

TEXAS INSTRUMENTS INC
Form 10-Q
August 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware 75-0289970
(State of Incorporation) (I.R.S. Employer Identification No.)

12500 TI Boulevard, Dallas, Texas 75243
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code 214-479-3773

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | | |
|-------------------------|-------------------------------------|---------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated.. |
| | | filer |
| Non-accelerated filer | (Do not | Smaller |
| | check if a | reporting |
| | “smaller | company” |
| | reporting | “ |
| | company) | ” |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

1,026,385,794

Number of shares of Registrant’s common stock outstanding as of

July 27, 2015

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Consolidated Statements of Income

(Millions of dollars, except share and per-share amounts)

| | For Three Months Ended June 30, | | For Six Months Ended June 30, | |
|--|---------------------------------------|----------|-------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$ 3,232 | \$ 3,292 | \$ 6,382 | \$ 6,275 |
| Cost of revenue (COR) | 1,351 | 1,411 | 2,685 | 2,787 |
| Gross profit | 1,881 | 1,881 | 3,697 | 3,488 |
| Research and development (R&D) | 320 | 349 | 658 | 715 |
| Selling, general and administrative (SG&A) | 470 | 472 | 909 | 951 |
| Acquisition charges | 82 | 82 | 165 | 165 |
| Restructuring charges/other | (1) | (4) | (3) | (15) |
| Operating profit | 1,010 | 982 | 1,968 | 1,672 |
| Other income (expense), net (OI&E) | 3 | 3 | 7 | 9 |
| Interest and debt expense | 24 | 24 | 46 | 49 |
| Income before income taxes | 989 | 961 | 1,929 | 1,632 |
| Provision for income taxes | 293 | 278 | 577 | 462 |
| Net income | \$ 696 | \$ 683 | \$ 1,352 | \$ 1,170 |
| Earnings per common share (EPS): | | | | |
| Basic | \$.66 | \$.63 | \$ 1.28 | \$ 1.07 |
| Diluted | \$.65 | \$.62 | \$ 1.26 | \$ 1.06 |
| Average shares outstanding (millions): | | | | |
| Basic | 1,038 | 1,071 | 1,042 | 1,076 |
| Diluted | 1,051 | 1,086 | 1,056 | 1,091 |
| Cash dividends declared per common share | \$.34 | \$.30 | \$.68 | \$.60 |

As a result of accounting rule ASC 260, which requires a portion of Net income to be allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents, diluted EPS is calculated using the following:

| | | | | |
|--|--------|--------|----------|----------|
| Net income | \$ 696 | \$ 683 | \$ 1,352 | \$ 1,170 |
| Income allocated to RSUs | (10) | (10) | (19) | (18) |
| Income allocated to common stock for diluted EPS | \$ 686 | \$ 673 | \$ 1,333 | \$ 1,152 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Millions of dollars)

| | For Three Months Ended June 30, | | For Six Months Ended June 30, | |
|--|--|--------|-------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 696 | \$ 683 | \$ 1,352 | \$ 1,170 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Net actuarial gains (losses) of defined benefit plans: | | | | |
| Adjustments | — | (5) | (10) | (7) |
| Recognized within Net income | 17 | 11 | 27 | 21 |
| Prior service cost of defined benefit plans: | | | | |
| Recognized within Net income | — | 1 | 1 | 1 |
| Derivative instruments: | | | | |
| Recognized within Net income | — | 1 | — | 1 |
| Other comprehensive income (loss) | 17 | 8 | 18 | 16 |
| Total comprehensive income | \$ 713 | \$ 691 | \$ 1,370 | \$ 1,186 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

(Millions of dollars, except share amounts)

| | June 30, 2015 | December 31, 2014 |
|---|------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,184 | \$ 1,199 |
| Short-term investments | 2,122 | 2,342 |
| Accounts receivable, net of allowances of (\$17) and (\$12) | 1,434 | 1,246 |
| Raw materials | 112 | 101 |
| Work in process | 940 | 896 |
| Finished goods | 833 | 787 |
| Inventories | 1,885 | 1,784 |
| Deferred income taxes | 347 | 347 |
| Prepaid expenses and other current assets | 1,088 | 850 |
| Total current assets | 8,060 | 7,768 |
| Property, plant and equipment at cost | 6,097 | 6,266 |
| Accumulated depreciation | (3,412) | (3,426) |
| Property, plant and equipment, net | 2,685 | 2,840 |
| Long-term investments | 228 | 224 |
| Goodwill, net | 4,362 | 4,362 |
| Acquisition-related intangibles, net | 1,742 | 1,902 |
| Deferred income taxes | 169 | 172 |
| Capitalized software licenses, net | 63 | 83 |
| Overfunded retirement plans | 127 | 127 |
| Other assets | 96 | 244 |
| Total assets | \$ 17,532 | \$ 17,722 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 1,750 | \$ 1,001 |
| Accounts payable | 417 | 437 |
| Accrued compensation | 481 | 651 |
| Income taxes payable | 117 | 71 |
| Deferred income taxes | 3 | 4 |
| Accrued expenses and other liabilities | 425 | 498 |
| Total current liabilities | 3,193 | 2,662 |
| Long-term debt | 3,134 | 3,641 |
| Underfunded retirement plans | 254 | 225 |
| Deferred income taxes | 355 | 399 |
| Deferred credits and other liabilities | 391 | 405 |
| Total liabilities | 7,327 | 7,332 |

