TEXAS INSTRUMENTS INC
Form 10-Q
August 03, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

S QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

£ 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 972-995-3773

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 S 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 S 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	S		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 S
1,137,757,862
Number of shares of Registrant's common stock outstanding as of
June 30, 2012

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated statements of income
[Millions of dollars, except share and per-share amounts]

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	$3,335	$3,458	$6,456	$6,849
Cost of revenue (COR)	1,684	1,705	3,274	3,369
Gross profit	1,651	1,753	3,182	3,480
Research and development (R&D)	480	424	989	846
Selling, general and administrative (SG&A)	456	411	918	806
Restructuring charges	13	—	23	—
Acquisition charges	104	13	257	15
Operating profit	598	905	995	1,813
Other income (expense) net (OI&E)	(2)	10	(17)	19
Interest and debt expense	20	6	41	6
Income before income taxes	576	909	937	1,826
Provision for income taxes	130	237	226	488
Net income	$446	$672	$711	$1,338
Earnings per common share:				
Basic	$.38	$.57	$.61	$1.13
Diluted	$.38	$.56	$.60	$1.11
Average shares outstanding (millions):				
Basic	1,140	1,156	1,142	1,161
Diluted	1,154	1,180	1,159	1,187
Cash dividends declared per share of common stock	$.17	$.13	$.34	$.26

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated statements of comprehensive income
[Millions of dollars]

	For Three Months Ended June 30, 2012	2011	For Six Months Ended June 30, 2012	2011
Net income	$446	$672	$711	$1,338
Other comprehensive income (loss):				
Available-for-sale investments:				
Unrealized gains (losses), net of taxes	—	—	2	1
Reclassification of recognized transactions, net of taxes	—	12	—	12
Net actuarial gains (losses) of defined benefit plans:				
Adjustment, net of taxes	(12)	(5)	11	(19)
Reclassification of recognized transactions, net of taxes	12	12	23	23
Prior service cost of defined benefit plans:				
Adjustment, net of taxes	1	—	—	1
Change in fair value of derivative instrument, net of taxes	—	(3)	(1)	(3)
Total	1	16	35	15
Total comprehensive income	$447	$688	$746	$1,353

See accompanying notes.

3

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated balance sheets
[Millions of dollars, except share amounts]

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$1,192	$992
Short-term investments	1,141	1,943
Accounts receivable, net of allowances of ($22) and ($19)	1,629	1,545
Raw materials	123	115
Work in process	1,040	1,004
Finished goods	722	669
Inventories	1,885	1,788
Deferred income taxes	1,155	1,174
Prepaid expenses and other current assets	351	386
Total current assets	7,353	7,828
Property, plant and equipment at cost	6,840	7,133
Less accumulated depreciation	(2,666)	(2,705)
Property, plant and equipment, net	4,174	4,428
Long-term investments	218	265
Goodwill	4,452	4,452
Acquisition-related intangibles, net	2,729	2,900
Deferred income taxes	288	321
Capitalized software licenses, net	182	206
Overfunded retirement plans	32	40
Other assets	93	57
Total assets	$19,521	$20,497
Liabilities and stockholders' equity		
Current liabilities:		
Commercial paper borrowings	$500	$999
Current portion of long-term debt	1,500	382
Accounts payable	555	625
Accrued compensation	454	597
Income taxes payable	101	101
Accrued expenses and other liabilities	711	795
Total current liabilities	3,821	3,499
Long-term debt	2,703	4,211
Underfunded retirement plans	700	701
Deferred income taxes	596	607
Deferred credits and other liabilities	543	527
Total liabilities	8,363	9,545
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares. Participating cumulative preferred. None issued.	—	—
	1,741	1,741

Common stock, $1 par value. Authorized – 2,400,000,000 shares. Shares issued: June 30, 2012 – 1,740,815,939; December 31, 2011 – 1,740,630,391		
Paid-in capital	1,164	1,194
Retained earnings	26,592	26,278
Less treasury common stock at cost. Shares: June 30, 2012 – 603,058,077; December 31, 2011 – 601,131,631	(17,598)	(17,485)
Accumulated other comprehensive income (loss), net of taxes	(741)	(776)
Total stockholders' equity	11,158	10,952
Total liabilities and stockholders' equity	$19,521	$20,497

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated statements of cash flows
[Millions of dollars]

	For Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$711	$1,338
Adjustments to net income:		
Depreciation	484	444
Stock-based compensation	133	110
Amortization of acquisition-related intangibles	171	13
Deferred income taxes	17	(15)
Increase (decrease) from changes in:		
Accounts receivable	(88)	(146)
Inventories	(123)	(242)
Prepaid expenses and other current assets	55	(12)
Accounts payable and accrued expenses	(114)	(25)
Accrued compensation	(136)	(201)
Income taxes payable	(36)	(103)
Other	50	(16)
Cash flows from operating activities	1,124	1,145
Cash flows from investing activities:		
Additions to property, plant and equipment	(249)	(470)
Proceeds from insurance recovery	—	2
Purchases of short-term investments	(657)	(1,688)
Proceeds from short-term investments	1,466	1,616
Purchases of long-term investments	(1)	(3)
Proceeds from long-term investments	32	64
Cash flows from investing activities	591	(479)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	3,497
Issuance costs for long-term debt	—	(12)
Repayment of debt and commercial paper borrowings	(875)	—
Dividends paid	(390)	(303)
Proceeds from common stock transactions	327	530
Excess tax benefit from share-based payments	23	27
Stock repurchases	(600)	(1,223)
Cash flows from financing activities	(1,515)	2,516
Net change in cash and cash equivalents	200	3,182
Cash and cash equivalents, beginning of period	992	1,319
Cash and cash equivalents, end of period	$1,192	$4,501

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.

Basis of presentation
The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (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, 2011. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended June 30, 2012 and 2011, and the balance sheet as of June 30, 2012, 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 U.S. 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, 2011. The results for the three- and six-month periods are not necessarily indicative of a full year's results.

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

Acquisition
On September 23, 2011, we completed the acquisition of National Semiconductor Corporation (National). We accounted for this transaction under Accounting Standards Codification (ASC) 805 - Business Combinations, and the consolidated financial statements include the balances and results of operations of National from the date of acquisition. National's operating results are included in the Analog segment from the acquisition date. See Note 2 for further information.

