

TEXAS INSTRUMENTS INC
Form 10-Q
October 31, 2014

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 September 30, 2014

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

12500 TI Boulevard, P.O. Box 660199, Dallas, Texas (Address of principal executive offices) 75266-0199 (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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller 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

1,056,299,947

Number of shares of Registrant's common stock outstanding as of
September 30, 2014

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		For Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
Revenue	\$3,501	\$3,244	\$9,776	\$9,177	
Cost of revenue (COR)	1,457	1,465	4,244	4,453	
Gross profit	2,044	1,779	5,532	4,724	
Research and development (R&D)	332	368	1,047	1,176	
Selling, general and administrative (SG&A)	463	465	1,414	1,397	
Acquisition charges	83	86	248	257	
Restructuring charges/other	(9) 16	(24) (251)
Operating profit	1,175	844	2,847	2,145	
Other income (expense), net (OI&E)	3	(4) 12	(2)
Interest and debt expense	23	24	72	71	
Income before income taxes	1,155	816	2,787	2,072	
Provision for income taxes	329	187	791	421	
Net income	\$826	\$629	\$1,996	\$1,651	
Earnings per common share:					
Basic	\$.77	\$.56	\$ 1.84	\$ 1.47	
Diluted	\$.76	\$.56	\$ 1.81	\$ 1.45	
Average shares outstanding (millions):					
Basic	1,060	1,096	1,070	1,102	
Diluted	1,074	1,111	1,085	1,117	
Cash dividends declared per share of common stock	\$.30	\$.28	\$.90	\$.77	

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

[Millions of dollars]

	For Three Months Ended		For Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$826	\$629	\$1,996	\$1,651
Other comprehensive income (loss), net of taxes				
Net actuarial gains (losses) of defined benefit plans:				
Adjustment	28	6	21	86
Recognized within Net income	17	13	38	46
Prior service cost of defined benefit plans:				
Adjustment	—	—	—	(2)
Recognized within Net income	(1)	(1)	—	(3)
Derivative instruments:				
Change in fair value	—	—	—	(1)
Recognized within Net income	—	—	1	1
Other comprehensive income (loss)	44	18	60	127
Total comprehensive income	\$870	\$647	\$2,056	\$1,778

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

[Millions of dollars, except share amounts]

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$1,306	\$1,627
Short-term investments	1,880	2,202
Accounts receivable, net of allowances of (\$15) and (\$22)	1,477	1,203
Raw materials	97	102
Work in process	905	919
Finished goods	749	710
Inventories	1,751	1,731
Deferred income taxes	378	393
Prepaid expenses and other current assets	964	863
Total current assets	7,756	8,019
Property, plant and equipment at cost	6,393	6,556
Accumulated depreciation	(3,463)	(3,157)
Property, plant and equipment, net	2,930	3,399
Long-term investments	219	216
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,982	2,223
Deferred income taxes	177	207
Capitalized software licenses, net	93	118
Overfunded retirement plans	135	130
Other assets	246	264
Total assets	\$17,900	\$18,938
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$1,002	\$1,000
Accounts payable	393	422
Accrued compensation	613	554
Income taxes payable	106	119
Deferred income taxes	2	1
Accrued expenses and other liabilities	527	651
Total current liabilities	2,643	2,747
Long-term debt	3,643	4,158
Underfunded retirement plans	222	216
Deferred income taxes	450	548
Deferred credits and other liabilities	471	462
Total liabilities	7,429	8,131
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

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Paid-in capital	1,314	1,211
Retained earnings	29,189	28,173
Treasury common stock at cost. Shares: September 30, 2014 – 684,515,992; December 31, 2013 – 658,012,970	(21,305) (19,790)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(468	) (528)
Total stockholders' equity	10,471	10,807
Total liabilities and stockholders' equity	\$17,900	\$18,938
See accompanying notes.		

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TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

[Millions of dollars]

	For Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$1,996	\$1,651
Adjustments to Net income:		
Depreciation	639	666
Amortization of acquisition-related intangibles	241	253
Amortization of capitalized software	45	65
Stock-based compensation	217	221
Gains on sales of assets	(44)	(6)
Deferred income taxes	(84)	(2)
Increase (decrease) from changes in:		
Accounts receivable	(272)	(302)
Inventories	(20)	31
Prepaid expenses and other current assets	81	(61)
Accounts payable and accrued expenses	(224)	(297)
Accrued compensation	51	37
Income taxes payable	(90)	(29)
Changes in funded status of retirement plans	73	82
Other	11	(124)
Cash flows from operating activities	2,620	2,185
Cash flows from investing activities:		
Capital expenditures	(260)	(305)
Proceeds from asset sales	46	21
Purchases of short-term investments	(2,170)	(3,177)
Proceeds from short-term investments	2,491	3,564
Other	7	17
Cash flows from investing activities	114	120
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	498	986
Repayment of debt	(1,000)	(1,500)
Dividends paid	(967)	(849)
Stock repurchases	(2,133)	(2,134)
Proceeds from common stock transactions	476	1,146
Excess tax benefit from share-based payments	75	72
Other	(4)	(7)
Cash flows from financing activities	(3,055)	(2,286)
Net change in Cash and cash equivalents	(321)	19
Cash and cash equivalents at beginning of period	1,627	1,416
Cash and cash equivalents at end of period	\$1,306	\$1,435

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Description of business and significant accounting policies and practices

At Texas Instruments (TI), we design and make semiconductors that we sell 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 major product lines: High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA). SVA consists primarily of products that we acquired through our purchase of National Semiconductor Corporation (National) in 2011.

Embedded Processing - consists of the following major product lines: Processors, Microcontrollers and Connectivity.

We report the results of our remaining business activities in Other. See Note 11 for the results of our business segments.

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, 2013. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended September 30, 2014, and 2013, and the Consolidated Balance Sheet as of September 30, 2014, 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 amounts in the prior periods' financial statements have been reclassified to conform to the current period presentation. 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, 2013. The results for the three-month and nine-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.

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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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

	For Three Months Ended September 30, 2014			For Three Months Ended September 30, 2013		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	\$826			\$629		
Income allocated to RSUs	(13	)		(11)	
Income allocated to common stock for basic EPS calculation	\$813	1,060	\$.77	\$618	1,096	\$.56
Adjustment for dilutive shares:						
Stock-based compensation plans		14			15	
Diluted EPS:						
Net income	\$826			\$629		
Income allocated to RSUs	(13	)		(11)	
Income allocated to common stock for diluted EPS calculation	\$813	1,074	\$.76	\$618	1,111	\$.56
	For Nine Months Ended September 30, 2014			For Nine Months Ended September 30, 2013		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	\$1,996			\$1,651		
Income allocated to RSUs	(31	)		(29)	
Income allocated to common stock for basic EPS calculation	\$1,965	1,070	\$1.84	\$1,622	1,102	\$1.47
Adjustment for dilutive shares:						
Stock-based compensation plans		15			15	
Diluted EPS:						
Net income	\$1,996			\$1,651		
Income allocated to RSUs	(31	)		(28)	
Income allocated to common stock for diluted EPS calculation	\$1,965	1,085	\$1.81	\$1,623	1,117	\$1.45

Potentially dilutive securities representing 11 million shares of common stock that were outstanding during both the third quarter and first nine months of 2014 were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive. There were no potentially dilutive securities excluded from the computation of diluted earnings per common share during the third quarter and the first nine months of 2013.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Derivatives and hedging

In association with the issuance of certain 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 also use derivative financial instruments to manage exposure to foreign 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.

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 at September 30, 2014. 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 5. 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 5 for the definition of Level 2 inputs.