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| | | |
|--|-----------|-----------|
| Stockholders' equity: | | |
| Preferred stock, \$25 par value. Authorized – 10,000,000 shares. | | |
| Participating cumulative preferred. None issued. | — | — |
| Common stock, \$1 par value. Authorized – 2,400,000,000 shares. | | |
| Shares issued – 1,740,815,939 | 1,741 | 1,741 |
| Paid-in capital | 1,504 | 1,368 |
| Retained earnings | 30,286 | 29,653 |
| Treasury common stock at cost. | | |
| Shares: June 30, 2015 – 706,714,155; December 31, 2014 – 694,189,127 | (22,812) | (21,840) |
| Accumulated other comprehensive income (loss), net of taxes (AOCI) | (514) | (532) |
| Total stockholders' equity | 10,205 | 10,390 |
| Total liabilities and stockholders' equity | \$ 17,532 | \$ 17,722 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Millions of dollars)

| | For Six Months Ended June 30, | |
|---|-------------------------------------|----------------|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Net income | \$ 1,352 | \$ 1,170 |
| Adjustments to Net income: | | |
| Depreciation | 401 | 426 |
| Amortization of acquisition-related intangibles | 160 | 161 |
| Amortization of capitalized software | 26 | 30 |
| Stock-based compensation | 162 | 155 |
| Gains on sales of assets | (3) | (39) |
| Deferred income taxes | (56) | (57) |
| Increase (decrease) from changes in: | | |
| Accounts receivable | (194) | (314) |
| Inventories | (101) | (13) |
| Prepaid expenses and other current assets | 49 | (15) |
| Accounts payable and accrued expenses | (142) | (176) |
| Accrued compensation | (169) | (76) |
| Income taxes payable | (78) | (48) |
| Changes in funded status of retirement plans | 41 | 41 |
| Other | (19) | (8) |
| Cash flows from operating activities | 1,429 | 1,237 |
| Cash flows from investing activities | | |
| Capital expenditures | (248) | (157) |
| Proceeds from asset sales | 10 | 40 |
| Purchases of short-term investments | (1,254) | (1,466) |
| Proceeds from short-term investments | 1,475 | 2,079 |
| Other | 1 | 1 |
| Cash flows from investing activities | (16) | 497 |
| Cash flows from financing activities | | |
| Proceeds from issuance of long-term debt | 498 | 498 |
| Repayment of debt | (250) | (1,000) |
| Dividends paid | (710) | (648) |
| Stock repurchases | (1,324) | (1,463) |
| Proceeds from common stock transactions | 297 | 408 |
| Excess tax benefit from share-based payments | 64 | 64 |
| Other | (3) | (4) |
| Cash flows from financing activities | (1,428) | (2,145) |

| | | |
|--|----------|----------|
| Net change in Cash and cash equivalents | (15) | (411) |
| Cash and cash equivalents at beginning of period | 1,199 | 1,627 |
| Cash and cash equivalents at end of period | \$ 1,184 | \$ 1,216 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Notes to financial statements

1. Description of business, including segment information

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. We have two reportable segments, which are established along major categories of products as follows:

- Analog – consists of the following product lines: High Volume Analog & Logic; Power Management; High Performance Analog; and Silicon Valley Analog, which consists primarily of products that we acquired through our purchase of National Semiconductor Corporation (National) in 2011.
- Embedded Processing – consists of the following product lines: Processors, Microcontrollers and Connectivity. We report the results of our remaining business activities in Other.

Segment information

| | For Three Months Ended | | For Six Months Ended | |
|------------------------|---------------------------|----------|-------------------------|----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Revenue: | | | | |
| Analog | \$ 2,049 | \$ 1,995 | \$ 4,084 | \$ 3,832 |
| Embedded Processing | 690 | 703 | 1,362 | 1,359 |
| Other | 493 | 594 | 936 | 1,084 |
| Total revenue | \$ 3,232 | \$ 3,292 | \$ 6,382 | \$ 6,275 |
| Operating profit: | | | | |
| Analog | \$ 728 | \$ 664 | \$ 1,449 | \$ 1,162 |
| Embedded Processing | 135 | 104 | 258 | 156 |
| Other | 147 | 214 | 261 | 354 |
| Total operating profit | \$ 1,010 | \$ 982 | \$ 1,968 | \$ 1,672 |

We use centralized manufacturing and support organizations, such as facilities, procurement and logistics, to provide support to our operating segments. Costs incurred by these organizations, including depreciation, are charged to the segments on a per-unit basis. Consequently, depreciation expense is not an independently identifiable component within the segments' results and, therefore, is not provided.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) and on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2014. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended June 30, 2015 and 2014, and the Consolidated Balance Sheet as of June 30, 2015, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2014. The results for the three- and six-month periods are not necessarily indicative of a full year's results.

The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Significant accounting policies and practices

Earnings per share (EPS)

Unvested share-based payment awards that contain non-forfeitable rights to receive dividends or dividend equivalents, such as our restricted stock units (RSUs), are considered to be participating securities and the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of Net income is allocated to these participating securities and, therefore, is excluded from the calculation of EPS allocated to common stock, as shown in the table below.

Computation and reconciliation of earnings per common share are as follows (shares in millions):

| | For Three Months Ended June 30, | | | | | |
|--|---------------------------------|--------|---------|----------|--------|---------|
| | 2015 | | | 2014 | | |
| | Net | Shares | EPS | Net | Shares | EPS |
| | Income | | | Income | | |
| Basic EPS: | | | | | | |
| Net income | \$ 696 | | | \$ 683 | | |
| Income allocated to RSUs | (10) | | | (10) | | |
| Income allocated to common stock for basic EPS calculation | \$ 686 | 1,038 | \$.66 | \$ 673 | 1,071 | \$.63 |
| Adjustment for dilutive shares: | | | | | | |
| Stock-based compensation plans | | 13 | | | 15 | |
| Diluted EPS: | | | | | | |
| Net income | \$ 696 | | | \$ 683 | | |
| Income allocated to RSUs | (10) | | | (10) | | |
| Income allocated to common stock for diluted EPS calculation | \$ 686 | 1,051 | \$.65 | \$ 673 | 1,086 | \$.62 |
| For Six Months Ended June 30, | | | | | | |
| 2015 | | | | | | |
| 2014 | | | | | | |
| | Net | Shares | EPS | Net | Shares | EPS |
| | Income | | | Income | | |
| Basic EPS: | | | | | | |
| Net income | \$ 1,352 | | | \$ 1,170 | | |
| Income allocated to RSUs | (19) | | | (18) | | |
| Income allocated to common stock for basic EPS calculation | \$ 1,333 | 1,042 | \$ 1.28 | \$ 1,152 | 1,076 | \$ 1.07 |
| Adjustment for dilutive shares: | | | | | | |
| Stock-based compensation plans | | 14 | | | 15 | |

| | | | | | | | |
|---|----------|-------|---------|----------|-------|---------|--|
| Diluted EPS: | | | | | | | |
| Net income | \$ 1,352 | | | \$ 1,170 | | | |
| Income allocated to RSUs | (19) | | | (18) | | | |
| Income allocated to common stock for diluted EPS calculation | \$ 1,333 | 1,056 | \$ 1.26 | \$ 1,152 | 1,091 | \$ 1.06 | |

Potentially dilutive securities representing 9 million and 14 million shares of common stock that were outstanding during the second quarters of 2015 and 2014, respectively, and 12 million shares outstanding during the first six months of 2015 and 2014, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

Derivatives and hedging

We use derivative financial instruments to manage exposure to foreign currency exchange risk. These instruments are primarily forward foreign currency exchange contracts, which are used as economic hedges to reduce the earnings impact that exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. Gains and losses from changes in the fair value of these

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

forward foreign currency exchange contracts are credited or charged to OI&E. We do not apply hedge accounting to our foreign currency derivative instruments.