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

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

	For Three Months Ended June 30, 2012			For Three Months Ended June 30, 2011		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$446			$672		
Less income allocated to RSUs	(8)			(11)		
Income allocated to common stock for basic EPS calculation	$438	1,140	$.38	$661	1,156	$.57

Adjustment for dilutive shares:						
Stock-based compensation plans		14			24	
Diluted EPS:						
Net income	$446			$672		
Less income allocated to RSUs	(8)			(10)		
Income allocated to common stock for diluted EPS calculation	$438	1,154	$.38	$662	1,180	$.56

6

	For Six Months Ended June 30, 2012			For Six Months Ended June 30, 2011		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$711			$1,338		
Less income allocated to RSUs	(12)			(21)		
Income allocated to common stock for basic EPS calculation	$699	1,142	$.61	$1,317	1,161	$1.13
Adjustment for dilutive shares:						
Stock-based compensation plans		17			26	
Diluted EPS:						
Net income	$711			$1,338		
Less income allocated to RSUs	(12)			(21)		
Income allocated to common stock for diluted EPS calculation	$699	1,159	$.60	$1,317	1,187	$1.11

Potentially dilutive securities representing 53 million and 10 million shares of common stock that were outstanding during the second quarters of 2012 and 2011, respectively, and 51 million and 8 million shares outstanding during the first six months of 2012 and 2011, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

Derivatives and hedging
We have an interest rate swap, entered into in connection with the issuance of variable-rate long-term debt in May 2011, which is designated as a hedge of the variability of cash flows related to interest payments. See Note 9 for additional information. Gains and losses from changes in the fair value of the interest rate swap are credited or charged to Accumulated other comprehensive income (loss), net of taxes (AOCI).

We also use derivative financial instruments to manage exposure to foreign exchange risk. These instruments are primarily forward foreign currency exchange contracts that are used as economic hedges to reduce the earnings impact exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures or for specified non-U.S. dollar forecasted transactions. Gains and losses from changes in the fair value of these forward foreign currency exchange contracts are credited or charged to Other income (expense) net (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 June 30, 2012. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value and are discussed in Note 6. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. The carrying value of our long-term debt approximates the fair value as measured using broker-dealer quotes, which are based on level 2 inputs.

2. National Semiconductor acquisition-related costs
For the periods presented, we incurred total acquisition-related costs associated with the National acquisition, which are included in Other for segment reporting purposes, as follows:

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2012	2011	2012	2011
Acquisition charges:				
Amortization of intangible assets	$ 81	$ —	$ 162	$ —
Retention bonuses	7	—	48	—
Announced employment reductions	3	—	15	—
Stock-based compensation	4	—	10	—
Transaction and other costs	9	13	22	15
As recorded in Acquisition charges	104	13	257	15
Distributor contract termination recorded in COR	—	—	21	—
Total acquisition-related costs	$ 104	$ 13	$ 278	$ 15

The amount of recognized amortization of acquired intangible assets resulting from the National acquisition is based on estimated useful lives varying between two and ten years. See Note 7 for additional information.

Retention bonuses reflect amounts expected to be paid to former National employees who fulfill agreed-upon service period obligations and are recognized ratably over the required service period.

Announced employment reduction costs relate to former National employees who have been or will be terminated after the closing date. About 350 jobs will be eliminated by the end of 2012 as a result of redundancies and cost efficiency measures. As of June 30, 2012, a total of $44 million in charges has been recognized, of which $29 million has been paid. The remaining $15 million will be paid later in the year. In addition, approximately $3 million of similar expense is expected to be recognized during the remainder of 2012.

Stock-based compensation is recognized over the remaining service periods as terminated employees fulfill agreed-upon service period obligations.

Transaction and other costs include various expenses incurred in connection with the National acquisition. In 2011, we also incurred bridge financing costs.

In 2011, we discontinued using one of National's distributors. We acquired the distributor's inventory at fair value, resulting in an incremental charge of $21 million to COR upon sale of the inventory in 2012.

3. Losses associated with the earthquake in Japan

Through June 30, 2012, we incurred cumulative gross operating losses of $101 million (including none for the first six months of 2012 and about $80 million for the first six months of 2011) related to the March 11, 2011, earthquake and associated events in Japan. These losses related to property damage, the underutilization expense we incurred from having our manufacturing assets only partially loaded and costs associated with recovery teams assembled from across the world.

These losses have been offset by about $25 million in cumulative insurance proceeds related to property damage claims. Almost all of these costs and proceeds are included in COR in the Consolidated statements of income and are recorded in Other.

In addition, we recognized about $110 million in cumulative insurance proceeds through June 30, 2012 (about $75 million for the first six months of 2012), related to business interruption claims. These proceeds were recorded as revenue in Other.

We continue discussions with our insurers and their advisors, but at this time we cannot estimate the timing and amount of future proceeds we may ultimately receive from our policies.

4. Restructuring charges

Restructuring actions related to the acquisition of National are discussed in Note 2 and are reflected on the Acquisition charges line of our Consolidated statements of income.

2011 actions

Beginning in the fourth quarter of 2011, we recognized restructuring charges associated with the announced plans to close two older semiconductor manufacturing facilities in Houston, Texas, and Hiji, Japan, by mid-2013. The total charge for these closures is estimated at $215 million, of which $135 million has been recognized and reported in Other for segment reporting purposes through June 30, 2012. The Restructuring charges of $23 million recognized in the first half of 2012 consist of $9 million of accelerated depreciation and $14 million of other exit-related costs; $13 million of restructuring charges was recognized in the second quarter of 2012 consisting of $4 million of accelerated depreciation and $9 million of other exit-related costs. Of the estimated $215 million total cost, about $135 million will be for severance and related benefits, about $30 million will be for accelerated depreciation of facility assets and about $50 million will be for other exit-related costs.

Previous actions

In 2008 and 2009, we announced actions that eliminated about 3,900 jobs. These actions were completed in 2009.

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

	2011 Actions		Previous Actions		
	Severance and Benefits	Other Charges	Severance and Benefits	Other Charges	Total
Remaining accrual at December 31, 2011	$96	$—	$13	$7	$116
Restructuring charges	2	21	—	—	23
Non-cash items (a)	3	(10)	—	—	(7)
Payments	(4)	(8)	(5)	(1)	(18)
Remaining accrual at June 30, 2012	$97	$3	$8	$6	$114

(a) Reflects charges for curtailment and special termination benefits relating to the postretirement benefit plans and accelerated depreciation.

The accrual balances above are primarily a component of Accrued expenses and other liabilities on our Consolidated balance sheets.

5. Income taxes

Federal income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. The rate is based on current tax law and for 2012 does not assume reinstatement of the federal research tax credit, which expired at the end of 2011. As of June 30, 2012, the estimated annual effective tax rate for 2012 is about 26 percent, which differs from the 35 percent statutory corporate tax rate due to the effects of non-U.S. effective tax rates.

6. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

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

Available-for-sale and trading securities are stated at fair value, which is generally based on market prices, 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 losses (impairments) on available-for-sale securities in OI&E in our Consolidated statements of income.