Changes in Accounting Standards

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This standard raises the threshold for a disposal to qualify as a discontinued operation. Under the new guidance, only a disposal representing a strategic shift in operations that has or will have a major effect on an entity's operations and financial results, such as a disposal of a major geographic area or a major line of business, should be presented as discontinued operations. In addition, the new standard requires additional disclosures of both discontinued operations and certain other disposals that do not meet the revised definition of a discontinued operation. This standard is effective for annual and interim reporting periods beginning as of January 1, 2015. In the event that a future disposition meets the revised criteria, we expect that this standard will have an impact on the presentation of our financial statements and we will note the appropriate disclosures at that time.

In May 2014, the FASB issued 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. This standard is effective for annual and interim reporting periods beginning as of January 1, 2017. We are currently evaluating the potential impact of this standard on our financial position and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This standard sets forth management's responsibility to evaluate, each reporting period, whether there is substantial doubt about our ability to continue as a going concern, and if so, to provide related footnote disclosures. The standard is effective for annual and interim reporting periods ending after December 15, 2016. We are currently evaluating this new standard and expect it to have no impact on our financial position and results of operations.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

2. 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 our segments. These acquisition charges are as follows:

	For Three Months Ended		For Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Amortization of intangible assets	\$80	\$81	\$239	\$244
Stock-based compensation	3	3	9	8
Retention bonuses	—	2	—	5
Acquisition charges	\$83	\$86	\$248	\$257

Amortization of intangible assets resulting from the National acquisition is based on estimated useful lives. See Note 6 for additional information. Stock-based compensation reflects awards to former National employees and is recognized over the applicable vesting period for the remaining grantees. Retention bonuses reflect amounts paid to former National employees who fulfilled agreed-upon service period obligations and were recognized ratably over the required service period.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

3. 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 September 30,		For Nine Months Ended September 30,		Cumulative Since January 1, 2011
	2014	2013	2014	2013	
Restructuring charges by action:					
2013 actions					
Severance and benefits cost (a)	\$(3	) \$—	\$18	\$—	\$67
Other exit costs	—	—	7	—	7
	(3	) —	25	—	74
2012 Wireless action					
Severance and benefits cost (a)	—	—	(6	) 30	269
Accelerated depreciation	—	—	—	6	9
Other exit costs	—	—	—	2	105
	—	—	(6	) 38	383
Prior actions					
Severance and benefits cost	—	2	—	3	119
Accelerated depreciation	—	—	1	5	29
Other exit costs (a)	—	14	(1	) 18	52
	—	16	—	26	200
Total restructuring charges	(3	) 16	19	64	\$657
Other:					
Gains on sales of assets	(8	) —	(47) —	
Gain on technology transfer	—	—	—	(315)
Other	2	—	4	—	
Restructuring charges/other	\$(9	) \$16	\$(24	) \$(251)

(a) Includes changes in estimates for the three and nine months ended September 30, 2014.

2013 actions

In January 2014, we announced 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 September 30, 2014, we have recognized \$74 million in cumulative restructuring charges, with no further material charges expected. As of September 30, 2014, \$36 million has been paid to terminated employees for severance and benefits.

2012 Wireless action

In 2012, we announced a restructuring of our Wireless business to reduce expenses and focus our investments on markets with greater potential for sustainable growth and strong long-term returns. This action is now complete. We recognized \$383 million in cumulative restructuring charges, including a \$90 million impairment of goodwill. As of

September 30, 2014, \$241 million has been paid to terminated employees for severance and benefits.

Prior actions

In 2012, we announced closure of two older semiconductor manufacturing facilities in Houston, Texas, and Hiji, Japan. We recognized \$200 million in cumulative restructuring charges related to these closures, completing both by the end of 2013. As of September 30, 2014, \$102 million has been paid to terminated employees for severance and benefits.

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TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

As of September 30, 2014, and December 31, 2013, we carried immaterial liabilities related to actions commenced in 2008 and 2009.

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

	2013 Actions		2012 Wireless	Prior Actions		Total
	Severance and Benefits	Other Charges	Action Severance and Benefits	Severance and Benefits	Other Charges	
Remaining accrual at December 31, 2013	\$49	\$—	\$95	\$10	\$7	\$161
Restructuring charges	18	7	(6	) —	—	19
Payments	(36	) —	(61	) (6	) (7	) (110
Remaining accrual at September 30, 2014	\$31	\$7	\$28	\$4	\$—	\$70

The accrual balances above are primarily a component of 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 completed the sale of our site in Nice, France. The planned shut-down of this site was part of our 2012 Wireless restructuring action. As a result of the sale, we recognized a gain of \$30 million in the first quarter of 2014. We also recognized gains of \$17 million on a year-to-date basis tied to the sales of other assets associated primarily with our Houston and Hiji manufacturing facilities, with \$8 million recognized in the third quarter of 2014.

Gain on technology transfer

During the second quarter of 2013, we recognized a gain of \$315 million on a transfer of wireless connectivity technology to a customer.

4. 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 2014 does not assume reinstatement of the federal research tax credit, which expired at the end of 2013. As of September 30, 2014, the estimated annual effective tax rate for 2014 is about 28 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. The first-quarter 2013 tax provision included a \$65 million discrete tax benefit from the reinstatement of the federal research tax credit retroactive to the beginning of 2012.

5. 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, broker quotes or, when necessary, financial models. 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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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:

	September 30, 2014			December 31, 2013		
	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	\$ 364	\$—	\$—	\$ 500	\$—	\$—
Corporate obligations	90	345	—	123	217	—
U.S. Government agency and Treasury securities	625	1,535	—	787	1,985	—
Trading securities						
Mutual funds	—	—	180	—	—	179
Total	1,079	1,880	180	1,410	2,202	179
Other measurement basis:						
Equity-method investments	—	—	27	—	—	24
Cost-method investments	—	—	12	—	—	13
Cash on hand	227	—	—	217	—	—
Total	\$ 1,306	\$ 1,880	\$ 219	\$ 1,627	\$ 2,202	\$ 216

At September 30, 2014, and December 31, 2013, 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 nine months ended September 30, 2014, and 2013.

For the nine months ended September 30, 2014, and 2013, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$2.49 billion and \$3.56 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 at September 30, 2014:

Due	Fair Value
One year or less	\$2,759
One to two years	200

Gross realized gains and losses from sales of long-term investments were not significant for the nine months ended September 30, 2014, and 2013. Other-than-temporary declines and impairments in the values of these investments recognized in OI&E were also not significant for the nine months ended September 30, 2014, and 2013.

Fair-value considerations

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TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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. Our Level 2 assets consist of corporate obligations and some U.S. government agency and Treasury securities. 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.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2014, and December 31, 2013. For these periods, we had no Level 3 assets or liabilities. 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		
	September 30, 2014	Level 1	Level 2
Assets:			
Money market funds	\$364	\$364	\$—
Corporate obligations	435	—	435
U.S. Government agency and Treasury securities	2,160	1,595	565
Mutual funds	180	180	—
Total assets	\$3,139	\$2,139	\$1,000
Liabilities:			
Deferred compensation	\$196	\$196	\$—
Total liabilities	\$196	\$196	\$—
	Fair Value		
	December 31, 2013	Level 1	Level 2
Assets:			
Money market funds	\$500	\$500	\$—
Corporate obligations	340	—	340
U.S. Government agency and Treasury securities	2,772	2,107	665
Mutual funds	179	179	—
Total assets	\$3,791	\$2,786	\$1,005

Liabilities:

Deferred compensation	\$197	\$197	\$—
Total liabilities	\$197	\$197	\$—

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

6. Goodwill and acquisition-related intangibles

Goodwill was \$4.36 billion net of accumulated impairment of \$90 million as of September 30, 2014, and December 31, 2013. There was no impairment of goodwill during the nine months ended September 30, 2014 and 2013.

