you mentioned, just from a seasonal perspective, the first quarter would typically be seasonally down a few points followed, then, by sequential growth starting in the second quarter.

So I'll have more to say about our first-quarter expectations in January, but that being said, I think in general we think we're going to be very well served in 2011 by our decision to add low-cost manufacturing capacity as we've done over the past – over the past year or so.

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

Operator: We'll go next to Ramesh Misra with Brigantine Advisors.

<Q – Ramesh Misra>: Good afternoon, Ron. My first question is in regard to RFAB production. Any updates over there? And is production from RFAB actually being sold at this point or when will that happen?

<A – Ron Slaymaker>: Ramesh, I guess just a quick update on where we stand. We have now qualified our process, our manufacturing process at RFAB and we're now shipping product to customers from that factory pretty much right on schedule. So we're in the – currently we're in the process of qualifying additional products for production in RFAB but, yeah, RFAB pretty much ramped according to plan and we're now shipping product out of there.

Do you have a follow-up, Ramesh?

<Q – Ramesh Misra>: Yes, Ron. Quick commentary on geographical trends if you could, any particular strength coming out of Asia Pacific or is that also looking to slow down and what are your thoughts in regards to Chinese New Year or Lunar New Year and impact in ordering trends?

<A – Ron Slaymaker>: Okay, so just, first of all, I guess I would say geographically the U.S. is weakest in terms of sequential growth thus far in the quarter but I should also note it had the highest growth in the third quarter. Conversely, from a regional perspective Japan is seeing the strongest quarter to date sequential growth but interestingly it was the weakest region in third quarter. Both Asia and Europe are tracking about the same as last quarter.

As far as Chinese New Year, that being in first quarter, I guess I'll probably leave any comments we would have about our anticipated impact of that until our January call.

Okay, Ramesh, thank you, and we'll move to the next caller.

Operator: We'll go next to Edward Snyder with Charter Equity Research.

<Q – Ed Snyder>: Thanks. Thank you, Ron. In terms of linearity you've got a big mix of different products but wireless especially selling into the holiday season should start winding down about now from a chip supplier point of view. It sounds like from your overall guidance that that's probably tracking where you would expect it. No surprises there, I know there's a lot of concern about over-ordering due to shortages, how does that look today?

<A – Ron Slaymaker>: Okay, so I guess the patterns you described for wireless, in fact, for a lot of our customers, you know, you have varying degrees of shutdowns just normally associated with the holiday period. I guess what I'd say is there's probably not a lot to be gained by breaking out trying to discuss month-by-month trends but I would say that as in most quarters we're expecting the last month of this quarter, or the month of December, to be our strongest month, although we are only needing what I would describe as an average December by historical standards to meet our guidance. So, you know, we're basically allowing for what we normally see associated with the holidays. Once again this quarter we're not expecting really anything more than that.

Did you have a follow-on Ed?

<Q – Ed Snyder>: Yeah, kind of a bigger picture question, given you added fabs in Japan and China, and I know it's not in the headlines today but it may be again: the whole North-South Korea issue popped up. One, did you see any disruption or ripple at all from even that and two, can you give us a thumbnail sketch of what your exposure would be if things just went south? I know it calls for a lot of extrapolation, but if things went south in Korea you've got factories in China, etcetera, any idea of how that would impact the order trends?

<A – Ron Slaymaker>: Ed, I guess I don't want to try to speculate too much there other than – and to say, first of all, no, we have not seen any disruption to date. We are watching the situation there, we have contingency plans, but I don't want to speculate because, you know, a lot of different situations could form there. So let me just say we're watching it closely and we have contingency plans in place in case something does develop there.

Okay, and thank you, Ed, we'll move to the next caller, please.

Operator: We'll go next to Srini Pajjuri with CLSA Securities.

<Q – Srini Pajjuri>: Thank you. Ron, as we head into the first half of next year can you talk about some of the puts and takes as far as the gross margins are concerned? I'm just wondering given that it's going to be seasonally down at least in the first quarter and then you have some capacity coming online, I'm just trying to understand if this year is going to be any different compared to the previous years?

<A – Ron Slaymaker>: Probably not significantly other than what revenue might do. So clearly, you know, when you look at gross margin considerations, utilization is always a factor there and, you know, I'll touch on, in just a minute, the impact of the new factories there but certainly utilization would be a consideration, of course, just overall revenue level and its impact on utilization and contribution margins and then, of course, product mix always plays but, you know, I don't think on any of those we would expect anything beyond just what normal, you know, revenue trends would carry.

You mentioned the new capacity. I guess I – it's probably useful, maybe, for me to give our views on what financial impact might be associated with that, those new factories. I guess a couple things. But for the most part essentially all of the additional carrying costs associated with those factories will be offset in the near term by the transitional supply agreements that we have in place with Spansion, who is the former owner of the Japan factory that we purchased, and SMIC, who is the former operator of our China factory, those transitional agreements will provide us cost coverage while we're in the process of transitioning those factories' production to TI analog products.