In connection with the issuance of long-term debt, we use financial derivatives such as treasury rate lock agreements that are recognized in AOCI and amortized over the life of the related debt. The results of these derivative transactions have not been material.

We do not use derivatives for speculative or trading purposes.

Fair values of financial instruments

The fair values of our derivative financial instruments were not significant as of June 30, 2015. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value and are discussed in Note 6. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. The carrying value of our long-term debt approximates its fair value as measured using broker-dealer quotes, which are based on Level 2 inputs. See Note 6 for the definition of Level 2 inputs.

Changes in accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. In July 2015, the FASB deferred the effective date by one year to December 15, 2017, for annual and interim reporting periods beginning after that date. This standard also permits early adoption, but not before the original effective date of December 15, 2016. We are currently evaluating the potential impact of this standard on our financial position and results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which changes the way reporting entities evaluate certain investment holdings for possible consolidation and also includes possible changes in disclosures resulting from that evaluation. This standard is effective for annual and interim reporting periods beginning as of January 1, 2016. We expect this standard will have no material impact on our financial position and results of operations.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that costs associated with the issuance of debt previously recorded as deferred assets on the balance sheet now be reported as a direct reduction of the related debt balance. This standard is effective for interim and annual periods beginning January 1, 2016, but early adoption is permitted. We plan to adopt this standard for the year ended December 31, 2015. Upon adoption, this standard will be applied retrospectively to all prior periods presented. This standard will have no impact on the Consolidated Statements of Income and will have an immaterial impact from the reclassifications on our Consolidated Balance Sheets.

Also in April 2015, the FASB issued ASU No. 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on whether a cloud-computing arrangement contains a software license, and whether that license should be accounted for separately as an asset or solely as a service contract. This standard also aligns the accounting for licenses of internal-use software with the accounting for licenses of other acquired intangible assets. This standard is

effective for interim and annual periods beginning January 1, 2016, but early adoption is permitted. It may be adopted either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. We are currently evaluating the potential impact of this standard on our financial position and results of operations and determining which adoption method to use.

3. Acquisition charges

We incurred various costs as a result of the 2011 acquisition of National that are included in Other for segment reporting purposes, consistent with how management measures the performance of its segments. For the three and six months ended June 30, 2015 and 2014, Acquisition charges were primarily from the ongoing amortization of intangible assets resulting from the National acquisition. See Note 7 for more information.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

4. Restructuring charges/other

Restructuring charges/other is recognized in Other for segment reporting purposes and consists of:

| | For Three Months Ended June 30, 2015 | | For Six Months Ended June 30, 2014 | |
|---|--|--------|--|---------|
| Restructuring charges by action: | | | | |
| Restructuring charges for 2013 actions (a) | \$ — | \$ (4) | \$ (1) | \$ 28 |
| Restructuring charges for prior actions (a) | — | — | — | (6) |
| Total restructuring charges | — | (4) | (1) | 22 |
| Other: | | | | |
| Gains on sales of assets | (1) | (2) | (1) | (39) |
| Other | — | 2 | (1) | 2 |
| Restructuring charges/other | \$ (1) | \$ (4) | \$ (3) | \$ (15) |

(a) Includes changes in estimates.

2013 actions

We announced in January 2014 cost-saving actions in Embedded Processing and in Japan to reduce expenses and focus our investments on markets with greater potential for sustainable growth and strong long-term returns. These actions are now complete.

Prior actions

Prior to 2013, we announced a restructuring of our former Wireless business and the closures of manufacturing facilities in Houston, Texas, and Hiji, Japan. These actions were completed in 2013.

The table below reflects the changes in accrued restructuring balances associated with these actions:

| | 2013 Actions Severance and Benefits | | Other Charges | | Prior Actions Severance and Benefits | Total |
|---------------------------------------|--|------|------------------|--|--|-------|
| Accrual as of December 31, 2014 | \$ 22 | \$ 9 | \$ 26 | | \$ 57 | |
| Restructuring charges (a) | (1) | — | — | | (1) | |
| Payments | (8) | (3) | (13) | | (24) | |
| Remaining accrual as of June 30, 2015 | \$ 13 | \$ 6 | \$ 13 | | \$ 32 | |

(a) Includes changes in estimates.

The accrual balances above are primarily reported as a component of either Accrued expenses and other liabilities or Deferred credits and other liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

Other

Gains on sales of assets

During the first six months of 2014, we recognized \$39 million of gains on sales of assets. This consisted of \$30 million associated with the sale of our site in Nice, France, and \$9 million of asset sales associated primarily with the closure of our Houston, Texas, and Hiji, Japan, manufacturing facilities.

5. Income taxes

Federal income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. The rate is based on current tax law and for 2015 does not assume reinstatement of the federal research tax credit, which expired at the end of 2014. As of June 30, 2015, the estimated annual effective tax rate for 2015 is about 30 percent, which differs from the 35 percent statutory corporate tax rate due to lower statutory tax rates applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

6. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

We classify our investments as available for sale, trading, equity method or cost method. Most of our investments are classified as available for sale.

Available-for-sale and trading securities are stated at fair value, which is generally based on market prices or broker quotes. See fair-value discussion below. Unrealized gains and losses on available-for-sale securities are recorded as an increase or decrease, net of taxes, in AOCI on our Consolidated Balance Sheets. We record other-than-temporary impairments on available-for-sale securities in OI&E in our Consolidated Statements of Income.