Components of acquisition-related intangible assets are as follows:

Acquisition-related Intangibles	Amortization Period (Years)	September 30, 2014			December 31, 2013		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	5 - 10	\$2,128	\$659	\$1,469	\$2,157	\$526	\$1,631
Customer relationships	8	810	305	505	821	239	582
Other intangibles	5	3	2	1	5	3	2
In-process R&D	(a)	7	n/a	7	8	n/a	8
Total		\$2,948	\$966	\$1,982	\$2,991	\$768	\$2,223

(a) In-process R&D is not amortized until the associated project has been completed. Alternatively, if the associated project is determined not to be viable, it is expensed.

Amortization of acquisition-related intangibles was \$80 million and \$83 million for the three months ended and \$241 million and \$253 million for the nine months ended September 30, 2014, and 2013, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

The effects of these remeasurements and the effects of foreign currency exchange rate fluctuations are reflected in AOCI and in our Overfunded retirement plans and Underfunded retirement plans on our Consolidated Balance Sheets.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

8. 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 September 30, 2014, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion through March 2019. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of September 30, 2014, 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. The proceeds of the offering were \$498 million, net of the original issuance discount and were used toward the repayment of the \$1.0 billion of debt that matured in May 2014. We incurred \$3 million of issuance and other related costs, which are being amortized to Interest and debt expense over the term of the debt.

In May 2013, we issued an aggregate principal amount of \$1.0 billion of fixed-rate long-term debt, with \$500 million due in 2018 and \$500 million due in 2023. We incurred \$6 million of issuance and other related costs, which are being amortized to Interest and debt expense over the term of the debt. The proceeds of the offering were \$986 million, net of the original issuance discount, and were used toward the repayment of \$1.5 billion of maturing debt, including floating-rate notes. In connection with this repayment, we settled a floating-to-fixed interest rate swap associated with the maturing debt.

Long-term debt outstanding as of September 30, 2014, and December 31, 2013, is as follows:

	September 30, 2014	December 31, 2013
Notes due 2014 at 1.375%	\$—	\$1,000
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	—
Notes due 2018 at 1.00%	500	500
Notes due 2019 at 1.65%	750	750
Notes due 2021 at 2.75%	250	—
Notes due 2023 at 2.25%	500	500
	4,625	5,125
Net unamortized premium	20	33
Current portion of long-term debt	(1,002	) (1,000
Long-term debt	\$3,643	\$4,158

Interest and debt expense was \$23 million and \$24 million for the three months ended and \$72 million and \$71 million for the nine months ended September 30, 2014, and 2013, respectively. This was net of the amortization of the debt premium and other debt issuance costs. Capitalized interest was not material.

9. 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 or accrue for any future liabilities that may result.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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. From time to time, we also negotiate contingent consideration payment arrangements associated with certain acquisitions, which are recorded at fair value.

Discontinued operations indemnity

In connection with the 2006 sale of the former Sensors & Controls (S&C) business, we have agreed to indemnify Sensata Technologies, Inc., for specified litigation matters and certain liabilities, including environmental liabilities. In a settlement with a third party, we have agreed to indemnify that party for certain events relating to S&C products, which events we consider remote. We believe our total remaining potential exposure from both of these indemnities will not exceed \$200 million. As of September 30, 2014, we believe future payments related to these indemnity obligations will not have a material effect on our financial condition, results of operations or liquidity.

10. Supplemental financial information

Prepaid expenses and other current assets

	September 30, 2014	December 31, 2013
Prepaid taxes on intercompany inventory profits	\$743	\$667
Assets held for sale (a)	77	—
Other prepaid expenses and current assets	144	196
Prepaid expenses and other current assets	\$964	\$863

As of September 30, 2014, we had excess assets in various locations, with an aggregate carrying value of \$77 million, which met the criteria to be considered held for sale and were included in Prepaid expenses and other current assets in our Consolidated Balance Sheets. Prior to the reclassification in the first quarter of 2014, the (a)comparable carrying amount of these assets as of December 31, 2013, of \$81 million, was in Property, plant and equipment, net. Assets considered held for sale are no longer being depreciated. We expect the sales transactions applicable to these assets to be completed within the next year and any resulting gain on such sales will be recognized on the Restructuring charges/other line of our Consolidated Statements of Income in Other.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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

Our Consolidated Statements of Comprehensive Income include items which have been recognized within Net income during the periods ended September 30, 2014 and 2013. The table below details where these transactions are recorded on the Consolidated Statements of Income.

Details About AOCI Components	For Three Months Ended		For Nine Months Ended		Impact to Related Statement of Income Line
	September 30, 2014	2013	September 30, 2014	2013	
Net actuarial gains (losses) of defined benefit plans:					
Recognized net actuarial loss and Settlement losses (a)	\$25	\$24	\$58	\$71	Increase to Pension expense (b)
Tax effect	(8	) (11	) (20	) (25	) Decrease to Provision for income taxes
Recognized within Net income, net of taxes	\$17	\$13	\$38	\$46	Decrease to Net income
Prior service cost of defined benefit plans:					
Amortization of prior service cost (credit) and Curtailment gain (a)	\$(1	) \$(2	) \$—	\$(5	) Decrease to Pension expense (b)
Tax effect	—	1	—	2	Increase to Provision for income taxes
Recognized within Net income, net of taxes	\$(1	) \$(1	) \$—	\$(3	) Increase to Net income
Derivative instruments:					
Amortization of treasury rate locks	\$—	\$—	\$1	\$2	Increase to Interest and debt expense
Tax effect	—	—	—	(1	) Decrease to Provision for income taxes
Recognized within Net income, net of taxes	\$—	\$—	\$1	\$1	Decrease to Net income

(a) Detailed in Note 7.

(b) Pension expense is included in the computation of total employee benefit cost, which is allocated to COR, R&D, SG&A and Restructuring charges/other in the Consolidated Statements of Income.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

11. Segment data

See Note 1 for a detailed description of our reportable segments.

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2014	2013	2014	2013
Segment Revenue:				
Analog	\$2,149	\$1,931	\$5,981	\$5,325
Embedded Processing	711	668	2,070	1,846
Other	641	645	1,725	2,006
Total revenue	\$3,501	\$3,244	\$9,776	\$9,177
	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2014	2013	2014	2013
Segment Operating Profit:				
Analog	\$802	\$583	\$1,964	\$1,298
Embedded Processing	114	83	270	144
Other	259	178	613	703
Total operating profit	\$1,175	\$844	\$2,847	\$2,145

We use centralized manufacturing and support organizations, such as facilities, procurement and logistics, to provide products and 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.

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

The following should be read in conjunction with the financial statements and the related notes that appear elsewhere in this document. All dollar amounts in the tables in this discussion are stated in millions of U.S. dollars, except per-share amounts.

Overview

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in 35 countries. We have three segments: Analog, Embedded Processing and Other. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead, and we therefore focus our resources on these segments.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors come in two basic forms: individual transistors and integrated circuits (generally known as "chips") that combine multiple transistors on a single piece of material to form a complete electronic circuit. Our products, more than 100,000 orderable parts, are integrated circuits that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

We sell catalog and application-specific standard semiconductor products, both of which we market to multiple customers. Catalog products are designed for use by many customers and/or many applications and are sold through both distribution and direct channels. The vast majority of our catalog products are differentiated. We also sell catalog commodity products, but they account for a small percentage of our revenue. The life cycles of catalog products generally span multiple years, with some products continuing to sell for decades after their initial release. Application-specific standard products (ASSPs) are designed for use by a smaller number of customers and are targeted to a specific application. The life cycles of ASSPs are generally determined by end-equipment upgrade cycles and can be as short as 12 to 24 months, although some can be used across multiple generations of customers' products.