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

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 and related unrealized gains and losses included in AOCI are as follows:

	June 30, 2012			December 31, 2011		
	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	$98	$—	$—	$55	$—	$—
Corporate obligations	49	137	—	135	159	—
U.S. Government agency and Treasury securities	785	978	—	430	1,691	—
Auction-rate securities	—	—	14	—	—	41
Trading securities						
Auction-rate securities	—	26	—	—	93	—
Mutual funds	—	—	151	—	—	169
Total	$932	$1,141	$165	$620	$1,943	$210
Other measurement basis:						
Equity-method investments	$—	$—	$30	$—	$—	$32
Cost-method investments	—	—	23	—	—	23
Cash on hand	260	—	—	372	—	—
Total	$1,192	$1,141	$218	$992	$1,943	$265
Amounts included in AOCI from available-for-sale securities:						
Unrealized gains (pre-tax)	$—	$1	$—	$—	$—	$—
Unrealized losses (pre-tax)	$—	$1	$1	$—	$—	$5

As of June 30, 2012, and December 31, 2011, the majority of unrealized losses included in AOCI were associated with auction-rate securities classified as securities that are available for sale. We have determined that our available-for-sale investments with unrealized losses are not other-than-temporarily impaired as we expect to recover the entire cost basis of these securities. We do not intend to sell these investments, nor do we expect to be required to sell these investments before a recovery of the cost basis. For the three months and six months ended June 30, 2012 and 2011, we did not recognize in earnings any credit losses related to these investments.

For the six months ended June 30, 2012 and 2011, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $1.47 billion and $1.62 billion, respectively. Gross realized gains and losses from these sales were not significant.

The following table presents the aggregate maturities of investments in money market funds and debt securities classified as available for sale at June 30, 2012:

Due	Fair Value
One year or less	$1,739
One to three years	308
Greater than three years (auction-rate securities)	14

Fair-value considerations

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

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

Level 1 — Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 — Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. Our Level 2 assets consist of corporate obligations, some U.S. government agency securities and auction-rate securities that have been called for redemption. We utilize a third-party data service to provide Level 2 valuations, verifying 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.

Our auction-rate securities are primarily classified as Level 3 assets. Auction-rate securities are debt instruments with variable interest rates that historically would periodically reset through an auction process. These auctions have not functioned since 2008. There is no active secondary market for these securities, although limited observable transactions do occasionally occur. As a result, we use a discounted cash flow model to determine the estimated fair value of these investments as of each quarter end. The inputs used in preparing the discounted cash flow model include estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions we consider relevant factors including: the formula for each security that defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the guarantees by the U.S. Department of Education of the underlying student loans and additional credit enhancements provided through other means; and, publicly available pricing data for student loan asset-backed securities that are not subject to auctions. Our estimate of the rate of return required by investors to own these securities also considers the reduced liquidity for auction-rate securities. To date, we have collected all interest on all of our auction-rate securities when due and expect to continue to do so in the future. Changes in unobservable inputs would have an impact on the value of these Level 3 assets.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2012, and December 31, 2011. These tables do not include cash on hand, assets held by our postretirement plans, or assets and liabilities that are measured at historical cost or any basis other than fair value.

	Fair Value June 30, 2012	Level 1	Level 2	Level 3
Assets:				
Money market funds	$98	$98	$—	$—
Corporate obligations	186	—	186	—
U.S. Government agency and Treasury securities	1,763	785	978	—
Auction-rate securities	40	—	—	40
Mutual funds	151	151	—	—

Total assets	$2,238	$1,034	$1,164	$40
Liabilities:				
Deferred compensation	166	166	—	—
Total liabilities	$166	$166	$—	$—

	Fair Value December 31, 2011	Level 1	Level 2	Level 3
Assets:				
Money market funds	$55	$55	$—	$—
Corporate obligations	294	—	294	—
U.S. Government agency and Treasury securities	2,121	606	1,515	—
Auction-rate securities	134	—	—	134
Mutual funds	169	169	—	—
Total assets	$2,773	$830	$1,809	$134
Liabilities:				
Deferred compensation	191	191	—	—
Total liabilities	$191	$191	$—	$—

The following table summarizes the changes in fair values for Level 3 assets and liabilities for the periods ended June 30, 2012 and 2011:

Changes in fair value during the period (pre-tax):	Level 3 Auction-rate Securities	Contingent Consideration
Balance, December 31, 2010	$257	$8
Change in fair value of contingent consideration – included in operating profit	—	(8)
Change in unrealized loss – included in AOCI	1	—
Redemptions and sales	(47)	—
Balance, June 30, 2011	211	—
Change in unrealized loss – included in AOCI	(2)	—
Redemptions and sales	(75)	—
Balance, December 31, 2011	134	—
Change in unrealized loss – included in AOCI	10	—
Redemptions	(84)	—
Sales	(20)	—
Balance, June 30, 2012	$40	$—

7. Goodwill and acquisition-related intangibles

Goodwill was $4.452 billion as of June 30, 2012, and December 31, 2011. There was no impairment of goodwill during the three months or six months ended June 30, 2012. The following table shows the components of acquisition-related intangible assets as of June 30, 2012, and December 31, 2011:

		June 30, 2012			December 31, 2011		
Acquisition-related Intangibles	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	4 - 10	$2,140	$205	$1,935	$2,089	$91	$1,998
Customer relationships	5 - 8	822	86	736	822	34	788
Other intangibles	2 - 7	50	34	16	50	29	21
In-process R&D	(a)	42	—	42	93	—	93

Total	$3,054	$325	$2,729	$3,054	$154	$2,900

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

Amortization of acquisition-related intangibles was $86 million for the three months ($171 million for the six months)

12

ended June 30, 2012, and included $81 million ($162 million for the six months) of amortization expense related to the intangible assets acquired through the National acquisition.

8. Postretirement benefit plans

Components of net periodic employee benefit cost are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Three Months Ended June 30,	2012	2011	2012	2011	2012	2011
Service cost	$6	$5	$1	$1	$10	$9
Interest cost	11	12	6	7	20	16
Expected return on plan assets	(12)	(11)	(6)	(5)	(20)	(20)
Amortization of prior service cost (credit)	—	—	1	—	(1)	(1)
Recognized net actuarial loss	4	6	3	3	11	10
Net periodic benefit cost	$9	$12	$5	$6	$20	$14
Curtailment charges (credits)	—	—	—	—	—	—
Special termination benefit charges (credits)	—	—	—	—	—	—
Total, including charges	$9	$12	$5	$6	$20	$14

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Six Months Ended June 30,	2012	2011	2012	2011	2012	2011
Service cost	$12	$11	$2	$2	$20	$18
Interest cost	23	23	12	12	39	32
Expected return on plan assets	(25)	(22)	(11)	(10)	(40)	(39)
Amortization of prior service cost (credit)	—	—	2	1	(2)	(2)
Recognized net actuarial loss	8	12	6	6	23	19
Net periodic benefit cost	$18	$24	$11	$11	$40	$28
Curtailment charges (credits)	—	—	(1)	—	—	—
Special termination benefit charges (credits)	(2)	—	—	—	—	—
Total, including charges	$16	$24	$10	$11	$40	$28

9. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings and to provide additional liquidity through bank loans. On March 9, 2012, we replaced our existing lines of credit with a new five-year variable-rate revolving credit facility that allows us to borrow up to $2 billion through March 2017. This variable-rate credit facility is indexed to the London Interbank Offered Rate (LIBOR). As of June 30, 2012, we have an aggregate $500 million balance of commercial paper outstanding, which was supported by the new revolving credit facility. In the second quarter of 2012, we repaid $200 million of commercial paper borrowings. The weighted-average borrowing rate for the commercial paper outstanding at the end of the quarter was 0.28 percent.