We classify certain mutual funds as trading securities. These mutual funds hold a variety of debt and equity investments intended to generate returns that offset changes in certain deferred compensation liabilities. We record changes in the fair value of these mutual funds and the related deferred compensation liabilities in SG&A.

Our other investments are not measured at fair value but are accounted for using either the equity method or cost method. These investments consist of interests in venture capital funds and other non-marketable equity securities. Gains and losses from equity-method investments are reflected in OI&E based on our ownership share of the investee's financial results. Gains and losses on cost-method investments are recorded in OI&E when realized or when an impairment of the investment's value is warranted based on our assessment of the recoverability of each investment.

Details of our investments are as follows:

| | June 30, 2015 | | | December 31, 2014 | | |
|--|------------------------------------|---------------------------|--------------------------|------------------------------------|---------------------------|--------------------------|
| | Cash and Cash Equivalents | Short-Term Investments | Long-Term Investments | Cash and Cash Equivalents | Short-Term Investments | Long-Term Investments |
| Measured at fair value: | | | | | | |
| Available-for-sale securities: | | | | | | |
| Money market funds | \$ 552 | \$ — | \$ — | \$ 522 | \$ — | \$ — |
| Corporate obligations | 171 | 375 | — | 97 | 390 | — |
| U.S. Government agency and Treasury securities | 200 | 1,747 | — | 365 | 1,952 | — |
| Trading securities: | | | | | | |
| Mutual funds | — | — | 192 | — | — | 185 |
| Total | 923 | 2,122 | 192 | 984 | 2,342 | 185 |
| Other measurement basis: | | | | | | |
| Equity-method investments | — | — | 26 | — | — | 27 |
| Cost-method investments | — | — | 10 | — | — | 12 |

| | | | | | | |
|--------------|----------|----------|--------|----------|----------|--------|
| Cash on hand | 261 | — | — | 215 | — | — |
| Total | \$ 1,184 | \$ 2,122 | \$ 228 | \$ 1,199 | \$ 2,342 | \$ 224 |

As of June 30, 2015, and December 31, 2014, we had no significant unrealized gains or losses associated with our available-for-sale investments. We did not recognize any credit losses related to available-for-sale investments for the six months ended June 30, 2015 and 2014.

For the six months ended June 30, 2015 and 2014, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$1.48 billion and \$2.08 billion, respectively. Gross realized gains and losses from these sales were not significant.

The following table presents the aggregate maturities of investments in debt securities classified as available for sale as of June 30, 2015:

| Due | Fair Value |
|------------------|------------|
| One year or less | \$ 2,975 |
| One to two years | 70 |

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Gross realized gains and losses from sales of long-term investments and other-than-temporary declines and impairments in values of these investments were not material for the six months ended June 30, 2015 and 2014.

Fair-value considerations

We measure and report certain financial assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The three-level hierarchy discussed below indicates the extent and level of judgment used to estimate fair-value measurements.

- Level 1 – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.
- Level 3 – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of June 30, 2015, and December 31, 2014, we had no Level 3 assets or liabilities, other than certain assets held by our postretirement plans.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2015, and December 31, 2014. These tables do not include cash on hand, assets held by our postretirement plans, or assets and liabilities that are measured at historical cost or any basis other than fair value.

| | Fair Value | | |
|--|------------|----------|---------|
| | June 30, | | |
| | 2015 | Level 1 | Level 2 |
| Assets: | | | |
| Money market funds | \$ 552 | \$ 552 | \$ — |
| Corporate obligations | 546 | — | 546 |
| U.S. Government agency and Treasury securities | 1,947 | 1,617 | 330 |
| Mutual funds | 192 | 192 | — |
| Total assets | \$ 3,237 | \$ 2,361 | \$ 876 |
| Liabilities: | | | |

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| | | | |
|-----------------------|--------|--------|------|
| Deferred compensation | \$ 203 | \$ 203 | \$ — |
| Total liabilities | \$ 203 | \$ 203 | \$ — |

| | Fair Value | | |
|--|--------------|----------|----------|
| | December 31, | | |
| | 2014 | Level 1 | Level 2 |
| Assets: | | | |
| Money market funds | \$ 522 | \$ 522 | \$ — |
| Corporate obligations | 487 | — | 487 |
| U.S. Government agency and Treasury securities | 2,317 | 1,762 | 555 |
| Mutual funds | 185 | 185 | — |
| Total assets | \$ 3,511 | \$ 2,469 | \$ 1,042 |
| Liabilities: | | | |
| Deferred compensation | \$ 202 | \$ 202 | \$ — |
| Total liabilities | \$ 202 | \$ 202 | \$ — |

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

7. Goodwill and acquisition-related intangibles

Goodwill was \$4.36 billion net of accumulated impairment of \$90 million as of June 30, 2015, and December 31, 2014. There was no impairment of goodwill during the six months ended June 30, 2015 and 2014.

Components of acquisition-related intangible assets are as follows:

| | Amortization Period (Years) | June 30, 2015 | | | December 31, 2014 | | |
|------------------------|-----------------------------------|-----------------------------|-----------------------------|----------|-----------------------------|-----------------------------|----------|
| | | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Developed technology | 7 - 10 | \$ 2,131 | \$ 819 | \$ 1,312 | \$ 2,135 | \$ 714 | \$ 1,421 |
| Customer relationships | 8 | 810 | 381 | 429 | 810 | 330 | 480 |
| Other intangibles | 5 | 3 | 2 | 1 | 3 | 2 | 1 |
| Total | | \$ 2,944 | \$ 1,202 | \$ 1,742 | \$ 2,948 | \$ 1,046 | \$ 1,902 |

Amortization of acquisition-related intangibles was \$80 million for the second quarters of 2015 and 2014, and \$160 million and \$161 million for the first six months of 2015 and 2014, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

8. Postretirement benefit plans

Expense related to defined benefit and retiree health care benefit plans was as follows:

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|---|----------------------------|------|-----------------------------------|------|--------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| For Three Months Ended June 30, | | | | | | |
| Service cost | \$ 5 | \$ 5 | \$ 2 | \$ 1 | \$ 8 | \$ 10 |
| Interest cost | 11 | 11 | 5 | 6 | 14 | 18 |
| Expected return on plan assets | (12) | (11) | (6) | (5) | (19) | (22) |
| Recognized net actuarial loss | 5 | 7 | 2 | 2 | 6 | 7 |
| Amortization of prior service cost (credit) | — | — | 2 | 1 | (1) | — |