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. Additional information regarding each segment's products follows.

Analog

Analog semiconductors change real-world signals - such as sound, temperature, pressure or images - by conditioning them, amplifying them and often converting them to a stream of digital data that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in every electronic device, whether plugged into a wall or running off a battery. We estimate that we sell our Analog products to more than 100,000 customers. Our Analog products are used in many markets, particularly personal electronics and industrial.

Sales of our Analog products generated about 60 percent of our revenue in 2013. According to external sources, the worldwide market for analog semiconductors was about \$40 billion in 2013. Our Analog segment's revenue in 2013 was \$7.2 billion, or about 18 percent of this fragmented market, the leading position. We believe that we are well positioned to increase our market share over time.

Our Analog segment includes the following major product lines: High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA).

HVAL products: These include high-volume integrated analog products for specific applications and high-volume catalog products. HVAL products support applications like automotive safety devices, touch screen controllers, low voltage motor drivers and integrated motor controllers.

Power products: These include both catalog products and ASSPs that help customers manage power in electronic systems. Our broad portfolio of Power products is designed to enhance the efficiency of powered devices using battery management solutions, portable power conversion devices, power supply controls and point-of-load products.

HPA products: These include catalog analog products that we market to many different customers who use them in manufacturing a wide range of products. HPA products include high-speed data converters, amplifiers, sensors, high reliability products, interface products and precision analog products that are typically used in systems that require high performance. HPA products generally have long life cycles, often more than 10 years.

SVA products: These include a broad portfolio of power management, data converter, interface and operational amplifier catalog analog products used in manufacturing a wide range of products. SVA products support applications like video and data interface products, electrical fault/arc detection systems and mobile lighting and display systems. SVA products generally have long life cycles, often more than 10 years. SVA consists primarily of products that we acquired through our purchase of National Semiconductor Corporation (National) in 2011.

Embedded Processing

Embedded Processing products are the “brains” of many electronic devices. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. The devices vary from simple, low-cost products used in electric toothbrushes to highly specialized, complex devices used in communications infrastructure equipment. Our Embedded Processing products are used in many markets, particularly industrial and automotive.

An important characteristic of our Embedded Processing products is that our customers often invest their own research and development (R&D) to write software that operates on our products. This investment tends to increase the length of our customer relationships because many customers prefer to re-use software from one product generation to the next.

Sales of Embedded Processing products generated about 20 percent of our revenue in 2013. According to external sources, the worldwide market for embedded processors was about \$17 billion in 2013. Our Embedded Processing segment’s revenue in 2013 was \$2.4 billion. This was the number two position and represented about 14 percent of this fragmented market. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Processors, Microcontrollers and Connectivity.

Processor products: These include digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors are typically tailored for a specific class of applications such as communications infrastructure, automotive (infotainment and advanced driver assistance systems) and broad industrial applications.

Microcontroller products: Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. Microcontrollers tend to have minimal requirements for memory and program length, with no operating system and low software complexity. Analog components that control or interface with sensors and other systems are often integrated into microcontrollers.

Connectivity products: Connectivity products enable electronic devices to seamlessly connect and transfer data, and the requirements for speed, data capability, distance and power vary depending on the application. Our Connectivity products support many wireless technologies to meet these requirements, including low-power wireless network standards like Zigbee® and other technologies like Bluetooth®, WiFi and GPS. Our Connectivity products are usually designed into customer devices alongside our processor and microcontroller products, enabling data to be collected, transmitted and acted upon.

Other

Other includes revenue from our smaller product lines, such as DLP® (primarily used in projectors to create high-definition images), certain custom semiconductors known as application-specific integrated circuits (ASICs) and calculators. It includes royalties received for our patented technology that we license to other electronics companies and revenue from transitional supply agreements related to acquisitions and divestitures. We also include revenue

from our baseband products and from our OMAP™ applications processors and connectivity products sold into smartphones and consumer tablets, all of which are product lines that we previously announced we are exiting and are collectively referred to as “legacy wireless products.” Revenue from legacy wireless products declined throughout 2013, and our exit from these products is complete. Other generated \$2.6 billion of revenue in 2013.

We also include in Other restructuring charges and certain acquisition-related charges, as these charges are not used in evaluating the results of or in allocating resources to our segments. Acquisition-related charges include certain fair-value adjustments, restructuring charges, transaction expenses, acquisition-related retention bonuses and amortization of intangible assets. Other also includes certain corporate-level items, such as litigation expenses, environmental costs, insurance proceeds, and assets and liabilities associated with our centralized operations, such as our worldwide manufacturing, facilities and procurement operations.

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing processes. Semiconductor prices and manufacturing costs tend to decline over time as manufacturing processes and product life cycles mature.

Market cycle

The “semiconductor cycle” is an important concept that refers to the ebb and flow of supply and demand. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. These are typically referred to as upturns and downturns in the semiconductor cycle. The semiconductor cycle is affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

Seasonality

Our revenue is subject to some seasonal variation. Our semiconductor revenue tends to be weaker in the first and fourth quarters when compared to the second and third quarters. Calculator revenue is tied to the U.S. back-to-school season and is therefore at its highest in the second and third quarters.

Manufacturing

Semiconductor manufacturing begins with a sequence of photo-lithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is tested, the wafer is cut into individual units and each unit is assembled into a package that then is usually retested. The entire process takes place in highly specialized facilities and requires an average of 12 weeks, with most products completing within 8 to 16 weeks.

The cost and lifespan of the equipment and processes we use to manufacture semiconductors vary by technology. Our Analog products and most of our Embedded Processing products can be manufactured using mature and stable, and therefore less expensive, equipment than is needed for manufacturing advanced logic products, such as some of our processor products.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation. Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. In general, these fixed costs do not decline with a decrease in factory loadings, potentially lowering our profit margins. Conversely, as factory loadings increase, the fixed costs are spread over increased output, potentially benefiting our profit margins.

We expect to maintain sufficient internal manufacturing capacity to meet the vast majority of our production needs. To supplement our manufacturing capacity and maximize our responsiveness to customer demand and return on capital, we utilize the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2013, we sourced about 20 percent of our total wafers from external foundries and about 35 percent of our assembly/test services from subcontractors.

In 2013, we closed older wafer fabrication facilities in Hiji, Japan, and Houston, Texas. In December 2013, we acquired an assembly/test facility in the Hi-Tech Zone of Chengdu, China, adjacent to our existing fabrication facility in Chengdu.

Inventory

Our inventory practices differ by product, but we generally maintain inventory levels that are consistent with our expectations of customer demand. Because of the longer product life cycles of catalog products and their inherently lower risk of obsolescence, we generally carry more inventory of those products than application-specific products. Additionally, we sometimes maintain product inventory in unfinished wafer form, as well as higher finished-goods inventory of low-volume catalog products, allowing greater flexibility in periods of high demand. We also have consignment inventory programs in place for our largest customers and some distributors.

Tax considerations

We operate in a number of tax jurisdictions and are subject to several types of taxes including those that are based on income, capital, property and payroll, as well as sales and other transactional taxes. The timing of the final determination of our tax liabilities varies by jurisdiction and taxing authority. As a result, during any particular reporting period we may reflect in our financial statements one or more tax refunds or assessments, or changes to tax liabilities, involving one or more taxing authorities.