Long-term debt

In May 2011, we issued fixed- and floating-rate long-term debt to help fund the National acquisition. The proceeds of the offering were $3.497 billion, net of the original issuance discount. We also incurred $12 million of issuance costs that are included in Other assets and are being amortized to Interest and debt expense over the term of the debt.

In connection with this issuance, we also entered into an interest rate swap transaction related to the $1.0 billion floating-rate debt due 2013. Under this swap agreement, we will receive variable payments based on three-month LIBOR rates and pay a fixed rate through May 15, 2013. Changes in the cash flows of the interest rate swap are expected to exactly offset the changes in cash flows attributable to fluctuations in the three-month LIBOR-based interest payments. We have designated this interest rate swap as a cash flow hedge and record changes in its fair value in AOCI. As of June 30, 2012, the fair value of the swap agreement is a $2 million liability. The net effect of this swap is to convert the $1.0 billion floating-rate debt to a fixed-rate obligation bearing a rate of 0.922 percent.

At the acquisition date, we assumed $1.0 billion of outstanding National debt with a fair value of $1.105 billion. The excess of the fair value over the stated value is being amortized as a reduction of Interest and debt expense over the term of the related debt. In the second quarter of 2012, we repaid $375 million of this debt.

The following table summarizes the total long-term debt outstanding as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Notes due 2012 at 6.15% (assumed with National acquisition)	$—	$375
Floating-rate notes due 2013 (swapped to a 0.922% fixed rate)	1,000	1,000
Notes due 2013 at 0.875%	500	500
Notes due 2014 at 1.375%	1,000	1,000
Notes due 2015 at 3.95% (assumed with National acquisition)	250	250
Notes due 2016 at 2.375%	1,000	1,000
Notes due 2017 at 6.60% (assumed with National acquisition)	375	375
	4,125	4,500
Add net unamortized premium (assumed with National acquisition)	78	93
Less current portion of long-term debt	(1,500)	(382)
Total long-term debt	$2,703	$4,211

For the three months and six months ended June 30, 2012, interest incurred on debt and amortization of debt expense was $20 million and $41 million, respectively. Capitalized interest was not material.

10. Contingencies

Indemnification guarantees

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

Warranty costs/product liabilities

We accrue for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability. Historically, we have experienced a low rate of payments on product claims. Although we cannot predict the likelihood or amount of any future claims, we do not believe they will have a material adverse effect on our financial condition, results of operations or liquidity. Consistent with general industry practice, we enter into formal contracts with certain customers that include negotiated warranty remedies. Typically, under these agreements, our warranty for semiconductor products includes: three years 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 June 30, 2012, we believe future payments related to these indemnity obligations will not have a material effect on our financial condition, results of operations or liquidity.

11. Segment data

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2012	2011	2012	2011
Segment Revenue				
Analog	$1,800	$1,588	$3,486	$3,123
Embedded Processing	509	596	982	1,129
Wireless	342	558	715	1,216
Other	684	716	1,273	1,381
Total Revenue	$3,335	$3,458	$6,456	$6,849

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2012	2011	2012	2011
Segment Operating Profit (Loss)				
Analog	$437	$446	$771	$864
Embedded Processing	51	141	87	243
Wireless	(51)	82	(75)	223
Other	161	236	212	483
Total Operating Profit	$598	$905	$995	$1,813

We use centralized manufacturing and facilities organizations to provide products and support to our operating segments. Costs incurred by these organizations (including depreciation) are charged out 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.

12. Subsequent events

On July 30, 2012, we announced the pricing of two series of senior unsecured notes for an aggregate principal amount of $1.5 billion. The notes consist of the following:

- $750 million of 0.45% notes due August 3, 2015
- $750 million of 1.65% notes due August 3, 2019

We intend to use the net proceeds of this offering for general corporate purposes, which, among other things, could include repurchases of common stock. The offering is expected to close August 6, 2012.

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 more than 35 countries. We have four segments: Analog, Embedded Processing, Wireless 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.

We were the world's fourth largest semiconductor company in 2011 as measured by revenue, according to industry data from an external source. Additionally, we sell calculators and related products.

On September 23, 2011, we completed the acquisition of National Semiconductor Corporation (National). The acquisition has brought to TI a portfolio of thousands of analog products, strong customer design tools and additional manufacturing capacity, and is consistent with our strategy to grow our Analog business. The results of National's operations from the acquisition date are included in our Analog segment under the name Silicon Valley Analog.

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 80,000 in number, 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. In 2011, we sold over 20 billion units of our products.

We sell custom and catalog semiconductor products. Custom products are designed for a specific customer for a specific application, are sold only to that customer and are typically sold directly to the customer. The life cycles of custom products are generally determined by end-equipment upgrade cycles and can be as short as 12 to 24 months. Catalog products are designed for use by many customers and/or many applications and are generally sold through both distribution and direct channels. They include both proprietary and commodity products. The life cycles of catalog products are generally longer than for custom products.

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 digital signal processors (DSPs). Analog semiconductors are also used to manage power distribution and consumption. Sales to our Analog segment's more than 90,000 customers generated about 47 percent of our revenue in 2011. According to external sources, the worldwide market for analog semiconductors was about $43 billion in 2011. Our Analog segment's revenue in 2011 was about $6.5 billion, or about 15 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 both high-volume analog products and logic and standard linear products. High-volume analog includes products for specific applications, including custom products. The life cycles of our high-volume analog products are generally shorter than most of our other Analog product lines. End markets for high-volume analog products include communications, automotive, computing and many consumer electronics products. Logic and standard linear includes commodity products marketed to many different customers for many different applications.

Power products: These include both catalog and custom semiconductors that help customers manage power in any type of electronic system. We design and manufacture power management semiconductors for both portable devices (battery-powered devices, such as handheld consumer electronics, laptop computers and cordless power tools) and line-powered systems (products that require an external electrical source, such as computers, digital TVs, wireless basestations and high-voltage industrial equipment).

HPA products: These include catalog analog semiconductors, such as amplifiers, data converters and interface semiconductors, that we market to many different customers who use them in manufacturing a wide range of products sold in many end markets, including the industrial, communications, computing and consumer electronics markets. HPA products generally have long life cycles, often more than 10 years.

SVA products: These include catalog analog products, particularly in the areas of power management, data converters, interface and operational amplifiers, nearly all of which are complementary to our other Analog products. This portfolio of thousands of products is marketed to many different customers who use them in manufacturing a wide range of products sold in many end markets. Many SVA products have long life cycles, often more than 10 years.

Embedded Processing

Our Embedded Processing products include our DSPs and microcontrollers. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Microcontrollers are designed to control a set of specific tasks for electronic equipment. Sales of Embedded Processing products generated about 15 percent of our revenue in 2011. According to external sources, the worldwide market for embedded processors was about $18 billion in 2011. Our Embedded Processing segment’s revenue in 2011 was about $2.0 billion, or about 12 percent of this fragmented market. We believe we are well positioned to increase our market share over time.