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| | | | | | | |
|--|-------|-------|------|------|-------|-------|
| Net periodic benefit costs | 9 | 12 | 5 | 5 | 8 | 13 |
| Settlement losses | 11 | 2 | — | — | 2 | — |
| Total, including other postretirement losses | \$ 20 | \$ 14 | \$ 5 | \$ 5 | \$ 10 | \$ 13 |

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|--|----------------------------|-------|--------------------------------|------|--------------------------------|-------|
| For Six Months Ended June 30, | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 11 | \$ 10 | \$ 3 | \$ 2 | \$ 17 | \$ 20 |
| Interest cost | 21 | 22 | 10 | 11 | 27 | 35 |
| Expected return on plan assets | (24) | (21) | (11) | (10) | (38) | (41) |
| Recognized net actuarial loss | 10 | 13 | 4 | 4 | 12 | 13 |
| Amortization of prior service cost (credit) | — | — | 3 | 2 | (1) | (1) |
| Net periodic benefit costs | 18 | 24 | 9 | 9 | 17 | 26 |
| Settlement losses | 12 | 3 | — | — | 2 | — |
| Total, including other postretirement losses | \$ 30 | \$ 27 | \$ 9 | \$ 9 | \$ 19 | \$ 26 |

9. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of June 30, 2015, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion until March 2020. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of June 30, 2015, our credit facility was undrawn and we had no commercial paper outstanding.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Long-term debt

In April 2015, we retired \$250 million of maturing debt.

In May 2015, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2020. We incurred \$3 million of issuance and other related costs, which are amortized to Interest and debt expense over the term of the debt. The proceeds of the offering were \$498 million, net of the original issuance discount, and were used toward the retirement of a portion of the \$750 million of debt that matured in August 2015.

Long-term debt outstanding is as follows:

| | June 30, 2015 | December 31, 2014 |
|---|------------------|----------------------|
| Notes due 2015 at 3.95% (assumed with National acquisition) | \$ — | \$ 250 |
| Notes due 2015 at 0.45% | 750 | 750 |
| Notes due 2016 at 2.375% | 1,000 | 1,000 |
| Notes due 2017 at 6.60% (assumed with National acquisition) | 375 | 375 |
| Notes due 2017 at 0.875% | 250 | 250 |
| Notes due 2018 at 1.00% | 500 | 500 |
| Notes due 2019 at 1.65% | 750 | 750 |
| Notes due 2020 at 1.75% | 500 | — |
| Notes due 2021 at 2.75% | 250 | 250 |
| Notes due 2023 at 2.25% | 500 | 500 |
| Total debt | 4,875 | 4,625 |
| Net unamortized premium | 9 | 17 |
| Total debt, including net unamortized premium | 4,884 | 4,642 |
| Current portion of long-term debt | (1,750) | (1,001) |
| Long-term debt | \$ 3,134 | \$ 3,641 |

Interest and debt expense was \$24 million for the second quarters of 2015 and 2014, and \$46 million and \$49 million for the first six months of 2015 and 2014, respectively. This was net of the amortization of the debt premium and other debt issuance costs. Capitalized interest was not material.

10. Contingencies

Indemnification guarantees

We routinely sell products with an intellectual property indemnification included in the terms of sale. Historically, we have had only minimal, infrequent losses associated with these indemnities. Consequently, we cannot reasonably estimate any future liabilities that may result.

Warranty costs/product liabilities

We accrue for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability. Historically, we have experienced a low rate of payments on product claims. Although we cannot predict the likelihood or amount of any future claims, we do not believe they will have a material adverse effect on our financial condition, results of operations or liquidity. Consistent with general industry practice, we enter into formal contracts with certain customers that include negotiated warranty remedies. Typically, under these agreements our warranty for semiconductor products includes three years of coverage; an obligation to repair, replace or refund; and a maximum payment obligation tied to the price paid for our products. In some cases, product claims may exceed the price of our products.

General

We are subject to various legal and administrative proceedings. Although it is not possible to predict the outcome of these matters, we believe that the results of these proceedings will not have a material adverse effect on our financial condition, results of operations or liquidity.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

11. Supplemental financial information

Details on amounts reclassified out of Accumulated other comprehensive income (loss), net of taxes to Net income

Our Consolidated Statements of Comprehensive Income include items that have been recognized within Net income during the periods ended June 30, 2015 and 2014. The table below details where on the Consolidated Statements of Income these transactions are recorded.

| | For Three Months Ended June 30, 2015 | | For Six Months Ended June 30, 2014 | | Impact to Related Statement of Income Line |
|---|--|-------|--|-------|---|
| Net actuarial gains (losses) of defined benefit plans: | | | | | |
| Recognized net actuarial loss and Settlement losses (a) | \$ 26 | \$ 18 | \$ 40 | \$ 33 | Increase to Pension expense (b) Decrease to Provision for income taxes |
| Tax effect | (9) | (7) | (13) | (12) | |
| Recognized within Net income, net of taxes | \$ 17 | \$ 11 | \$ 27 | \$ 21 | Decrease to Net income |
| Prior service cost of defined benefit plans: | | | | | |
| Amortization of prior service cost (credit) (a) | \$ 1 | \$ 1 | \$ 2 | \$ 1 | Increase to Pension expense (b) Decrease to Provision for income taxes |
| Tax effect | (1) | — | (1) | — | |
| Recognized within Net income, net of taxes | \$ — | \$ 1 | \$ 1 | \$ 1 | Decrease to Net income |
| Derivative instruments: | | | | | |
| Amortization of treasury rate locks | \$ — | \$ 1 | \$ — | \$ 1 | Increase to Interest and debt expense Decrease to Provision for income taxes |
| Tax effect | — | — | — | — | |
| Recognized within Net income, net of taxes | \$ — | \$ 1 | \$ — | \$ 1 | Decrease to Net income |

(a) Detailed in Note 8.

(b) Pension expense is included in COR, R&D and SG&A in the Consolidated Statements of Income.

12. Subsequent events

On August 3, 2015, we retired \$750 million of maturing debt. See Note 9 for more information.

ITEM 2. Management's discussion and analysis of financial condition and results of operations.