Results of operations

Our third-quarter revenue was \$3.50 billion, net income was \$826 million and earnings per share (EPS) were \$0.76 cents.

Revenue for the quarter was solidly in the upper half of our expected range and earnings were at the top of the range, marking another quarter of strong progress and execution. We delivered 8 percent year-over-year revenue growth. Analog and Embedded Processing comprised 82 percent of third-quarter revenue.

Gross margin of 58.4 percent, a new record, reflects the quality of our portfolio of Analog and Embedded Processing products as well as the efficiency of our manufacturing strategy.

Our cash flow from operations once again reflects the strength of our business model. Free cash flow for the trailing twelve-month period was up 20 percent from a year ago to \$3.5 billion or 27 percent of revenue. This represents an improvement of 3 percentage points from a year ago and is consistent with our targeted range of 20-30 percent of revenue.

We returned \$4.2 billion to shareholders in the past twelve months through stock repurchases and dividends paid. In the quarter, we announced a dividend increase of 13 percent, resulting in an annualized rate of \$1.36 per share. Our strategy to return to shareholders all free cash flow not needed for net debt retirement, and to return proceeds from exercises of equity compensation, reflects our confidence in the long-term sustainability of our business model.

Our balance sheet remains strong, with \$3.2 billion of cash and short-term investments at the end of the quarter, 81 percent of which was owned by the company's U.S. entities. Inventory days were 108, consistent with our model of 105-115 days.

Free cash flow is a non-GAAP financial measure. For a reconciliation to GAAP and an explanation of the purpose for providing this non-GAAP measure, see the Non-GAAP financial information section in this MD&A.

Summary of Selected Financial Data

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue	\$ 3,501	\$ 3,244	\$ 9,776	\$ 9,177
Gross profit	2,044	1,779	5,532	4,724
Research and development (R&D)	332	368	1,047	1,176
Selling, general and administrative (SG&A)	463	465	1,414	1,397
Acquisition charges	83	86	248	257
Restructuring charges/other	(9)	16	(24)	(251)
Operating profit	1,175	844	2,847	2,145
Net income	\$ 826	\$ 629	\$ 1,996	\$ 1,651
Diluted earnings per common share	\$.76	\$.56	\$ 1.81	\$ 1.45
Percentage of revenue:				
Gross Profit	58.4%	54.8%	56.6%	51.5%
R&D	9.5%	11.3%	10.7%	12.8%
SG&A	13.2%	14.4%	14.5%	15.2%
Operating profit	33.6%	26.0%	29.1%	23.4%

Our exit from legacy wireless products and the elimination (effective January 1, 2013) of the Wireless segment resulted in changes to our corporate-level expense allocations, which negatively affected Analog and Embedded Processing profitability in the year ended December 31, 2013. We expect a similar, although less significant, effect through the end of 2014. We allocate our corporate-level expenses, which are largely fixed, among our product lines in proportion to the operating expenses directly generated by them. Because we stopped investing in legacy wireless products, the corporate-level expenses allocated to them were proportionately lower, and the corporate-level expenses allocated to the remaining product lines were proportionately higher. This allocation change affects the profitability of each of our segments, but does not impact operating expense or profitability trends at the consolidated level.

Throughout the following discussion of our results of operations, unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes. New products tend not to have a significant impact on our results in any given period because our revenue is derived from such a large number of products. 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.

Third-quarter 2014 compared with third-quarter 2013

For the third quarter of 2014, we report the following:

Revenue was \$3.50 billion, an increase of \$257 million, or 8 percent, from the year-ago quarter due to higher revenue from Analog and Embedded Processing. Analog and Embedded Processing comprised 82 percent of revenue compared with 80 percent in the year-ago quarter.

Gross profit was \$2.04 billion, or 58.4 percent of revenue, an increase of \$265 million from the year-ago quarter primarily due to higher revenue and, to a lesser extent, a more favorable mix of products shipped.

Operating expenses were \$332 million for R&D and \$463 million for SG&A. R&D expense decreased \$36 million, or 10 percent, from the year-ago quarter due about equally to cost savings from previously-announced restructuring actions and other efforts across the company to align costs with growth opportunities. SG&A expense was about even compared with the year-ago quarter as higher variable compensation costs were offset by savings from

previously-announced restructuring actions and other cost alignment efforts.

Acquisition charges associated with our 2011 acquisition of National are recorded in Other and were \$83 million in the current quarter compared with \$86 million in the year-ago quarter. These Acquisition charges were from the ongoing amortization of intangible assets. See Note 2 to the financial statements for detailed information.

Restructuring charges/other was a net credit of \$9 million compared with charges of \$16 million in the year-ago quarter. The net credit in the third quarter of 2014 included gains from sales of assets. These items are included in Other for segment reporting purposes. For details on the types of costs incurred and the amounts associated with each restructuring action, see Note 3 to the financial statements.

Operating profit was \$1.18 billion, or 33.6 percent of revenue, compared with \$844 million, or 26.0 percent of revenue, in the year-ago quarter.

Quarterly income taxes are calculated using the estimated annual effective tax rate. At the end of the third quarter, our estimated annual effective tax rate for 2014 is about 28 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 2013. 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. See Note 4 to the financial statements for detailed information.

Our tax provision was \$329 million compared with \$187 million in the year-ago quarter. The increase was primarily due to an increase in income before income taxes, and to a lesser extent, the expiration of the federal research tax credit at the end of 2013.

Net income was \$826 million compared with \$629 million in the year-ago quarter. EPS was \$0.76 compared with \$0.56 in the year-ago quarter.

Third-quarter 2014 segment results

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

Analog

	3Q14	3Q13	Change
Revenue	\$ 2,149	\$ 1,931	11%
Operating profit	802	583	38%
Operating profit % of revenue	37.3%	30.2%	

Analog revenue increased in all product lines. Revenue from Power grew the most, followed by revenue from HVAL, HPA and SVA. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing

	3Q14	3Q13	Change
Revenue	\$ 711	\$ 668	6%
Operating profit	114	83	37%
Operating profit % of revenue	16.0%	12.4%	

Embedded Processing revenue increased due to higher revenue from Microcontrollers, Connectivity and Processors, each of which grew by about the same amount. Revenue increased due to increased shipments, except Processors revenue, which increased due to a more favorable mix of products shipped. Operating profit increased due to higher gross profit and, to a lesser extent, lower operating expenses.

Other

	3Q14	3Q13	Change
Revenue	\$ 641	\$ 645	-1%
Operating profit*	259	178	46%
Operating profit % of revenue	40.4%	27.6%	

*Includes Acquisition charges and Restructuring charges/other

Other revenue was about even as lower revenue from legacy wireless products was mostly offset by higher revenue from DLP products. Operating profit increased due to, in decreasing order, higher gross profit resulting from a more favorable mix of products shipped, lower Restructuring charges/other and lower operating expenses.

First nine months of 2014 compared with first nine months of 2013

For the first nine months of 2014, we report the following:

Revenue was \$9.78 billion, an increase of \$599 million, or 7 percent, primarily due to higher revenue from Analog and Embedded Processing, which more than offset lower revenue from legacy wireless products. Analog and Embedded Processing comprised 82 percent of revenue compared with 78 percent in the year-ago period.

Gross profit was \$5.53 billion, an increase of \$808 million, or 17 percent, primarily due to higher revenue and, to a lesser extent, a more favorable mix of products shipped.

R&D expense of \$1.05 billion decreased \$129 million, or 11 percent, due to savings from ongoing efforts across the company to align costs with growth opportunities, including previously-announced actions such as the wind-down of our legacy wireless products and the restructuring actions in Embedded Processing and Japan. SG&A expense of \$1.41 billion was about even, as higher variable compensation costs were offset by savings from our cost alignment efforts.