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 customers prefer to re-use software from one product generation to the next. We make and sell catalog Embedded Processing products used in many different applications and custom Embedded Processing products used in specific applications, such as communications infrastructure equipment and automotive.

Wireless

Growth in the wireless market is being driven by the demand for smartphones, tablet computers and other emerging applications. Many of today’s smartphones and tablets use an applications processor to run the device’s software operating system and to enable the expanding functionality that has made smartphones and tablets the fastest growing wireless market segments. Many wireless devices also use other semiconductors to enable wireless connectivity using technologies such as Bluetooth®, WiFi networks, GPS and Near Field Communications.

We design, make and sell products to satisfy each of these requirements. Wireless products are typically sold in high volumes. Our Wireless portfolio includes both catalog products and custom products. Sales of Wireless products generated about $2.5 billion, or about 18 percent of our revenue, in 2011, with a majority of those sales to a single customer.

Our Wireless investments are concentrated on our OMAP™ applications processors and our connectivity products, areas we believe offer significant growth opportunities and which will enable us to take advantage of the increasing demand for more powerful and more functional wireless devices. We no longer invest in development of baseband products (products that allow a cell phone to connect to the cellular network), an area we believe offers far less promising growth prospects. Almost all of our baseband products are sold to a single customer. We expect substantially all of our baseband revenue, which was $1.1 billion in 2011, to cease by the end of 2012.

Other

Our Other segment includes revenue from our smaller semiconductor product lines and from sales of our handheld graphing and scientific calculators. It also includes royalties received for our patented technology that we license to other electronics companies and revenue from transitional supply agreements that we may enter into in connection with acquisitions and divestitures. The semiconductor products in our Other segment include DLP® products (primarily used in projectors to create high-definition images) and custom semiconductors known as application-specific integrated circuits (ASICs). This segment generated about $2.5 billion, or about 20 percent of our revenue, in 2011. We also include in our Other segment certain acquisition-related charges that are not used in evaluating results and allocating resources to our segments. These charges include certain fair-value adjustments, restructuring charges, transaction expenses, acquisition-related retention bonuses and the amortization of intangible assets. Our Other segment also includes certain corporate-level items, such as litigation and environmental costs, insurance proceeds, and assets and liabilities associated with our centralized operations, such as our worldwide manufacturing, facilities and procurement operations.

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 of those products than custom products. Additionally, we sometimes maintain catalog-product inventory in unfinished wafer form, as well as higher finished goods inventory of low-volume products, allowing greater flexibility in periods of high demand. We also have consignment inventory programs in place for our largest customers and some distributors.

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 and the wafer is cut into pieces called chips. Each chip is assembled into a package that then is usually retested. The entire process typically requires between 12 and 18 weeks and takes place in highly specialized facilities.

We own and operate semiconductor manufacturing facilities in North America, Asia and Europe. These include both high-volume 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 reductions in customer demand or utilization of capacity, potentially hurting our profit margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, potentially benefiting our profit margins.

The cost and lifespan of the equipment and processes we use to manufacture semiconductors vary by product. Our Analog products and most of our Embedded Processing products can be manufactured using older, less expensive equipment than is needed for manufacturing advanced logic products, such as our Wireless products. Advanced logic wafer manufacturing continually requires new and expensive processes and equipment. In contrast, the processes and equipment required for manufacturing our Analog products and most of our Embedded Processing products do not have this requirement.

To supplement our internal wafer fabrication capacity and maximize our responsiveness to customer demand and return on capital, our wafer manufacturing strategy utilizes the capacity of outside suppliers, commonly known as foundries. We source about 20 percent of our wafers from external foundries, with this outsourcing being about equally split between analog wafers and advanced logic wafers. In 2011, external foundries provided about 75 percent of the fabricated wafers for our advanced logic manufacturing needs. We expect the proportion of our advanced logic wafers provided by foundries will increase over time. We expect to maintain sufficient internal wafer fabrication capacity to meet the vast majority of our analog production needs.

In addition to using foundries to supplement our wafer fabrication capacity, we selectively use subcontractors to supplement our assembly/test capacity. We generally use subcontractors for assembly/test of products that would be less cost-efficient to complete in-house (e.g., relatively low-volume products that are unlikely to keep internal equipment fully utilized), or when demand temporarily exceeds our internal capacity. We believe we often have a cost advantage from maintaining internal assembly/test capacity.

Our internal/external manufacturing strategy reduces the level of our required capital expenditures, and thereby reduces our subsequent levels of depreciation below what it would be if we sourced all manufacturing internally. Consequently, we experience less fluctuation in our profit margins due to changing product demand, and lower cash requirements for expanding and updating our manufacturing capabilities.

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. Typically, new chips are produced in limited quantities at first and then ramp to higher-volume production over time. Consequently, new products tend not to have a significant revenue impact for one or more quarters after their introduction. In the results discussions below, changes in our shipments are caused by changing demand for our products unless otherwise noted.

Market cycle

The "semiconductor cycle" is an important concept that refers to the ebb and flow of supply. 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 and operating results are subject to some seasonal variation. Our semiconductor sales generally are seasonally weaker in the first quarter than in other quarters, particularly for products sold into cell phones and other consumer electronics devices, which have stronger sales later in the year as manufacturers prepare for the major holiday selling seasons. Calculator revenue is tied to the U.S. back-to-school season and is therefore at its highest in the second and third quarters.

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 might reflect in our financial statements one or more tax refunds or assessments, or changes to tax liabilities, involving one or more taxing authorities.

Second- Quarter 2012 results

Our second-quarter revenue was $3.34 billion, net income was $446 million and earnings per share (EPS) were 38 cents. EPS includes 6 cents of charges associated with the company's September 2011 acquisition of National Semiconductor and restructuring related to our fourth quarter 2011 announcement regarding the closure of two older manufacturing facilities.

Our revenue in the second quarter was about as we had expected. Our Analog and Embedded Processing segments grew sequentially, while our Wireless segment declined.

Although we believe customers and distributors have low inventory levels, the global economic environment is causing both to become increasingly cautious in placing new orders. Our backlog grew last quarter but orders slowed in the month of June and our backlog coverage for September is lower than normal. As a result of this increased uncertainty, we currently estimate that our revenue in the third quarter will be about even with last quarter and below our seasonal average growth rate. If customer demand increases as the quarter progresses, we are ready to support higher shipments with short product lead times, a strong inventory position and available manufacturing capacity.

