

TEXAS INSTRUMENTS INC
Form 10-Q
May 05, 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 March 31, 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

1,040,363,377

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

April 29, 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 March 31,	
	2015	2014
Revenue	\$ 3,150	\$ 2,983
Cost of revenue (COR)	1,334	1,376
Gross profit	1,816	1,607
Research and development (R&D)	338	366
Selling, general and administrative (SG&A)	439	479
Acquisition charges	83	83
Restructuring charges/other	(2)	(11)
Operating profit	958	690
Other income (expense), net (OI&E)	4	6
Interest and debt expense	22	25
Income before income taxes	940	671
Provision for income taxes	284	184
Net income	\$ 656	\$ 487
Earnings per common share (EPS):		
Basic	\$.62	\$.44
Diluted	\$.61	\$.44
Average shares outstanding (millions):		
Basic	1,046	1,081
Diluted	1,061	1,096
Cash dividends declared per common share	\$.34	\$.30

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	\$ 656	\$ 487
Income allocated to RSUs	(9)	(7)

Income allocated to common stock for diluted EPS \$ 647 \$ 480

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Millions of dollars)

	For Three Months Ended March 31,	
	2015	2014
Net income	\$ 656	\$ 487
Other comprehensive income (loss), net of taxes:		
Net actuarial gains (losses) of defined benefit plans:		
Adjustments	(10)	(2)
Recognized within Net income	10	10
Prior service cost of defined benefit plans:		
Recognized within Net income	1	—
Other comprehensive income (loss)	1	8
Total comprehensive income	\$ 657	\$ 495

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

(Millions of dollars, except share amounts)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,242	\$ 1,199
Short-term investments	2,062	2,342
Accounts receivable, net of allowances of (\$12) and (\$12)	1,394	1,246
Raw materials	107	101
Work in process	906	896
Finished goods	831	787
Inventories	1,844	1,784
Deferred income taxes	340	347
Prepaid expenses and other current assets	810	850
Total current assets	7,692	7,768
Property, plant and equipment at cost	6,177	6,266
Accumulated depreciation	(3,419)	(3,426)
Property, plant and equipment, net	2,758	2,840
Long-term investments	232	224
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,822	1,902
Deferred income taxes	174	172
Capitalized software licenses, net	73	83
Overfunded retirement plans	128	127
Other assets	105	244
Total assets	\$ 17,346	\$ 17,722
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 1,000	\$ 1,001
Accounts payable	432	437
Accrued compensation	349	651
Income taxes payable	75	71
Deferred income taxes	4	4
Accrued expenses and other liabilities	426	498
Total current liabilities	2,286	2,662
Long-term debt	3,638	3,641
Underfunded retirement plans	253	225
Deferred income taxes	403	399
Deferred credits and other liabilities	397	405
Total liabilities	6,977	7,332

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	1,410	1,368
Retained earnings	29,948	29,653
Treasury common stock at cost.		
Shares: March 31, 2015 – 696,401,920; December 31, 2014 – 694,189,127	(22,199)	(21,840)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(531)	(532)
Total stockholders' equity	10,369	10,390
Total liabilities and stockholders' equity	\$ 17,346	\$ 17,722

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Millions of dollars)

	For Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 656	\$ 487
Adjustments to Net income:		
Depreciation	203	213
Amortization of acquisition-related intangibles	80	81
Amortization of capitalized software	13	16
Stock-based compensation	78	78
Gains on sales of assets	(1)	(37)
Deferred income taxes	1	—
Increase (decrease) from changes in:		
Accounts receivable	(154)	(149)
Inventories	(60)	17
Prepaid expenses and other current assets	54	(29)
Accounts payable and accrued expenses	(108)	(117)
Accrued compensation	(294)	(189)
Income taxes payable	147	80
Changes in funded status of retirement plans	19	22
Other	(25)	(11)
Cash flows from operating activities	609	462
Cash flows from investing activities		
Capital expenditures	(123)	(77)
Proceeds from asset sales	1	37
Purchases of short-term investments	(335)	(1,051)
Proceeds from short-term investments	615	785
Other	—	1
Cash flows from investing activities	158	(305)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	498
Dividends paid	(356)	(325)
Stock repurchases	(670)	(720)
Proceeds from common stock transactions	246	283
Excess tax benefit from share-based payments	56	49
Other	—	(4)
Cash flows from financing activities	(724)	(219)

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Net change in Cash and cash equivalents	43	(62)
Cash and cash equivalents at beginning of period	1,199	1,627
Cash and cash equivalents at end of period	\$ 1,242	\$ 1,565

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: Processor, Microcontrollers and Connectivity. We report the results of our remaining business activities in Other.