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Our business model is carefully constructed around the following attributes:

- Industry's broadest portfolio of differentiated analog and embedded processing semiconductors. Our customers' design engineers need at least one, and most times multiple, chips for their systems. The breadth of our portfolio means we can solve more of these needs than can our competitors, which gives us access to more customers and the opportunity to generate more revenue per system. We invest more than \$1 billion each year to develop new products for our portfolio.
- A strong foundation of manufacturing technology and low-cost production. We invest in manufacturing technologies that differentiate the features of our semiconductors, and we do most of our own production in-house, as opposed to outsourcing it. This ability to directly control our manufacturing helps ensure a consistent supply of products for our customers. We produce billions of semiconductors each year on a mixture of 150-, 200- and 300-millimeter wafers, and we are able to keep costs low for manufacturing facilities and equipment because our analog and much of our embedded processing semiconductors can be made using mature assets that we acquire ahead of demand when their prices are most attractive. In 2014, we produced approximately 25 percent of our Analog semiconductors on 300-millimeter wafers, the industry's largest wafers, which have a 40 percent cost advantage per unpackaged chip over 200-millimeter wafers. The majority of our future Analog growth will be produced on 300-millimeter wafers, which will be meaningful to the growth of our margins and cash flow over the long term.
- Industry's largest market channels. Our global sales force is larger than those of our competitors, and the breadth of our portfolio attracts tens of millions of visits to our web site each year where customers often begin their initial product searches and design-in journey. These capabilities combine to provide us unique access to more than 100,000 customers.
- Diversity and longevity in our products and in the markets we serve. Together, the attributes above result in diverse and long-lived positions that deliver high terminal value to our shareholders. Because of the breadth of our portfolio we are not dependent on any single product, and because of the breadth of our markets we are not dependent on any single application or customer. Some of our products generate revenue for decades, which strengthens the return on our investments.

These attributes have resulted in consistent share gains and free cash flow growth, and they put us in a unique class of companies with the ability to grow, generate cash, and return that cash to shareholders.

Management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the financial statements and the related notes that appear elsewhere in this document. In the following discussion of our results of operations:

- All dollar amounts in the tables are stated in millions of U.S. dollars.
- When we discuss our results:
 - o Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
 - o New products tend not to have a significant impact on our revenue in any given period because we sell such a large number of products.
 - o From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the "mix" of products shipped.
 - o Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and,

absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.

·Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.

Performance summary

Our second-quarter revenue was \$3.23 billion, net income was \$696 million and earnings per share (EPS) were \$0.65.

Revenue declined 2 percent year over year, inclusive of notably weak demand in communications equipment and continued strong demand in automotive. Even so, our core businesses of Analog and Embedded Processing, together, grew slightly year over year and comprised 85 percent of second-quarter revenue. Analog delivered its eighth consecutive quarter of year-over-year growth.

Gross margin of 58.2 percent was up 1 percentage point from a year ago, reflecting the diversity and longevity of our product portfolio, as well as the efficiency of our manufacturing strategy.

Our cash flow from operations once again underscored the strength of our business model. Free cash flow for the trailing 12 months was up 13 percent from a year ago to \$3.6 billion, or 27 percent of revenue. This represents an increase of 2 percentage points from a year ago and is consistent with our targeted range of 20-30 percent of revenue.

We returned \$4.1 billion to shareholders in the past 12 months through stock repurchases and dividends. Our strategy to return to shareholders 100 percent of free cash flow plus proceeds from exercises of equity compensation minus net debt retirement reflects our confidence in the long-term sustainability of our business model.

Our balance sheet remains strong with \$3.3 billion of cash and short-term investments at the end of the quarter, 82 percent of which was owned by the company's U.S. entities. Inventory ended the quarter at 126 days.

While strength in demand varies by end markets, our market in total is expected to be weaker year over year in the third quarter than it was in the second.

Free cash flow is a non-GAAP financial measure. For a reconciliation to GAAP and an explanation of the reason for providing this non-GAAP measure, see the Non-GAAP financial information section after the Liquidity and capital resources section.

Results of operations – second-quarter 2015 compared with second-quarter 2014

Revenue decreased \$60 million primarily due to lower revenue from Other. Embedded Processing revenue decreased to a lesser extent, and Analog revenue grew.

Despite lower revenue, gross profit was even at \$1.88 billion, primarily due to lower manufacturing costs.

Operating expenses were \$320 million for R&D and \$470 million for SG&A. R&D expense decreased \$29 million, or 8 percent, and SG&A expense was about even. Both comparisons reflect savings from ongoing efforts across the company to align costs with growth opportunities, including the completed restructuring actions in Embedded Processing and Japan. With respect to SG&A, those savings were offset by higher compensation-related costs.

Acquisition charges associated with our 2011 acquisition of National were unchanged at \$82 million. These non-cash charges were from the ongoing amortization of intangible assets.

Operating profit was \$1.01 billion, or 31.3 percent of revenue, compared with \$982 million, or 29.8 percent of revenue.

Quarterly income taxes are calculated using the estimated annual effective tax rate. At the end of the second quarter, our estimated annual effective tax rate for 2015 was about 30 percent. The tax rate is based on current tax law and does not include the effect of the federal research tax credit, which expired at the end of 2014. Our annual effective tax rate benefits from lower tax rates (compared to the U.S. statutory rate) applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits. These lower non-U.S. tax rates are generally statutory in nature, without expiration and available to companies that operate in those taxing jurisdictions.

Our tax provision was \$293 million compared with \$278 million. The increase was primarily due to higher income before income taxes.

Second-quarter 2015 segment results

Our segment results compared with the year-ago quarter are as follows:

Analog (includes High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA))

| | 2Q15 | 2Q14 | Change | |
|-------------------------------|---------|---------|--------|---|
| Revenue | \$2,049 | \$1,995 | 3 | % |
| Operating profit | 728 | 664 | 10 | % |
| Operating profit % of revenue | 35.5 % | 33.3 % | | |

Analog revenue increased due to HVAL, and to a lesser extent, Power. SVA was even, and HPA decreased due to the mix of products shipped. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing (includes Processors, Microcontrollers and Connectivity)

| | 2Q15 | 2Q14 | Change | |
|-------------------------------|-------|-------|--------|---|
| Revenue | \$690 | \$703 | -2 | % |
| Operating profit | 135 | 104 | 30 | % |
| Operating profit % of revenue | 19.6% | 14.8% | | |

Embedded Processing revenue decreased due to Processors. The decrease was partially offset by increased revenue from Connectivity and Microcontrollers. Operating profit increased due to lower operating expenses.