In the meantime, we remain focused on strengthening our market positions in Analog and Embedded Processing. These areas are complementary and benefit from our extensive and expanding relationships with customers around the world. As we continue to broaden our portfolio of leadership products, especially our standard catalog products, we enhance our ability to serve these customers.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Income
(Millions of dollars, except share and per-share amounts)

	For Three Months Ended		
	June 30, 2012	June 30, 2011	March 31, 2012
Revenue	$3,335	$3,458	$3,121
Cost of revenue (COR)	1,684	1,705	1,590
Gross profit	1,651	1,753	1,531
Research and development (R&D)	480	424	509
Selling, general and administrative (SG&A)	456	411	462
Restructuring charges	13	—	10
Acquisition charges	104	13	153
Operating profit	598	905	397
Other income (expense) net (OI&E)	(2)	10	(14)
Interest and debt expense	20	6	21
Income before income taxes	576	909	362
Provision for income taxes	130	237	97
Net income	$446	$672	$265
Earnings per common share:			
Basic	$.38	$.57	$.23
Diluted	$.38	$.56	$.22
Average shares outstanding (millions):			
Basic	1,140	1,156	1,143
Diluted	1,154	1,180	1,165
Cash dividends declared per share of common stock	$.17	$.13	$.17
Percentage of revenue:			
Gross profit	49.5%	50.7%	49.0%
R&D	14.4%	12.3%	16.3%
SG&A	13.7%	11.9%	14.8%
Operating profit	17.9%	26.2%	12.7%

As required by accounting rule ASC 260, net income allocated to unvested restricted stock units (RSUs), on which we pay dividend equivalents, is excluded from the calculation of EPS. The amount excluded is $8 million, $10 million and $4 million for the quarters ending June 30, 2012, June 30, 2011, and March 31, 2012, respectively.

Events affecting comparability

The consolidated financial statements include the results of National’s operations since the acquisition date of September 23, 2011. National’s results are reported in TI’s Analog segment under the name Silicon Valley Analog (SVA). As a direct result of the National acquisition, we incurred various incremental costs that we recorded in Other, as explained more fully below.

Results for the first and second quarters of 2012 also include restructuring charges associated with actions initiated in the fourth quarter of 2011 to close certain manufacturing facilities in Houston, Texas, and Hiji, Japan. These charges are recorded in Other.

Results for all periods presented include the impact of the March 2011 earthquake and associated events in Japan. Related costs and insurance proceeds are included in the Other segment. See Note 3 to the financial statements for detailed information.

Details of financial results

Revenue for the second quarter of 2012 was $3.34 billion, a decrease of $123 million, or 4 percent, from the year-ago quarter due to broad declines across TI's products, and in particular, baseband products. These declines were partially offset by the inclusion of SVA results. Compared with the prior quarter, revenue increased $214 million, or 7 percent, primarily due to increased revenue from Analog.

Gross profit for the second quarter of 2012 was $1.65 billion, or 49.5 percent of revenue, a decrease of $102 million, or 6 percent, from the year-ago quarter. The decrease in gross profit from the year-ago quarter was primarily due to lower revenue and the associated underutilization expense. The underutilization expense in the second quarter of 2012 was about $105 million. Compared with the prior quarter, gross profit was higher due to higher revenue, which more than offset lower insurance proceeds related to the March 2011 earthquake in Japan.

Operating expenses for the second quarter of 2012 were $480 million for R&D and $456 million for SG&A. R&D expense increased $56 million, or 13 percent, from the year-ago quarter due to the inclusion of SVA. Compared with the prior quarter, R&D expense decreased $29 million, or 6 percent, due to lower compensation-related costs and, to a lesser extent, lower product development costs. SG&A expense increased $45 million, or 11 percent, from the year-ago quarter, due to the inclusion of SVA. Compared with the prior quarter, SG&A expense was about even.

Restructuring charges for the second quarter of 2012 were $13 million, an increase of $3 million from the prior quarter. These were associated with actions initiated in the fourth quarter of 2011 to close certain manufacturing facilities in Houston, Texas, and Hiji, Japan. The restructuring charges are included in Other and consist of accelerated depreciation of the facilities' assets and other exit costs. The total charge for these closures is estimated to be about $215 million, of which about $135 million has been recognized to date and the remainder will be incurred through 2013. See Note 4 to the financial statements for detailed information.

In the second quarter of 2012, we incurred $104 million of acquisition charges associated with the National acquisition, compared with $13 million in the year-ago quarter and $153 million in the prior quarter. In the prior quarter we also recognized $21 million in COR associated with the termination of a distributor contract. These incremental costs are separately identifiable from the ongoing operating results of SVA that are included in the Analog segment, so we have classified them as a part of Other. This presentation is consistent with how management measures the performance of those segments. About $80 million of the acquisition charges in the current and prior quarters are from the ongoing amortization of intangible assets, with the remainder due to retention bonuses and other costs.

In the third quarter of 2012, we expect EPS will be negatively impacted by about 7 cents from acquisition and restructuring charges.

For the second quarter of 2012, our operating profit was $598 million, or 17.9 percent of revenue, compared with $905 million, or 26.2 percent of revenue, for the year-ago quarter and $397 million, or 12.7 percent of revenue, for the prior quarter. The decrease from the year-ago quarter was due to, in decreasing order, higher acquisition and restructuring charges, lower gross profit, and higher operating expenses resulting from the inclusion of SVA. Compared with the prior quarter, operating profit increased primarily due to higher gross profit. Contributing to a lesser extent were lower acquisition charges, as well as lower operating expenses.

OI&E for the second quarter of 2012 was an expense of $2 million compared with income in the year-ago quarter and an expense in the prior quarter. The decrease from the year-ago quarter was primarily due to lower income from investments and interest. Compared to the prior quarter, the increase was primarily due to a first quarter 2012 expense associated with a previously divested business.

Interest and debt expense was $20 million, an increase over the year-ago quarter and a decrease compared with the prior quarter. This includes interest and amortization of debt expense associated with our issuance of new debt in May 2011 and the assumption of debt as a result of our National acquisition. See Note 9 to the financial statements for details regarding debt outstanding.

As of June 30, 2012, our estimated annual effective tax rate for 2012 is about 26 percent. Quarterly income taxes are calculated using the estimated annual effective tax rate. See Note 5 to the financial statements for additional information. The tax rate is based on current tax law and does not assume reinstatement of the federal research tax credit, which expired at the end of 2011.

For the second quarter of 2012, our tax provision was $130 million compared with $237 million in the year-ago quarter and $97 million in the prior quarter. The decrease from the year-ago quarter was due to lower income before income taxes. The increase from the prior quarter was due to higher income before income taxes.

For the second quarter of 2012, our net income was $446 million compared with $672 million for the year-ago quarter and $265 million for the prior quarter. EPS was $0.38 compared with $0.56 for the year-ago quarter and $0.22 for the prior quarter.

Orders in the second quarter were $3.41 billion, a decrease of 5 percent from the year-ago quarter and an increase of 5 percent from the prior quarter.

Segment results

In the results discussions below, changes in revenue are caused by changes in product shipment volumes unless otherwise noted.

Analog

	2Q12	2Q11	2Q12 vs. 2Q11	1Q12	2Q12 vs. 1Q12
Revenue	$ 1,800	$ 1,588	13 %	$ 1,686	7 %
Operating profit	437	446	-2 %	335	30 %
Operating profit % of revenue	24.3 %	28.1 %		19.8 %	

Analog revenue increased 13 percent from the year-ago quarter due to the inclusion of SVA. Partially offsetting this increase was lower revenue from HPA and, to a lesser extent, HVAL. Power revenue was about even. Compared with the prior quarter, revenue increased 7 percent primarily due to Power, and to a lesser extent, HPA and HVAL. SVA revenue was about even. Compared with the year-ago quarter, operating profit was down as higher gross profit was offset by higher operating expenses. Operating profit increased from the prior quarter due to higher revenue and associated gross profit.