So again, the revenue from those agreements, as we said in October, is expected to be less than 1% of TI's annual revenue so as a result, they're really going to have negligible impact on our revenue and our margins but in any case, the carrying costs that we would have in those factories in first half will all be included in this quarter, the fourth quarter's financial results and are comprehended in our guidance. But, again, we don't expect those new factories, even though, you know, the impact of having that additional capacity might be to lower our utilization somewhat, the financial impact should be negligible.

Did you have a follow-on, Srini?

<Q – Srini Pajjuri>: Yes, a quick one, Ron. I think that the inventory – distributors have been building inventory for the past couple of quarters. I'm just wondering if you have any thoughts on what might happen this quarter and next? Thank you.

<A – Ron Slaymaker>: I guess, Srini, probably a couple of comments I would make on distribution. First of all, is that re-sales and distribution we would expect to trend – probably the best characterization is just similarly to our overall revenue trends, so nothing really anomalous with distribution there.

Inventory, I don't want to try to forecast at this point what's going to happen, what their inventory this quarter, however, we believe that their inventory remains at appropriate levels for the demand environment that we're in. So we don't see anything concerning one direction or the other with distribution and its revenue trends, just generally tracking our revenue overall.

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

Operator: We'll go next to John Pitzer with Credit Suisse.

<Q – John Pitzer>: Yeah, Ron, thanks for taking my question. Just from an end market perspective you talked about smartphones being relatively strong quarter-to-date. I was wondering if you could help differentiate a little bit between baseband, connectivity and OMAP?

<A – Ron Slaymaker>: Okay, so maybe if I can just start – maybe work my way down through Wireless. I'd say, first of all, Wireless revenue at the segment level we would expect to be relatively unchanged in fourth quarter from the third-quarter level. You know, demand for smartphones continues to be strong and so as a result of that, you should see our OMAP revenue benefit both from the strong market demand with smartphones but also reflecting, you know, continued strengthening in our position in that application processor market.

So I think once you move below that to the other product areas our Wireless revenue performance we would expect probably will vary somewhat by individual customers' performance in the market, some customers doing better than other customers but, again, overall, relatively unchanged. OMAP would be up and then, you know, we'll see where the other baseband and connectivity products land.

Did you have a follow-up, John?

<Q – John Pitzer>: Yeah, Ron, just help me kind of frame the tablet opportunity. Are you seeing any impact from tablets in this quarter? Do you characterize that as smartphone or computing or do we look for the tablet opportunity to really start to materialize in the first half of next year?

<A – Ron Slaymaker>: As far as OMAP and connectivity I would describe that as first half of next year, when we will see – I think we've described before that we've done very well in terms of design-ins with our latest generation and that really is OMAP 3 but also and especially OMAP 4 both in smartphone market as well as the tablet market, the first products using OMAP 4 specifically and then I will also say our first tablet customers using OMAP 4 you will see those products in first half of next year. So we continue to expect good things in terms of the ramp of our OMAP revenue over the course of the next year and that's due to both smartphones but also tablets.

You know, even near term, we're continuing to, even though we're not specifically talking about OMAP, but we are benefiting, you know, even this quarter from tablets using, you know, a variety of TI analog product, power management product, those types of product lines.

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

Operator: We'll go next to Chris Danely with JPMorgan.

<Q – Christopher Danely>: Thanks, Ron. Can you just give us a little color on your expected inventory and utilization rates this quarter and then what would be the factors driving them up or down for Q1?

<A – Ron Slaymaker>: Okay, in both cases let me start with utilization, I guess. We would expect utilization to be down some this quarter and that's really both due to adjusted production levels in response to the weaker demand environment but also, as I mentioned previously, the fact that we're bringing on additional capacity. And as we've said previously, we're taking advantage of the weaker environment to build some inventory this quarter and with that reduce lead times further such that as we move into 2011, we have lead times generally at targeted levels.

Did you have a follow-on Chris?

<Q – Christopher Danely>: Sure. Actually, just a follow-up, I think earlier someone asked a question about the linearity of this quarter and you guys said you're basically expecting a, "Average month of December." Were October and November a "Average month" also, i.e., are you just expecting a continuation of that trend?

<A – Ron Slaymaker>: You know, Chris, I don't have the month-by-month and how that compares to historical. I was really focusing more on – in fact, I think I said there's probably not a lot to even go there. I was really focusing more on just the guidance and are we expecting, you know, anything heroic in the month of December and the answer is no, so just kind of a normal month of December, I don't know whether October-November tracked, you know, to historic levels.

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

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

<Q – Jim Covello>: Great, thanks so much for taking the question, I appreciate it. First on the softness in the computing market that you talked about on the original call and kind of reiterated today, do you guys – as the quarter has evolved do you have any further views on how much of that is actual demand weakness versus just inventory? And then to the extent it is demand weakness, how much of it is tablet cannibalization?