Other (includes DLP® products, custom ASIC products, calculators and royalties)

| | 2Q15 | 2Q14 | Change | |
|-------------------------------|-------|-------|--------|---|
| Revenue | \$493 | \$594 | -17 | % |
| Operating profit* | 147 | 214 | -31 | % |
| Operating profit % of revenue | 29.8% | 36.0% | | |

*Includes Acquisition charges and Restructuring charges/other.

Other revenue decreased due to custom ASIC products, and to a lesser extent, DLP products. The decrease was partially offset by increased revenue from calculators. Operating profit decreased due to lower revenue and associated gross profit.

Results of operations – first six months of 2015 compared with first six months of 2014

Revenue was \$6.38 billion, an increase of \$107 million, or 2 percent, due to higher revenue from Analog. The increase was partially offset by lower revenue from Other. Embedded Processing was about even. Analog and Embedded Processing comprised 85 percent of revenue compared with 83 percent.

Gross profit was \$3.70 billion, an increase of \$209 million, or 6 percent, primarily due to lower manufacturing costs, and to a lesser extent, increased revenue.

R&D expense of \$658 million decreased \$57 million, or 8 percent, due to savings from ongoing efforts across the company to align costs with growth opportunities, including the completed restructuring actions. SG&A expense of \$909 million decreased \$42 million, or 4 percent, primarily due to savings from our cost alignment efforts that more than offset higher compensation-related costs.

Acquisition charges were unchanged at \$165 million. These non-cash charges were from the ongoing amortization of intangible assets.

Operating profit was \$1.97 billion, or 30.8 percent of revenue, compared with \$1.67 billion, or 26.6 percent of revenue.

The tax provision was \$577 million compared with \$462 million. The increase was primarily due to higher income before income taxes.

Net income was \$1.35 billion compared with \$1.17 billion. EPS was \$1.26 compared with \$1.06.

Year-to-date segment results

Our segment results compared with the year-ago period are as follows:

Analog

| | YTD 2015 | YTD 2014 | Change | |
|-------------------------------|-------------|-------------|--------|---|
| Revenue | \$4,084 | \$3,832 | 7 | % |
| Operating profit | 1,449 | 1,162 | 25 | % |
| Operating profit % of revenue | 35.5 % | 30.3 % | | |

Analog revenue increased primarily due to HVAL and, to a lesser extent, Power. SVA also contributed to the increase. HPA was about even. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing

| | YTD 2015 | YTD 2014 | Change | |
|-------------------------------|-------------|-------------|--------|---|
| Revenue | \$1,362 | \$1,359 | 0 | % |
| Operating profit | 258 | 156 | 65 | % |
| Operating profit % of revenue | 18.9 % | 11.5 % | | |

Embedded Processing revenue was even as increases in Connectivity and Microcontrollers were offset by a decrease in Processors. Operating profit increased primarily due to lower operating expenses.

Other

| | YTD 2015 | YTD 2014 | Change | |
|-------------------------------|-------------|-------------|--------|---|
| Revenue | \$936 | \$1,084 | -14 | % |
| Operating profit* | 261 | 354 | -26 | % |
| Operating profit % of revenue | 27.9% | 32.7 % | | |

*Includes Acquisition charges and Restructuring charges/other.

Other revenue decreased due to custom ASIC products and, to a lesser extent, DLP products. The decrease was partially offset by increased revenue from calculators. Operating profit decreased due to lower revenue and associated

gross profit.

18

Financial condition

At the end of the second quarter of 2015, total cash (Cash and cash equivalents plus Short-term investments) was \$3.31 billion, a decrease of \$235 million from the end of 2014.

Accounts receivable increased \$188 million compared with the end of 2014 primarily due to higher revenue at the end of the second quarter than at the end of 2014. Days sales outstanding were 40 at the end of the second quarter compared with 34 at the end of 2014.

Inventory was \$1.89 billion, an increase of \$101 million from the end of 2014. Days of inventory at the end of the second quarter were 126, as planned, compared with 117 at the end of 2014.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are Cash and cash equivalents, Short-term investments and a variable-rate revolving credit facility. Cash flow from operating activities for the first six months of 2015 was \$1.43 billion, an increase of \$192 million from the year-ago period due to an increase in Net income.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2020. This credit facility also serves as support for the issuance of commercial paper. As of June 30, 2015, our credit facility was undrawn and we had no commercial paper outstanding.

For the first six months of 2015, investing activities used \$16 million in cash compared with providing \$497 million in cash in the year-ago period. Capital expenditures were \$248 million compared with \$157 million in the year-ago period, and were primarily for semiconductor manufacturing equipment. We received proceeds from sales of short-term investments, net of purchases, of \$221 million, compared with \$613 million in the year-ago period.

For the first six months of 2015, financing activities used cash of \$1.43 billion compared with \$2.15 billion in the year-ago period. In both 2015 and 2014, we received proceeds of \$498 million from the issuance of fixed-rate long-term debt (net of original issuance discount). We retired maturing debt of \$250 million in 2015 and \$1.0 billion in 2014. We paid dividends of \$710 million compared with \$648 million in the year-ago period, reflecting an increase in the dividend rate. We used \$1.32 billion to repurchase 23.8 million shares of our common stock, compared with \$1.46 billion used in the year-ago period to repurchase 32.8 million shares. Employee exercises of stock options provided cash proceeds of \$297 million compared with \$408 million in the year-ago period.

We had \$1.18 billion of Cash and cash equivalents and \$2.12 billion of Short-term investments as of June 30, 2015. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

Non-GAAP financial information

This MD&A includes references to free cash flow and ratios based on that measure. These are financial measures that were not prepared in accordance with GAAP. Free cash flow was calculated by subtracting Capital expenditures from the most directly comparable GAAP measure, Cash flows from operating activities (also referred to as cash flow from operations).

We believe that free cash flow and the associated ratios provide insight into our liquidity, our cash-generating capability and the amount of cash potentially available to return to investors, as well as insight into our financial performance. These non-GAAP measures are supplemental to the comparable GAAP measures.