Acquisition charges were \$248 million compared with \$257 million in the year-ago period. These charges were from the ongoing amortization of intangible assets. See Note 2 to the financial statements for detailed information.

Restructuring charges/other was a net credit of \$24 million compared with a net credit of \$251 million in the year-ago period. The 2014 net credit included \$44 million of gains on sales of assets partially offset by restructuring charges. The net credit in 2013 included a \$315 million gain from the transfer of wireless connectivity technology to a customer in the second quarter partially offset by restructuring charges. See Note 3 to the financial statements for detailed information.

Operating profit was \$2.85 billion, or 29.1 percent of revenue, compared with \$2.14 billion, or 23.4 percent of revenue, in the year-ago period.

The tax provision was \$791 million compared with \$421 million in the year-ago period. The increase was primarily due to higher income before income taxes, and to a lesser extent, the impact of the federal research tax credit, which included a \$65 million discrete tax benefit in the first quarter of 2013. The federal research tax credit expired at the end of 2013. See Note 4 to the financial statements for detailed information.

Net income was \$2.00 billion compared with \$1.65 billion in the year-ago period. EPS was \$1.81 compared with \$1.45 in the year-ago period.

Year-to-date segment results

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

Analog

	YTD 2014	YTD 2013	Change
Revenue	\$ 5,981	\$ 5,325	12%
Operating profit	1,964	1,298	51%
Operating profit % of revenue	32.8%	24.4%	

Analog revenue increased due to higher revenue from, in decreasing order, Power, HPA, HVAL and SVA. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing

	YTD 2014	YTD 2013	Change
Revenue	\$ 2,070	\$ 1,846	12%
Operating profit	270	144	88%
Operating profit % of revenue	13.0%	7.8%	

Embedded Processing revenue increased due to higher revenue from, in decreasing order, Microcontrollers, Processors, and Connectivity. Revenue increased due to increased shipments, except Processors revenue, which increased due to a more favorable mix of products shipped. Operating profit increased due to higher revenue and associated gross profit.

Other

	YTD 2014	YTD 2013	Change
Revenue	\$ 1,725	\$ 2,006	-14%
Operating profit*	613	703	-13%
Operating profit % of revenue	35.5%	35.0%	

*Includes Acquisition and Restructuring charges/other.

Other revenue decreased due to lower revenue from legacy wireless products. Operating profit decreased primarily due to the non-recurrence of the gain on the technology transfer partially offset by lower operating expenses resulting from the legacy wireless wind-down.

Financial condition

At the end of the third quarter of 2014, total cash (Cash and cash equivalents plus Short-term investments) was \$3.19 billion, with 81 percent owned by our U.S. entities.

Accounts receivable were \$1.48 billion at the end of the third quarter. This was an increase of \$274 million from the end of 2013 as a result of higher revenue at the end of the third quarter compared with the end of the year. Days sales outstanding were 38 at the end of the third quarter compared with 36 at the end of 2013.

Inventory was \$1.75 billion at the end of the third quarter, an increase of \$20 million from the end of 2013. Days of inventory at the end of the third quarter were 108 compared with 112 at the end of 2013, consistent with our target range of 105 to 115 days.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are our Cash and cash equivalents, Short-term investments and a revolving credit facility. Cash flows from operating activities for the first nine months of 2014 was \$2.62 billion, an increase of \$435 million from the year-ago period, primarily due to higher net income.

We had \$1.31 billion of Cash and cash equivalents and \$1.88 billion of Short-term investments as of September 30, 2014.

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We have a variable-rate revolving credit facility with a consortium of investment-grade banks that allows us to borrow up to \$2 billion through March 2019. This credit facility also serves as support for the issuance of commercial paper. As of September 30, 2014, our credit facility was undrawn and we had no commercial paper outstanding.

For the first nine months of 2014, investing activities provided cash of \$114 million compared with \$120 million in the year-ago period. Proceeds from sales of short-term investments, net of purchases, provided cash of \$321 million compared with \$387 million in the year-ago period. Capital expenditures in the first nine months of 2014 totaled \$260 million compared with \$305 million in the year-ago period. These expenditures were primarily for semiconductor manufacturing equipment. We also received \$46 million of cash proceeds from sales of assets in the first nine months of 2014 compared with \$21 million in the year-ago period.

Net cash used in financing activities was \$3.06 billion for the first nine months of 2014 compared with \$2.29 billion in the year-ago period. In March 2014, we issued \$500 million principal amount of debt, receiving net proceeds of \$498 million. This compares with May 2013, when we issued \$1.0 billion principal amount of debt, receiving net proceeds of \$986 million. We used the net proceeds from these issuances to repay maturing debt of \$1.0 billion in the first nine months of 2014 and \$1.5 billion in the year-ago period. In the first nine months of 2014, we paid dividends of \$967 million compared with \$849 million in the year-ago period, a result of a higher dividend rate. We also used \$2.13 billion in the first nine months of 2014 to repurchase 46.8 million shares of our common stock. In the same period last year, we used \$2.13 billion to repurchase 59.8 million shares of our common stock. Employee exercises of stock options are also reflected in cash from financing activities. In the first nine months of 2014, these exercises provided cash proceeds of \$476 million compared with \$1.15 billion in the year-ago period. See Note 8 for detailed information on debt outstanding.

In September 2014, we announced a 13 percent increase in our quarterly cash dividend, which increased from \$0.30 to \$0.34 per share. This dividend will be payable November 17, 2014, to stockholders of record on October 31, 2014.

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 generally accepted accounting principles in the United States (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 Twelve Months Ended September 30,		
	2014	2013	Change
Cash flow from operations (GAAP)	\$ 3,819	\$ 3,270	17%
Capital expenditures	(367)	(402)	
Free cash flow (non-GAAP)	\$ 3,452	\$ 2,868	20%

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Revenue	\$ 12,804	\$ 12,155
Cash flow from operations as a percent of revenue (GAAP)	30%	27%
Free cash flow as a percent of revenue (non-GAAP)	27%	24%

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Long-term contractual obligations

In addition to the long-term debt obligations described in the long-term contractual obligations chart on page 47 of Exhibit 13 to our Form 10-K for the year ended December 31, 2013: in March 2014 we issued \$250 million principal amount of 0.875% notes maturing in 2017 and \$250 million principal amount of 2.750% notes maturing in 2021, and in May 2014 we repaid \$1.0 billion of debt that was maturing.

Changes in accounting standards

See Note 1 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.

You should read the following Risk Factors in conjunction with the factors discussed elsewhere in this and other of our filings with the Securities and Exchange Commission (SEC) and in materials incorporated by reference in these filings. These Risk Factors are intended to highlight certain factors that may affect our financial condition and results of operations and are not meant to be an exhaustive discussion of risks that apply to companies like TI with broad international operations. Like other companies, we are susceptible to macroeconomic downturns in the United States or abroad that may affect the general economic climate and our performance and the performance of our customers. Similarly, the price of our securities is subject to volatility due to fluctuations in general market conditions, actual financial results that do not meet our and/or the investment community's expectations, changes in our and/or the investment community's expectations for our future results and other factors, many of which are beyond our control. **Cyclical in the Semiconductor Market May Affect Our Performance.**

Semiconductor products are the principal source of our revenue. The semiconductor market historically has been cyclical and subject to significant and often rapid increases and decreases in product demand. These changes could have adverse effects on our results of operations, and on the market price of our securities. The results of our operations may be adversely affected in the future if demand for our semiconductors decreases or if this market or key end-equipment markets grow at a significantly slower pace than management expects.