Segment information

	For Three Months Ended March 31,	
	2015	2014
Revenue:		
Analog	\$ 2,035	\$ 1,837
Embedded Processing	672	656
Other	443	490
Total revenue	\$ 3,150	\$ 2,983
Operating profit:		
Analog	\$ 721	\$ 498
Embedded Processing	123	52
Other	114	140
Total operating profit	\$ 958	\$ 690

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 March 31, 2015 and 2014, and the Consolidated Balance Sheet as of March 31, 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-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 March 31,					
	2015			2014		
	Net	Income	Shares	Net	Income	Shares
		EPS			EPS	
Basic EPS:						
Net income	\$ 656			\$ 487		
Income allocated to RSUs	(9)			(7)		
Income allocated to common stock for basic EPS calculation	\$ 647	1,046	\$.62	\$ 480	1,081	\$.44
Adjustment for dilutive shares:						
Stock-based compensation plans		15			15	
Diluted EPS:						
Net income	\$ 656			\$ 487		
Income allocated to RSUs	(9)			(7)		
Income allocated to common stock for diluted EPS calculation	\$ 647	1,061	\$.61	\$ 480	1,096	\$.44

Potentially dilutive securities representing 12 million and 10 million shares of common stock that were outstanding during the first quarters of 2015 and 2014, respectively, 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 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 March 31, 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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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. On April 1, 2015, the FASB proposed deferring the effective date by one year to December 15, 2017, for annual and interim reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, 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 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 are currently evaluating the potential impact of this standard and expect it will have no material impact on our financial position and results of operations.

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 months ended March 31, 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.

4. Restructuring charges/other

Restructuring charges/other is comprised of the following components, all of which are recognized in Other for segment reporting purposes:

	For Three Months Ended March 31, 2015 2014	
Restructuring charges by action		
2013 actions:		
Severance and benefits cost (a)	\$ (1)	\$ 27
Other exit costs	—	5
Restructuring charges for 2013 actions	(1)	32

Prior actions:		
Severance and benefits cost (a)	—	(6)
Accelerated depreciation	—	1
Other exit costs (a)	—	(1)
Restructuring charges for prior actions	—	(6)
Total restructuring charges	(1)	26
Other		
Gains on sales of assets	—	(37)
Other	(1)	—
Restructuring charges/other	\$ (2)	\$ (11)

(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. We expect the actions to be completed by mid-2015. Cost reductions include the elimination of about 1,100 jobs worldwide. Through March 31, 2015, we have recognized \$74 million in cumulative restructuring charges, with no further material charges expected. As of March 31, 2015, \$48 million has been paid to terminated employees for severance and benefits.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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, and as of March 31, 2015, \$356 million has been paid to terminated employees for severance and benefits.

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	(5)	(1)	(6)	(12)
Remaining accrual as of March 31, 2015	\$ 16	\$ 8	\$ 20	\$ 44

(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 quarter of 2014, we recognized \$37 million of gains on sales of assets. This consisted of \$30 million associated with the sale of our site in Nice, France, and \$7 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 March 31, 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.

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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Details of our investments are as follows:

	March 31, 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	\$ 442	\$ —	\$ —	\$ 522	\$ —	\$ —
Corporate obligations	160	365	—	97	390	—
U.S. Government agency and Treasury securities	390	1,697	—	365	1,952	—
Trading securities:						
Mutual funds	—	—	193	—	—	185
Total	992	2,062	193	984	2,342	185
Other measurement basis:						
Equity-method investments	—	—	27	—	—	27
Cost-method investments	—	—	12	—	—	12
Cash on hand	250	—	—	215	—	—
Total	\$ 1,242	\$ 2,062	\$ 232	\$ 1,199	\$ 2,342	\$ 224

As of March 31, 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 three months ended March 31, 2015 and 2014.

For the three months ended March 31, 2015 and 2014, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$615 million and \$785 million, 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 March 31, 2015:

Due	Fair Value
One year or less	\$ 2,919
One to two years	135

Gross realized gains and losses from sales of long-term investments were not significant for the three months ended March 31, 2015 and 2014. Other-than-temporary declines and impairments in the values of these investments

recognized in OI&E also were not significant for the three months ended March 31, 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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

·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 March 31, 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 March 31, 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		
	March 31,		
	2015	Level 1	Level 2
Assets:			
Money market funds	\$ 442	\$ 442	\$ —
Corporate obligations	525	—	525
U.S. Government agency and Treasury securities	2,087	1,632	455
Mutual funds	193	193	—
Total assets	\$ 3,247	\$ 2,267	\$ 980
Liabilities:			
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	\$ —

7. Goodwill and acquisition-related intangibles

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

Components of acquisition-related intangible assets are as follows:

	Amortization Period (Years)	March 31, 2015			December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	5 - 10	\$ 2,132	\$ 766	\$ 1,366	\$ 2,135	\$ 714	\$ 1,421
Customer relationships	8	810	355	455	810	330	480
Other intangibles	5	3	2	1	3	2	1
Total		\$ 2,945	\$ 1,123	\$ 1,822	\$ 2,948	\$ 1,046	\$ 1,902

Amortization of acquisition-related intangibles was \$80 million and \$81 million for the three months ended March 31, 2015 and 2014, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

8. Postretirement benefit plans

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

	U.S.		U.S. Retiree		Non-U.S.	
	Defined Benefit		Health Care		Defined Benefit	
For Three Months Ended March 31,	2015	2014	2015	2014	2015	2014
Service cost	\$ 6	\$ 5	\$ 1	\$ 1	\$ 9	\$ 10
Interest cost	10	11	5	5	13	17
Expected return on plan assets	(12)	(10)	(5)	(5)	(19)	(19)
Recognized net actuarial loss	5	6	2	2	6	6
Amortization of prior service cost (credit)	—	—	1	1	—	(1)
Net periodic benefit costs	9	12	4	4	9	13
Settlement losses	1	1	—	—	—	—
Total, including other postretirement losses	\$ 10	\$ 13	\$ 4	\$ 4	\$ 9	\$ 13

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 March 31, 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 March 31, 2015, our credit facility was undrawn and we had no commercial paper outstanding.

Long-term debt

In March 2014, we issued an aggregate principal amount of \$500 million of fixed-rate long-term debt, with \$250 million due in 2017 and \$250 million due in 2021. 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 repayment of the \$1 billion of debt that matured in May 2014.

Long-term debt outstanding is as follows:

March
31, December 31,

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	2015	2014
Notes due 2015 at 3.95% (assumed with National acquisition)	\$ 250	\$ 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 2021 at 2.75%	250	250
Notes due 2023 at 2.25%	500	500
Total debt	4,625	4,625
Net unamortized premium	13	17
Current portion of long-term debt	(1,000)	(1,001)
Long-term debt	\$ 3,638	\$ 3,641

Interest and debt expense was \$22 million and \$25 million for the three months ended March 31, 2015 and 2014, respectively. This was net of the amortization of the debt premium and other debt issuance costs. Capitalized interest was not material.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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.

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 March 31, 2015 and 2014. The table below details where on the Consolidated Statements of Income these transactions are recorded.

For Three Months Ended		Impact to Related Statement of Income Line
March 31, 2015	2014	

Net actuarial gains (losses) of defined benefit plans:			
Recognized net actuarial loss and Settlement losses (a)	\$ 14	\$ 15	Increase to Pension expense (b)
Tax effect	(4)	(5)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	\$ 10	\$ 10	Decrease to Net income
Prior service cost of defined benefit plans:			
Amortization of prior service cost (credit) (a)	\$ 1	\$ —	Increase to Pension expense (b)
Tax effect	—	—	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	\$ 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.

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 several advantages that are unique to TI:

- 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 advantages 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 advantages 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, except per-share amounts.
- 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 first-quarter revenue was \$3.15 billion, net income was \$656 million and earnings per share (EPS) were \$0.61.

Revenue growth of 6 percent was the sixth consecutive quarter of year-over-year growth and within the range of our expectations. Automotive and industrial markets were strong, as we expected they would be. Revenue, however, was in the bottom half of our range for two reasons. First was weak demand in the last month of the quarter in our personal electronics market, particularly PCs, and in our communications equipment market, particularly wireless infrastructure equipment. Second was a steep decline in the currency exchange rate for the euro relative to the U.S. dollar.

Even so, our core businesses of Analog and Embedded Processing delivered their seventh and tenth consecutive quarters of year-over-year growth, respectively. Combined, Analog and Embedded Processing comprised 86 percent of first-quarter revenue.

Gross margin of 57.7 percent was up almost 4 percentage points 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 17 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 124 days.

We expect continuing weakness in our communications equipment and personal electronics markets, particularly for wireless infrastructure equipment and PCs, in the second quarter of 2015. We also do not expect a near-term rebound in foreign currency exchange rates.

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 – first-quarter 2015 compared with first-quarter 2014

Revenue increased \$167 million, or 6 percent, due to increased revenue from Analog and Embedded Processing.

Gross profit was \$1.82 billion, or 57.7 percent of revenue, an increase of \$209 million primarily due to increased revenue, and to a lesser extent, increased factory loadings.

Operating expenses were \$338 million for R&D and \$439 million for SG&A. R&D expense decreased \$28 million and SG&A expense decreased \$40 million. The decreases, 8 percent in each comparison, were due to cost savings from previously announced restructuring actions and other efforts across the company to align costs with growth opportunities.