Reconciliation to the most directly comparable GAAP-based measures is provided in the table below.

| | For 12 Months Ended June 30, | | | |
|--|------------------------------------|----------|--------|---|
| | 2015 | 2014 | Change | |
| Cash flow from operations (GAAP) | \$4,084 | \$3,587 | 14 | % |
| Capital expenditures | (476) | (388) | | |
| Free cash flow (non-GAAP) | \$3,608 | \$3,199 | 13 | % |
| Revenue | \$13,152 | \$12,547 | | |
| Cash flow from operations as a percent of revenue (GAAP) | 31 | % | 29 | % |
| Free cash flow as a percent of revenue (non-GAAP) | 27 | % | 25 | % |

Long-term contractual obligations

Information regarding long-term debt obligations is described in the long-term contractual obligations table in Item 7 of our Form 10-K for the year ended December 31, 2014. Additionally, in April 2015 we retired \$250 million of maturing debt, and in May 2015 we issued \$500 million principal amount of 1.75% notes maturing in 2020.

Changes in accounting standards

See Note 2 to the financial statements for detailed information regarding the status of new accounting and reporting standards.

ITEM 4. Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective. In addition, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1A. Risk Factors.

Information concerning our risk factors is contained in Item 1A of our Form 10-K for the year ended December 31, 2014, and is incorporated by reference herein.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table contains information regarding our purchases of our common stock during the quarter.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or |
|--------------------------------------|---|------------------------------------|---|---|
| | | | Programs ⁽¹⁾ | Programs ⁽¹⁾ |
| April 1, 2015 through April 30, 2015 | 6,003,545 | \$ 56.43 | 6,003,545 | 2.17 billion |
| May 1, 2015 through May 31, 2015 | 5,725,734 | 55.02 | 5,725,734 | 1.85 billion |
| June 1, 2015 through June 30, 2015 | 189,077 | 52.84 | 189,077 | 1.84 billion |
| Total | 11,918,356 ⁽²⁾ | \$ 55.70 | 11,918,356 ⁽²⁾ | 1.84 billion ⁽³⁾ |

⁽¹⁾All purchases during the quarter were made under the authorization from our board of directors to purchase up to \$5.0 billion of additional shares of TI common stock announced on February 21, 2013.

⁽²⁾All purchases during the quarter were open-market purchases. The table includes the purchase of 189,077 shares for which trades were settled in the first two days of July 2015.

⁽³⁾As of March 31, 2015, this amount consisted of the remaining portion of the \$5.0 billion authorized in February 2013. No expiration date has been specified for this authorization.

ITEM 6. Exhibits.

Designation
of

Exhibits in Description of Exhibit
This

Report

| | |
|---------|--|
| 3(a) | Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended (incorporated by reference to Exhibit 3(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014). |
| 3(b) | By-Laws of the Registrant (incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014). |
| 31(a) | Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e). † |
| 31(b) | Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e). † |
| 32(a) | Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. † |
| 32(b) | Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. † |
| 101.ins | XBRL Instance Document † |
| 101.def | XBRL Taxonomy Extension Definition Linkbase Document † |
| 101.sch | XBRL Taxonomy Extension Schema Document † |
| 101.cal | XBRL Taxonomy Extension Calculation Linkbase Document † |
| 101.lab | XBRL Taxonomy Extension Label Linkbase Document † |
| 101.pre | XBRL Taxonomy Extension Presentation Linkbase Document † |

† Filed or furnished herewith.

Notice regarding forward-looking statements

This report includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as TI or its management “believes,” “expects,” “anticipates,” “foresees,” “forecasts,” “estimates” or other words or phrases of similar import. Similarly, statements herein that describe TI’s business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in forward-looking statements.

We urge you to carefully consider the following important factors that could cause actual results to differ materially from the expectations of TI or its management:

- Market demand for semiconductors, particularly in markets such as personal electronics and communications equipment;
- TI’s ability to maintain or improve profit margins, including its ability to utilize its manufacturing facilities at sufficient levels to cover its fixed operating costs, in an intensely competitive and cyclical industry;
- TI’s ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- TI’s ability to compete in products and prices in an intensely competitive industry;
- TI’s ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties;
- Expiration of license agreements between TI and its patent licensees, and market conditions reducing royalty payments to TI;
- Economic, social and political conditions in the countries in which TI, its customers or its suppliers operate, including security risks, health conditions, possible disruptions in transportation, communications and information technology networks and fluctuations in foreign currency exchange rates;
- Natural events such as health epidemics, severe weather and earthquakes in the locations in which TI, its customers or its suppliers operate;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Changes in the tax rate applicable to TI as the result of changes in tax law, the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets;
- Compliance with or changes in the complex laws, rules and regulations to which TI is or may become subject, or actions of enforcement authorities, that restrict our ability to manufacture our products or operate our business, or subject us to fines, penalties, or other legal liability;
- Losses or curtailments of purchases from key customers and the timing and amount of distributor and other customer inventory adjustments;
- Financial difficulties of our distributors or their promotion of competing product lines to TI’s detriment;
- A loss suffered by a customer or distributor of TI with respect to TI-consigned inventory;
- Customer demand that differs from our forecasts;
- The financial impact of inadequate or excess TI inventory that results from demand that differs from projections;
- Impairments of our non-financial assets;
- Product liability or warranty claims, claims based on epidemic or delivery failure, recalls by TI customers for a product containing a TI part or other legal proceedings;
- TI’s ability to recruit and retain skilled personnel;
- Timely implementation of new manufacturing technologies and installation of manufacturing equipment, and the ability to obtain needed third-party foundry and assembly/test subcontract services;

- TI's obligation to make principal and interest payments on its debt;
- TI's ability to successfully integrate and realize opportunities for growth from acquisitions, and our ability to realize our expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Breaches of our information technology systems or those of our customers or suppliers.

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of our most recent Form 10-K. The forward-looking statements included in this report are made only as of the date of this report. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or risks. If we do update any forward-looking statement, you should not infer that we will make additional updates with respect to that statement or any other forward-looking statement.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

BY /s/ Kevin P. March
Kevin P. March
Senior Vice President and
Chief Financial Officer

Date: August 4, 2015