Our Margins May Vary over Time.

Our profit margins may be adversely affected in the future by a number of factors, including decreases in our shipment volume, reductions in, or obsolescence of our inventory and shifts in our product mix. In addition, the highly competitive market environment in which we operate might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these fixed costs do not decline with reductions in customer demand or utilization of manufacturing capacity, and can adversely affect profit margins as a result.

The Technology Industry Is Characterized by Rapid Technological Change That Requires Us to Develop New Technologies and Products.

Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a rapidly changing technological environment. We require significant capital to develop new technologies and products to meet changing customer demands that, in turn, may result in shortened product life cycles. Moreover, expenditures for technology and product development are generally made before the commercial viability for such developments can be assured. As a result, there can be no assurance that we will successfully develop and market these new products. There also is no assurance that the products we do develop and market will be well-received by customers, nor that we will realize a return on the capital expended to develop such products.

We Face Substantial Competition That Requires Us to Respond Rapidly to Product Development and Pricing Pressures.

We face intense technological and pricing competition in the markets in which we operate. We expect this competition will continue to increase from large competitors and from smaller competitors serving niche markets, and also from emerging companies, particularly in Asia, that sell products into the same markets in which we operate. Certain of our competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products. The price and product development pressures that result from competition may lead to reduced profit margins and lost business opportunities in the event that we are unable to match the price declines or cost efficiencies, or meet the technological, product, support, software or manufacturing advancements of our competitors.

Our Performance Depends in Part on Our Ability to Enforce Our Intellectual Property Rights and to Develop and License New Intellectual Property.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio. There can be no assurance that, as our business expands into new areas, we will be able to independently develop the technology, software or know-how necessary to conduct our business or that we can do so without infringing the intellectual property rights of others. To the extent that we have to rely on licensed technology from others, there can be no assurance that we will be able to obtain licenses at all or on terms we consider reasonable. The lack of a necessary license could expose us to claims for damages and/or injunction from third parties, as well as claims for indemnification by our customers in instances where we have a contractual or other legal obligation to indemnify them against damages resulting from infringement claims.

With regard to our own intellectual property, we actively enforce and protect our rights. However, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of our protected technology.

We benefit from royalty revenue generated from various patent license agreements. The amount of such revenue depends in part on negotiations with new licensees, and with existing licensees in connection with renewals of their licenses. There is no guarantee that such negotiations will be successful. Future royalty revenue also depends on the strength and enforceability of our patent portfolio and our enforcement efforts, and on the sales and financial stability of our licensees. Additionally, consolidation of our licensees may negatively affect our royalty revenue. Royalty revenue from licensees is not always uniform or predictable, in part due to the performance of our licensees and in part due to the timing of new license agreements or the expiration and renewal of existing agreements.

A Decline in Demand in Certain Markets Could Have a Material Adverse Effect on the Demand for Our Products and Results of Operations.

Our customer base includes companies in a wide range of markets, but we generate a significant amount of revenue from sales to customers in the personal electronics market, particularly the mobile phone sector, and from sales to industrial customers. Decline in one of these markets could have a material adverse effect on the demand for our products and our results of operations and financial condition.

Our Global Operations Subject Us to Complex Laws, Regulations and Policies and Risks Associated with International Political, Economic or Other Conditions.

We have facilities in 35 countries worldwide. About 85 percent of our revenue comes from shipments to locations outside the United States; in particular, shipments of products into China typically represent a large portion of our revenue. Our global operations subject us to complex U.S. and foreign laws, regulations and policies relating to, for example, trade and export controls, anti-bribery, antitrust and privacy. Violations of or changes in these laws, regulations and policies could result in fines, penalties, and sanctions that could adversely affect our results of operations. Operating internationally also exposes us to political and economic conditions, security risks, health conditions and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate. Any of these could result in an adverse effect on our business operations and our financial results. Additionally, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

Our Results of Operations Could be Affected by Natural Events in the Locations in Which We or Our Customers or Suppliers Operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as health epidemics, severe weather and geological events that could disrupt operations. In addition, our suppliers and customers have similar facilities and operations in such locations. A natural disaster that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may adversely affect our results and financial condition.

The Loss of or Significant Curtailment of Purchases by Any of Our Largest Customers Could Adversely Affect Our Results of Operations.

We generate revenue from thousands of customers worldwide. The loss of or significant curtailment of purchases by one or more of our top customers (including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments) may adversely affect our results of operations and financial condition.

Our Results of Operations Could be Adversely Affected by Our Distributors' Promotion of Competing Product Lines or Our Distributors' Financial Performance.

In 2013, about 55 percent of our revenue was generated from sales of our products to distributors. Our distributors carry competing product lines, and our sales could be affected if our distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us.

Our Results of Operations and Financial Condition Could be Adversely Affected if a Customer or a Distributor Suffers a Loss with Respect to Our Inventory.

We have consignment inventory programs in place for some of our largest customers and for some distributors. If a customer or distributor were to experience a loss with respect to TI-consigned inventory, our results of operations and financial condition may be adversely affected if we do not recover the full value of the lost inventory from the customer, distributor or insurer, or if our recovery is delayed.

Incorrect Forecasts of Customer Demand Could Adversely Affect Our Results of Operations.

Our ability to match inventory and production with the product mix needed to fill orders may affect our ability to meet a quarter's revenue forecast. In addition, when responding to customers' requests for shorter shipment lead times, we manufacture products based on forecasts of customers' demands. These forecasts are based on multiple assumptions. If we inaccurately forecast customer demand, we may hold inadequate, excess or obsolete inventory that would reduce our profit margins and adversely affect our results of operations and financial condition.

Our Performance Depends on the Availability and Cost of Raw Materials, Utilities, Critical Manufacturing Equipment, Manufacturing Processes and Third-Party Manufacturing Services.

Our manufacturing processes and critical manufacturing equipment, and those of some of our customers and suppliers, require that certain key raw materials, natural resources and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Our inability to timely implement new manufacturing technologies or install manufacturing equipment could adversely affect our results of operations. We subcontract a portion of our wafer fabrication and assembly and testing of our integrated circuits. We also depend on third parties to provide advanced logic manufacturing process technology development. A limited number of third parties perform these functions, and we do not have long-term contracts with all of them. Reliance on these third parties involves risks, including possible shortages of capacity in periods of high demand, the third parties' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost effective and appropriate manner and the possibility of third parties imposing increased costs on us.

Our Results of Operations Could be Affected by Changes in Tax-Related Matters.

We have facilities in 35 countries worldwide and as a result are subject to taxation and audit by a number of taxing authorities. Tax rates vary among the jurisdictions in which we operate. Our results of operations could be affected by market opportunities or decisions we make that cause us to increase or decrease operations in one or more countries, or by changes in applicable tax rates or audits by the taxing authorities in countries in which we operate.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. Changes in these laws and regulations could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also affect our results of operations. Each quarter we forecast our tax liability based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax liability will change.

Our Operations Could be Affected by Changes in Environmental, Safety and Health Laws and Regulations.

We are subject to environmental, safety and health laws and regulations in the jurisdictions in which we operate our business, particularly those in which we manufacture our products. If we fail to comply with these laws and regulations, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business, particularly if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, or of materials or gases used or emitted into the environment, in connection with the manufacture of our products. There can be no assurance that in all instances a substitute for a prohibited raw material or process would be available, or be available at reasonable cost.

Our Results of Operations Could be Affected by Changes in the Financial Markets.