Acquisition charges associated with our 2011 acquisition of National were unchanged at \$83 million. These charges were from the ongoing amortization of intangible assets. See Note 3 to the financial statements for more information.

Operating profit was \$958 million, or 30.4 percent of revenue, compared with \$690 million, or 23.1 percent of revenue.

Quarterly income taxes are calculated using the estimated annual effective tax rate. At the end of the first 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 \$284 million compared with \$184 million. The increase was primarily due to an increase in income before income taxes.

First-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))

	1Q15	1Q14	Change
Revenue	\$ 2,035	\$ 1,837	11%
Operating profit	721	498	45%
Operating profit % of revenue	35.4 %	27.1 %	

Analog revenue increased primarily due to Power and HVAL. SVA and HPA also grew, but to a lesser extent. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing (includes Processor, Microcontrollers and Connectivity)

	1Q15	1Q14	Change
Revenue	\$ 672	\$ 656	2%
Operating profit	123	52	137%
Operating profit % of revenue	18.3%	7.9%	

Embedded Processing revenue increased due to Microcontrollers and Connectivity, which grew by about the same amount. Processor revenue decreased due to a less favorable mix of products shipped. Operating profit increased primarily due to lower operating expenses.

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

	1Q15	1Q14	Change
Revenue	\$ 443	\$ 490	-10%
Operating profit*	114	140	-19%
Operating profit % of revenue	25.7%	28.7%	

*Includes Acquisition charges and Restructuring charges/other

Other revenue decreased primarily due to custom ASIC products and, to a lesser extent, DLP products. Operating profit decreased primarily due to lower gross profit.

Financial condition

At the end of the first quarter of 2015, total cash (Cash and cash equivalents plus Short-term investments) was \$3.30 billion, a decrease of \$237 million from the end of 2014.

Accounts receivable were \$1.39 billion. This was an increase of \$148 million compared with the end of 2014 primarily due to higher revenue at the end of the first quarter than at the end of 2014. Days sales outstanding were 40 at the end of the first quarter compared with 34 at the end of 2014.

Inventory was \$1.84 billion, an increase of \$60 million from the end of 2014. Days of inventory at the end of the first quarter were 124 compared with 117 at the end of 2014. The days increased due about equally to our planned build-ahead of long-lived products and revenue that came in the bottom half of our expected range.

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 revolving credit facility. Cash flow from operating activities for the first quarter of 2015 was \$609 million, an increase of \$147 million from the year-ago quarter due to an increase in Net income.

We have a variable-rate revolving credit facility with a consortium of investment-grade banks that 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 March 31, 2015, our credit facility was undrawn and we had no commercial paper outstanding.

For the first three months of 2015, investing activities provided \$158 million in cash compared with using cash of \$305 million in the year-ago period. Capital expenditures were \$123 million compared with \$77 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 \$280 million. In comparison, in the year-ago period, we had purchases of short-term investments, net of sales, that used cash of \$266 million.

For the first three months of 2015, financing activities used net cash of \$724 million compared with \$219 million in the year-ago period. In 2014, we received proceeds of \$498 million from the issuance of fixed-rate long-term debt (net of original issuance discount). We paid dividends of \$356 million compared with \$325 million in the year-ago period, reflecting an increase in the dividend rate. We used \$670 million to repurchase 12.0 million shares of our common stock, compared with \$720 million used in the year-ago period to repurchase 16.6 million shares. Employee

exercises of stock options provided cash proceeds of \$246 million compared with \$283 million in the year-ago period.

In April 2015, we repaid \$250 million of maturing debt that we assumed in connection with the National acquisition. Additionally, on April 27, 2015, we agreed to issue \$500 million principal amount of debt, which we expect to use for repayment of maturing debt. The debt offering is expected to close on May 6, 2015.

We had \$1.24 billion of Cash and cash equivalents and \$2.06 billion of Short-term investments as of March 31, 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

Free cash flow and associated ratios

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 March 31,		
	2015	2014	Change
Cash flow from operations (GAAP)	\$4,039	\$3,486	16%
Capital expenditures	(431)	(405)	
Free cash flow (non-GAAP)	\$3,608	\$3,081	17%
Revenue	\$13,212	\$12,302	
Cash flow from operations as a percent of revenue (GAAP)	31	% 28	%
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.

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⁾
January 1, 2015 through January 31, 2015	4,543,798	\$ 53.63	4,543,798	2.93 billion
February 1, 2015 through February 28, 2015	4,252,926	56.34	4,252,926	2.69 billion
March 1, 2015 through March 31, 2015	3,228,625	57.83	3,228,625	2.50 billion
Total	12,025,349 ⁽²⁾	\$ 55.72	12,025,349 ⁽²⁾	2.50 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.

⁽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 This Report	Description of Exhibit
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: May 5, 2015