Embedded Processing

	2Q12	2Q11	2Q12 vs. 2Q11	1Q12	2Q12 vs. 1Q12
Revenue	$ 509	$ 596	-15 %	$ 473	8 %
Operating profit	51	141	-64 %	36	42 %
Operating profit % of revenue	10.0 %	23.7 %		7.7 %	

Embedded Processing revenue decreased 15 percent from the year-ago quarter due to products sold into communications infrastructure applications and, to a lesser extent, normal price declines for catalog products. Partially offsetting these decreases were products sold into automotive applications. Compared with the prior quarter, revenue increased 8 percent due to a higher proportion of shipments of higher-priced products sold into communications infrastructure applications and, to a lesser extent, increased shipments of catalog products. Revenue from products sold into automotive applications declined. Compared with the year-ago quarter, operating profit decreased due to lower revenue and associated gross profit. Operating profit increased from the prior quarter primarily due to higher revenue and associated gross profit.

22

Wireless

	2Q12	2Q11	2Q12 vs. 2Q11	1Q12	2Q12 vs. 1Q12
Revenue	$ 342	$ 558	-39 %	$ 373	-8 %
Operating profit (loss)	(51)	82	n/a	(25)	-104 %
Operating profit (loss) % of revenue	(14.7)%	14.6 %		(6.6)%	

Wireless revenue decreased 39 percent from the year-ago quarter primarily due to baseband products, and to a lesser extent, connectivity products. Baseband revenue for the second quarter of 2012 was $90 million, a decrease of $138 million, or 61 percent, from the year-ago quarter. Compared with the prior quarter, Wireless revenue declined 8 percent due to OMAP applications processors. Revenue from connectivity products also declined due to a decreased proportion of shipments of higher-priced products. Baseband revenue increased $3 million, or 3 percent, from the prior quarter. The decrease in Wireless operating profit in both comparisons was due to lower revenue and associated gross profit.

Other

	2Q12	2Q11	2Q12 vs. 2Q11	1Q12	2Q12 vs. 1Q12
Revenue	$ 684	$ 716	-4 %	$ 589	16 %
Operating profit	161	236	-32 %	51	216 %
Operating profit % of revenue	23.5 %	33.0 %		8.6 %	
Restructuring charges*	13	—		10	
Acquisition charges*	104	13		153	
Other acquisition-related charges - in COR*	—	—		21	

*Included in operating profit

Other revenue decreased 4 percent from the year-ago quarter due to lower revenue from transitional supply agreements that ended in the fourth quarter of 2011, and to a lesser extent, lower royalties and lower shipments of calculators. Partially offsetting this decrease were a higher proportion of shipments of higher-priced custom ASIC products. Compared with the prior quarter, revenue increased 16 percent due to DLP products and calculators. Calculator sales increased from the prior quarter as retailers prepared for the back-to-school selling season. Partially offsetting this increase was a decrease in insurance proceeds related to the 2011 Japan earthquake. Operating profit for the second quarter of 2012 decreased from the year-ago quarter due to higher acquisition and restructuring charges. Compared with the prior quarter, operating profit increased due to higher revenue and associated gross profit, and lower acquisition charges.

First six months of 2012 results

For the first six months of 2012, we report the following:

Revenue was $6.46 billion, a decrease of $393 million, or 6 percent, compared with the year-ago period due to broad declines across TI's products, and in particular, baseband products. These declines were partially offset by the inclusion of SVA results.

Gross profit was $3.18 billion, a decrease of $298 million, or 9 percent, from the year-ago period primarily due to lower revenue and the associated gross profit and underutilization expense. Underutilization expense in the first half of 2012 was $216 million, an increase of $113 million from the year-ago period. Gross profit margin was 49.3 percent of revenue compared with 50.8 percent in the year-ago period.

R&D expense of $989 million increased 17 percent from the year-ago period primarily due to the inclusion of SVA. R&D expense as a percent of revenue was 15.3 percent compared with 12.4 percent in the year-ago period.

SG&A expense was $918 million, an increase of 14 percent from the year-ago period, due to the inclusion of SVA. SG&A expense as a percent of revenue was 14.2 percent compared with 11.8 percent in the year-ago period.

Restructuring charges for the first six months of 2012 were $23 million compared with none for the year-ago period. The restructuring charges are included in Other and consist of accelerated depreciation of facility assets and other exit costs. See Note 4 to the financial statements for detailed information.

Acquisition charges for the first six months of 2012 were $257 million compared with $15 million in the year-ago period. In the first six months of 2012 we also recognized $21 million in COR associated with the termination of a distributor contract. About $160 million are from the ongoing amortization of intangible assets, with the remainder due to retention bonuses and other costs.

Operating profit was $995 million, or 15.4 percent of revenue, compared with $1.81 billion, or 26.5 percent of revenue, in the year-ago period. The decrease was primarily due to lower gross profit and, to a lesser extent, higher acquisition charges.

OI&E decreased from the year-ago period primarily due to a first quarter 2012 expense associated with a previously divested business.

Interest and debt expense was $41 million, an increase over the year-ago period due to the effects of a full six months' worth of interest and other debt amortization.

The tax provision was $226 million compared with $488 million in the year-ago period. The decrease was due to lower income before income taxes.

Net income was $711 million compared with $1.34 billion in the year-ago period. EPS was $0.60 compared with $1.11 in the year-ago period.

Orders were $6.65 billion, a decrease of 7 percent from the year-ago period.

Segment results

In the results discussions below, changes in revenue are caused by changes in product shipment volumes unless otherwise noted.

Analog

	YTD 2012		YTD 2011		YTD 2012 vs. YTD 2011	
Revenue	$ 3,486		$ 3,123		12	%
Operating profit	771		864		-11	%
Operating profit % of revenue	22.1	%	27.7	%		

Analog revenue increased 12 percent from the year-ago period due to the inclusion of SVA. Partially offsetting this increase was lower revenue, primarily from HPA. For the first six months of 2012, operating profit decreased 11 percent from the year-ago period as higher gross profit was offset by higher operating expenses.

Embedded Processing

	YTD 2012	YTD 2011	YTD 2012 vs. YTD 2011
Revenue	$ 982	$ 1,129	-13 %
Operating profit	87	243	-64 %
Operating profit % of revenue	8.9 %	21.5 %	

Embedded Processing revenue decreased 13 percent from the year-ago period due to decreased shipments of products sold into

24

communications infrastructure applications and a higher proportion of shipments of lower-priced catalog products. This was partially offset by products sold into automotive applications. Compared with the year ago-period, operating profit decreased 64 percent primarily due to lower revenue and associated gross profit.