<A – Ron Slaymaker>: Oh, boy, that's a tough one, Jim. I have no view that I want to go out and publicly talk about on tablet cannibalization. You guys probably have other sources that will be a lot better than me on that one.

You know, in terms of is it demand or inventory, I think they tend to go hand in hand, so our view of what happened, you know, call it mid-year, third quarter last year, is that the demand softened at least versus what the various players in those channels were expecting and as demand softened then they had to adjust their inventory levels to those new expectations.

So it was kind of a hand in hand that probably initiated with lower levels of demand than had been expected and was quickly followed with the need to make inventory adjustment and when I'm talking inventory in this case, I'm really not talking so much component inventory as much as, you know, finished goods and, you know, whether it's PCs or hard disk drives that our customers had that needed to be adjusted out and that's probably also why, you know, a lot are already surmising that end demand in PCs may be picking up, or there may be some lag between when that finished demand picks up or the final demand does or the consumer demand does and when we will see it just because of the inventory adjustments through those channels but probably initiated with, again, consumer demand adjustments but then quickly followed with related inventory adjustments. I think the encouraging thing is that channel was pretty lean to begin with so that when end demand adjusted down there was not a big inventory adjustment that needed to take place. Inventory, and especially component inventory, has been lean.

Okay, Jim, I think you have a follow-up question coming.

<Q – Jim Covello>: Yeah, I know it's a small market but, you know, some folks in the industry have been talking about it lately, NFC, and I've heard you mention it once or twice but what are your thoughts on the market and TI's positioning?

<A – Ron Slaymaker>: I think we believe that's just another opportunity in the wireless space for us to -- you know, in general that connectivity, call it differentiation is driven by the need to put many – well, many – four, going on five, I guess, complex radios together all in a single chip. And first and foremost there are very few companies that have all of those discrete connectivity or technologies to begin with, so putting them together if you don't have them becomes a little more complex, but just the engineering know-how, the system expertise in dealing with multiple radios integrated in the same chip is tough and you see that based on how the market, at least near term, is really consolidating down to a very few players. Near field communications is just another connectivity technology that will make it harder and harder for players to move into these highly integrated solutions. So we view it as good for TI, good for our wireless and specifically our wireless connectivity business.

Okay, Jim, thank you. And we'll move to the next caller.

Operator: We'll go next to Ross Seymore with Deutsche Bank.

<Q – Ross Seymore>: Hey, Ron. Similar to the breakout you gave on Wireless, can you give us a little color on the three segments you have in your Analog segment and what you're seeing thus far in the quarter?

<A – Ron Slaymaker>: I can do that, Ross. As you might guess those product lines in Analog that have more notebook or television exposure will be more negatively impacted by the corrections in those markets this quarter than other product lines so if you kind of rack 'em and stack 'em, Power probably has the highest exposure to computing and televisions, followed by HVAL. HPA would have the least and therefore HPA should be the strongest of those product areas this quarter likely followed by HVAL and then finally Power.

Did you have a follow-on Ross?

<Q – Ross Seymore>: Yeah, just wondered in general when you talked about the end market perspective I think you mentioned notebooks, three good things and three bad things. Were any of those six things you highlighted a surprise in the quarter? You netted out to the midpoint of your range, of course, but I just wondered if any one vertical was either better or worse than your original expectations?

<A – Ron Slaymaker>: Actually, that's a great clarifying question and I would say none of those were surprises. In fact I suspect in every one of those cases we talked in the October call about seeing those areas either weak or strong in third quarter and generally expecting similar trends in the fourth quarter.

Maybe the one area that would be a little different but it was similar to expectations was I think in the area of industrial we were describing that third quarter we were still seeing industrial strength but we did expect that that cyclical recovery had largely played out and would be moving call it to a more seasonal pattern beginning in fourth quarter and, in fact, that's what we're seeing.

Okay, Ross, thank you, and we'll move to the next caller.

Operator: We'll go next to Shawn Webster with Macquarie.

<A – Ron Slaymaker>: And Shawn, I guess you'll be our last – our last caller here.

<Q – Shawn Webster>: Thanks for squeezing me in. In terms of the – so with the new factory in Japan and the new factory in China and the wafer supply agreements, can you give us a sense of what the size of the wafer revenue will be starting in Q4 for you?

<A – Ron Slaymaker>: Well, probably the best way is what I think I characterized previously is that in total both of those supply agreements we would expect to amount to less than 1% of our annual revenue. It may vary a little bit quarter by quarter but, you know, if you look over the next four quarters in total they would probably be 1% or less of our total revenue.

<Q – Shawn Webster>: Okay, and then, for a follow-up, can you share with us how you think your operating expense trends will move as we go through the next several quarters? Are there anything – areas where you're going to be expanding your R&D developments or any other area?

<A – Ron Slaymaker>: Shawn, you're probably about five or six weeks ahead of us on that one. When we report in January, we'll typically give our R&D guidance for 2011. So we'll probably -- I'll save that response for that call.

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

Operator: This concludes today's call. We thank you for your participation.