TEXAS INSTRUMENTS INC
Form 10-Q
November 04, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

For the transition period from to

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

| Delaware | 75-0289970 |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| 12500 TI Boulevard, P.O. Box 660199, Dallas, Texas | 75266-0199 |
| (Address of principal executive offices) | (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 T 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 T 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 | T | 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 T

1,174,157,492
Number of shares of Registrant's common stock outstanding as of
September 30, 2010

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 Sept. 30, | | For Nine Months Ended Sept. 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | $ 3,740 | $ 2,880 | $ 10,441 | $ 7,422 |
| Cost of revenue | 1,701 | 1,399 | 4,819 | 4,012 |
| Gross profit | 2,039 | 1,481 | 5,622 | 3,410 |
| Research and development | 417 | 368 | 1,178 | 1,122 |
| Selling, general and administrative | 391 | 340 | 1,129 | 972 |
| Restructuring expense | 4 | 10 | 31 | 200 |
| Operating profit | 1,227 | 763 | 3,284 | 1,116 |
| Other income (expense) net | 8 | 2 | 19 | 20 |
| Income before income taxes | 1,235 | 765 | 3,303 | 1,136 |
| Provision for income taxes | 376 | 227 | 1,017 | 321 |
| Net income | $ 859 | $ 538 | $ 2,286 | $ 815 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $ .71 | $ .42 | $ 1.87 | $ .64 |
| Diluted | $ .71 | $ .42 | $ 1.85 | $ .63 |
| | | | | |
| Average shares outstanding (millions): | | | | |
| Basic | 1,184 | 1,255 | 1,208 | 1,266 |
| Diluted | 1,196 | 1,268 | 1,221 | 1,272 |
| | | | | |
| Cash dividends declared per share of common stock | $ .12 | $ .11 | $ .36 | $ .33 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Millions of dollars)

| | For Three Months Ended Sept. 30, | | For Nine Months Ended Sept. 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | $ 859 | $ 538 | $ 2,286 | $ 815 |
| Other comprehensive income (loss): | | | | |
| Available-for-sale investments: | | | | |
| Unrealized gains (losses), net of taxes | 2 | (2) | 4 | 17 |
| Reclassification of recognized transactions, net of taxes | -- | 5 | -- | 6 |
| Net actuarial gains (losses) of defined benefit plans: | | | | |
| Adjustment, net of taxes | (7) | (22) | (81) | 58 |
| Reclassification of recognized transactions, net of taxes | 14 | 14 | 52 | 39 |
| Prior service cost of defined benefit plans: | | | | |
| Adjustment, net of taxes | 1 | 1 | 2 | (2) |
| Reclassification of recognized transactions, net of taxes | -- | -- | -- | (6) |
| Total | 10 | (4) | (23) | 112 |
| Total comprehensive income | $ 869 | $ 534 | $ 2,263 | $ 927 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated Balance Sheets
(Millions of dollars, except share amounts)

| | Sept. 30, 2010 | Dec. 31, 2009 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $1,093 | $1,182 |
| Short-term investments | 1,417 | 1,743 |
| Accounts receivable, net of allowances of ($20) and ($23) | 1,754 | 1,277 |
| Raw materials | 114 | 93 |
| Work in process | 875 | 758 |
| Finished goods | 435 | 351 |
| Inventories | 1,424 | 1,202 |
| Deferred income taxes | 601 | 546 |
| Prepaid expenses and other current assets | 179 | 164 |
| Total current assets | 6,468 | 6,114 |
| Property, plant and equipment at cost | 6,897 | 6,705 |
| Less accumulated depreciation | (3,441) | (3,547) |
| Property, plant and equipment, net | 3,456 | 3,158 |
| Long-term investments | 523 | 637 |
| Goodwill | 926 | 926 |
| Acquisition-related intangibles | 86 | 124 |
| Deferred income taxes | 907 | 926 |
| Capitalized software licenses, net | 213 | 119 |
| Overfunded retirement plans | 23 | 64 |
| Other assets | 47 | 51 |
| Total assets | $12,649 | $12,119 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $623 | $503 |
| Accrued expenses and other liabilities | 965 | 841 |
| Income taxes payable | 31 | 128 |
| Accrued profit sharing and retirement | 219 | 115 |
| Total current liabilities | 1,838 | 1,587 |
| Underfunded retirement plans | 447 | 425 |
| Deferred income taxes | 82 | 67 |
| Deferred credits and other liabilities | 320 | 318 |
| Total liabilities | 2,687 | 2,397 |
| | | |
| 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: September 30, 2010 -- 1,739,932,695; December 31, 2009 -- 1,739,811,721 | 1,740 | 1,740 |
| Paid-in capital | 1,128 | 1,086 |
| Retained earnings | 23,907 | 22,066 |