Wireless

	YTD 2012	YTD 2011	YTD 2012 vs. YTD 2011
Revenue	$ 715	$ 1,216	-41 %
Operating profit (loss)	(75)	223	n/a %
Operating profit (loss)% of revenue	(10.5)%	18.3 %	

Wireless revenue decreased 41 percent from the year-ago period primarily due to baseband products. Baseband revenue was $176 million, a decrease of 69 percent from the year-ago period. Revenue from connectivity products also decreased. Partially offsetting this decrease was increased revenue from a higher proportion of shipments of higher-priced OMAP applications processors. Compared with the year-ago period, operating profit decreased due to lower revenue and associated gross profit.

Other

	YTD 2012	YTD 2011	YTD 2012 vs. YTD 2011
Revenue	$ 1,273	$ 1,381	-8 %
Operating profit	212	483	-56 %
Operating profit % of revenue	16.6 %	35.0 %	
Restructuring charges*	23	—	
Acquisition charges*	257	15	
Other acquisition-related charges - in COR*	21	—	

* Included in operating profit

Other revenue decreased 8 percent from the year-ago period due to lower revenue from transitional supply agreements that ended in the fourth quarter of 2011 and a lower proportion of shipments of higher-priced DLP products. These decreases were partially offset by business interruption insurance proceeds related to the 2011 Japan earthquake. Operating profit decreased from the year-ago period primarily due to higher acquisition charges.

Financial Condition

At the end of the second quarter of 2012, total cash (cash and cash equivalents plus short-term investments) was $2.33 billion. This was $602 million lower than at the end of 2011.

Accounts receivable were $1.63 billion at the end of the second quarter, an increase of $84 million from the end of 2011. This increase was primarily due to higher receivables from calculators, the result of seasonally higher revenue. Days sales outstanding were 44 at the end of the quarter compared with 41 at the end of 2011.

Inventory was $1.88 billion at the end of the second quarter. This was an increase of $97 million from the end of 2011. Days of inventory at the end of the second quarter were 101 compared with 86 at the end of 2011. The inventory increase was due to building inventory to support future demand.

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 revolving credit facilities. Cash flow from operations for the first six months of 2012 was $1.12

billion, a decrease of $21 million from the year-ago period, due to lower net income.

We had $1.19 billion of cash and cash equivalents and $1.14 billion of short-term investments as of June 30, 2012. We have a variable-rate revolving credit facility that allows us to borrow up to $2 billion until March 2017. In addition, this credit facility serves as support for the issuance of our commercial paper. As of June 30, 2012, we had $500 million of commercial paper outstanding.

On July 30, 2012, we priced $1.5 billion principal amount of debt, which will be used for general corporate purposes, which, among other things, could include repurchases of common stock. The debt offering is expected to close on August 6, 2012.

For the first six months of 2012, investing activities provided cash of $591 million. In the year-ago period, investing activities used cash of $479 million. Proceeds from net sales and maturities of our short-term investments provided cash of $809 million compared with $72 million of cash used in net purchases in the year-ago period. Capital expenditures in the first six months of 2012 totaled $249 million compared with $470 million in the year-ago period. These expenditures were primarily for assembly/test equipment and, to a lesser extent, analog wafer manufacturing equipment.

Financing activities used net cash of $1.52 billion for the first six months of 2012 and provided $2.52 billion in the year-ago period. For the first six months of 2011, we received proceeds of $3.50 billion from the issuance of fixed- and variable-rate long-term debt (net of the original issuance discount) associated with our National acquisition. In 2012, we used $875 million of cash to repay commercial paper borrowings of $500 million and maturing debt assumed in the National acquisition of $375 million. See Note 9 to the financial statements for additional information. We also used $600 million of cash in the first six months of 2012 to repurchase 19 million shares of our common stock and paid dividends of $390 million. In the same period last year we used $1.22 billion of cash to repurchase 35 million shares of common stock and paid $303 million in dividends. Employee exercises of TI stock options provided cash proceeds of $327 million compared with $530 million for the year-ago period.

We believe we have the necessary financial resources to fund our working capital needs, capital expenditures, debt obligations, dividend payments and other business requirements for at least the next 12 months.

In 2012, we expect approximately: an annual effective tax rate of 26 percent; R&D expense of $1.9 billion; capital expenditures of $0.7 billion; and depreciation of $1.0 billion. The tax rate is based on current tax law and does not assume reinstatement of the federal research tax credit, which expired at the end of 2011.

Long-term contractual obligations

Information concerning our long-term contractual obligations is contained on page 49 of Exhibit 13 to our Form 10-K for the year ended December 31, 2011, and is incorporated by reference to such exhibit, with the exception of $1.5 billion principal amount of debt that was priced on July 30, 2012; the debt offering is expected to close on August 6, 2012.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is contained on pages 51-52 of Exhibit 13 to our Form 10-K for the year ended December 31, 2011, and is incorporated by reference to such exhibit.

ITEM 4. Controls and Procedures.

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

PART II – OTHER INFORMATION

ITEM 1A. Risk Factors

Information concerning our risk factors is contained on pages 25-28 of our Form 10-Q for the quarter ended March 31, 2012, and is incorporated by reference herein.

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[1]	
April 1 through April 30, 2012	2,814,209	$ 31.98	2,814,209		$ 5.28 billion	
May 1 through May 31, 2012	6,743,822	$ 31.11	6,743,822		$ 5.07 billion	
June 1 through June 30, 2012	—	$ —	—		$ 5.07 billion	
Total	9,558,031	$ 31.37	9,558,031	(2)	$ 5.07 billion	(3)

(1) All purchases during the quarter were made under the authorization from our board of directors to purchase up to $7.5 billion of additional shares of TI common stock announced on September 16, 2010.

(2) All purchases during the quarter were open-market purchases.

(3) As of June 30, 2012, this amount consisted of the remaining portion of the $7.5 billion authorization. No expiration date was specified for this authorization.

ITEM 6. Exhibits.

Designation of Exhibits in This Report	Description of Exhibit
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
32.1	Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
32.2	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 c 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 key markets such as communications, computing, industrial and consumer electronics;
- TI's ability to maintain or improve profit margins, including its ability to utilize its manufacturing facilities at sufficient levels to cover its fixed operating costs, in an intensely competitive and cyclical industry;
- TI's ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- TI's ability to compete in products and prices in an intensely competitive industry;
- TI's ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties;
- Expiration of license agreements between TI and its patent licensees, and market conditions reducing royalty payments to TI;
- Economic, social and political conditions in the countries in which TI, its customers or its suppliers operate, including security risks, health conditions, possible disruptions in transportation, communications and information technology networks and fluctuations in foreign currency exchange rates;
- Natural events such as 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;
- 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, 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 National Semiconductor's operations, product lines and technologies, and to realize opportunities for growth and cost savings from the acquisition; and
- Breaches of our information technology systems.

29

For a more detailed discussion of these factors, see the Risk Factors discussion in Item 1A of TI's Form 10-Q for the quarter ended March 31, 2012. The forward-looking statements included in this report on Form 10-Q are made only as of the date of this report and TI undertakes 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: August 3, 2012