We maintain bank accounts, one or more multi-year revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our daily operations, invest in our business, make strategic acquisitions and service our debt obligations requires continuous access to our bank and investment accounts, as well as access to our bank credit lines that support commercial paper borrowings and provide additional liquidity through short-term bank loans. If we are unable to access these accounts and credit lines (for example, due to instability in the financial markets), our results of operations and financial condition could be adversely affected. Similarly, such circumstances could also restrict our ability to access the capital markets or redeem our investments. If our customers or suppliers are unable to access credit markets and other sources of needed liquidity, we may receive fewer customer orders or be unable to obtain needed supplies, collect accounts receivable or access needed technology.

Material Impairments of Our Goodwill or Intangible Assets Could Adversely Affect Our Results of Operations.

Charges associated with impairments of our goodwill or intangible assets could adversely affect our financial condition and results of operations. Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise or upon the disposition of a significant portion of a reporting unit. The review compares the fair value for each reporting unit to its associated book value including goodwill. A decrease in the fair value associated with a reporting unit resulting from, among other things, unfavorable changes in the estimated future discounted cash flow of the reporting unit, may require us to recognize impairments of goodwill. Most of our intangible assets are amortized over their estimated useful lives, but they are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the use of the intangible asset and its eventual disposition is less than the carrying amount of the asset, we would recognize an impairment loss to the extent the carrying amount of the asset exceeds its fair value.

Our Results of Operations Could be Affected by Warranty Claims, Product Recalls or Product Liability.

We could be subject to warranty or product liability claims or claims based on epidemic or delivery failures that could lead to significant expenses as we defend such claims or pay damage awards or settlements. In the event of a warranty claim, we may also incur costs if we decide to compensate the affected customer or end consumer. We maintain product liability insurance, but there is no guarantee that such insurance will be available or adequate to protect against all such claims. In addition, it is possible for one of our customers to recall a product containing a TI part. In such instances, we may incur costs and expenses relating to the recall. Costs or payments we may make in connection with warranty, epidemic failure and delivery claims or product recalls may adversely affect our results of operations and financial condition.

Our Continued Success Depends in Part on Our Ability to Retain and Recruit a Sufficient Number of Qualified Employees in a Competitive Environment.

Our continued success depends in part on the retention and recruitment of skilled personnel, including technical, marketing, management and staff personnel. There can be no assurance that we will be able to successfully retain and recruit the key personnel that we require.

Our Debt Could Affect Our Operations and Financial Condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including the other risk factors described under Item 1A, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise would be invested in our operations, or cause us to raise funds through such means as the issuance of new debt or equity, or the disposition of assets.

Our Ability to Successfully Implement Business and Organizational Changes Could Affect Our Business Plans and Results of Operations.

From time to time, we undertake business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our strategic objectives. Our failure to successfully implement these changes could adversely affect our business plans and operating results. For example, we may not realize the expected benefits of an acquisition if we are unable to timely and successfully integrate acquired operations, product lines and technology, and our pre-acquisition due diligence may not identify all possible issues and risks that might arise with respect to an acquisition. Further, we may not achieve or sustain the expected growth or cost savings benefits of business and organizational changes, and restructuring charges could differ materially in amount and timing from our expectations.

Our Operating Results and Our Reputation Could be Adversely Affected by Breaches of Our Information Technology Systems.

Breaches of our information technology systems caused by computer viruses, unauthorized access, sabotage, vandalism or terrorism could compromise our information technology networks and result in unauthorized release of our, our customers' or our suppliers' confidential or proprietary information, cause a disruption to our manufacturing and other operations, result in release of employee personal data, or cause us to incur increased information technology protection costs, any of which could adversely affect our operating results and our reputation.

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 Programs ⁽¹⁾	Approximate Dollar Value of Shares of Shares May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1, 2014 through July 31, 2014	7,981,490	\$ 48.18	7,981,490	4.16 billion
August 1, 2014 through August 31, 2014	6,087,231	46.89	6,087,231	3.87 billion
September 1, 2014 through September 30, 2014	—	—	—	3.87 billion
Total	14,068,721	⁽²⁾ \$ 47.62	14,068,721	⁽²⁾ 3.87 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 September 30, 2014, 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 (incorporated by reference to Exhibit 3(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(b)	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant, dated April 16, 1987 (incorporated by reference to Exhibit 3(b) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(c)	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant, dated April 21, 1988 (incorporated by reference to Exhibit 3(c) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(d)	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant, dated April 18, 1996 (incorporated by reference to Exhibit 3(d) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(e)	Certificate of Ownership merging Texas Instruments Automation Controls, Inc. into the Registrant, dated March 28, 1988 (incorporated by reference to Exhibit 3(e) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(f)	Certificate of Elimination of Designations of Preferred Stock of the Registrant, dated March 18, 1994 (incorporated by reference to Exhibit 3(f) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(g)	Certificate of Ownership and Merger merging Tiburon Systems, Inc. into the Registrant, dated November 2, 1995 (incorporated by reference to Exhibit 3(g) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(h)	Certificate of Ownership and Merger merging Tartan, Inc. into the Registrant, dated June 21, 1995 (incorporated by reference to Exhibit 3(h) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(i)	Certificate of Designation relating to the Registrant's Participating Cumulative Preferred Stock, dated June 23, 1998 (incorporated by reference to Exhibit 3(i) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(j)	Certificate of Elimination of Designation of Preferred Stock of the Registrant, dated June 18, 1998 (incorporated by reference to Exhibit 3(j) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(k)	Certificate of Ownership and Merger merging Intersect Technologies, Inc. with and into the Registrant, dated July 15, 1999 (incorporated by reference to Exhibit 3(k) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(l)	Certificate of Ownership and Merger merging Soft Warehouse, Inc. with and into the Registrant, dated September 23, 1999 (incorporated by reference to Exhibit 3(l) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
3(m)	

Certificate of Ownership and Merger merging Silicon Systems, Inc. with and into the Registrant, dated December 17, 1999 (incorporated by reference to Exhibit 3(m) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).

3(n) Certificate of Amendment to Restated Certificate of Incorporation, dated April 20, 2000 (incorporated by reference to Exhibit 3(n) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).

3(o) Certificate of Ownership and Merger merging Power Trends, Inc. with and into the Registrant, dated May 31, 2001 (incorporated by reference to Exhibit 3(o) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).

3(p) Certificate of Ownership and Merger merging Amati Communications Corporation with and into the Registrant, dated September 28, 2001 (incorporated by reference to Exhibit 3(p) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).

- 3(q) Certificate of Ownership and Merger merging Texas Instruments San Diego Incorporated with and into the Registrant, dated August 27, 2002 (incorporated by reference to Exhibit 3(q) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
- 3(r) Certificate of Ownership and Merger merging Texas Instruments Burlington Incorporated with and into the Registrant, dated December 31, 2003 (incorporated by reference to Exhibit 3(r) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
- 3(s) Certificate of Ownership and Merger merging Texas Instruments Automotive Sensors and Controls San Jose Inc. with and into the Registrant, dated October 31, 2004 (incorporated by reference to Exhibit 3(s) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).
- 3(t) Certificate of Elimination of Series B Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K filed June 23, 2008).
- 3(u) By-Laws of the Registrant (incorporated by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K filed July 18, 2008).
- 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

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995:

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, especially the mobile phone sector, and industrial;

- 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;

- Violations of or changes in the complex laws, regulations and policies to which our global operations are subject, and 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 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;

- Changes in laws and regulations to which TI or its suppliers are or may become subject, such as those imposing fees or reporting or substitution costs relating to the discharge of emissions into the environment or the use of certain raw materials in our manufacturing processes;

- 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 or recalls by TI customers for a product containing a TI part;

- 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.

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 and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

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: October 31, 2014