| | | |
|---|---|---|
| Less treasury common stock at cost. | | |
| Shares: September 30, 2010 -- 565,775,203; December 31, 2009 -- 499,693,704 | (16,169) | (14,549) |
| Accumulated other comprehensive income (loss), net of taxes | (644) | (621) |
| Total stockholders' equity | 9,962 | 9,722 |
| Total liabilities and stockholders' equity | $12,649 | $12,119 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Millions of dollars)

| | For Nine Months Ended Sept. 30, | |
|---|---|---|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | $ 2,286 | $ 815 |
| Adjustments to net income: | | |
| Depreciation | 639 | 668 |
| Stock-based compensation | 143 | 143 |
| Amortization of acquisition-related intangibles | 36 | 34 |
| Deferred income taxes | (45) | 80 |
| Increase (decrease) from changes in: | | |
| Accounts receivable | (468) | (520) |
| Inventories | (213) | 263 |
| Prepaid expenses and other current assets | (11) | 24 |
| Accounts payable and accrued expenses | 173 | 36 |
| Income taxes payable | (112) | 91 |
| Accrued profit sharing and retirement | 106 | (43) |
| Other | 56 | 51 |
| Net cash provided by operating activities | 2,590 | 1,642 |
| | | |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (898) | (317) |
| Purchases of short-term investments | (1,811) | (1,442) |
| Sales, redemptions and maturities of short-term investments | 2,175 | 1,412 |
| Purchases of long-term investments | (6) | (5) |
| Redemptions and sales of long-term investments | 90 | 62 |
| Business acquisitions, net of cash acquired | (59) | (155) |
| Net cash used in investing activities | (509) | (445) |
| | | |
| Cash flows from financing activities: | | |
| Dividends paid | (439) | (418) |
| Sales and other common stock transactions | 120 | 71 |
| Excess tax benefits from share-based payments | 3 | -- |
| Stock repurchases | (1,854) | (602) |
| Net cash used in financing activities | (2,170) | (949) |
| | | |
| Net (decrease) increase in cash and cash equivalents | (89) | 248 |
| Cash and cash equivalents, beginning of period | 1,182 | 1,046 |
| Cash and cash equivalents, end of period | $ 1,093 | $ 1,294 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Notes to Financial Statements

1. Description of business and significant accounting policies and practices. Texas Instruments (TI) designs and makes semiconductors that we sell to electronics designers and manufacturers; about 80,000 customers all over the world buy our products.

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, 2009. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended September 30, 2010 and 2009, and the balance sheet as of September 30, 2010, 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. The consolidated balance sheet as of December 31, 2009, presented herein is derived from the audited consolidated balance sheet presented in our annual report on Form 10-K at that date. 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, 2009. 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 the notes, except share and per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated.

Use of Derivatives and Hedging – We 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 use derivatives for speculative or trading purposes. We do not apply hedge accounting to our foreign currency derivative instruments.

Fair Values of Financial Instruments – The fair values of our derivative financial instruments were not significant at September 30, 2010. Our investments in cash equivalents, short-term investments and certain long-term investments 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.

Changes in Accounting Standards – In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010 - 06 – Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than

net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. Except for the detailed disclosures of changes in Level 3 items, which will be effective for us as of January 1, 2011, the remaining new disclosure requirements were effective for us as of January 1, 2010. We have included these new disclosures, as applicable, in Note 6.

In April 2010, the FASB issued ASU No. 2010 - 17 – Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition. This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard will be effective for us on a prospective basis as of January 1, 2011. We have evaluated the potential impact of this standard and expect it will have no significant impact on our financial position or results of operations.

2. Acquisitions. On August 31, 2010, we completed the acquisition of two wafer fabrication facilities and equipment in Aizu-Wakamatsu, Japan for net cash of $130 million. These assets were previously operated by Spansion Japan Limited (SJL) and were acquired under a court-approved plan of reorganization.

The acquisition of the two wafer fabrication facilities and related 200-millimeter equipment was recorded as a business combination for net cash of $59 million. This agreement includes an operational 200-millimeter wafer fabrication facility as well as a non-operating wafer fabrication facility capable of either 200 or 300-millimeter production that will be preserved for future capacity expansion. Additionally, we offered employment to all of the SJL employees in Aizu. We will provide transitional supply services to Spansion LLC through June 2012, while also installing our analog production processes. We recorded $42 million of property, plant and equipment, $9 million of inventory and $8 million of expenses, which were charged to cost of revenue. Operating results for the transitional supply services provided to Spansion LLC will be included in our Other segment.

The acquisition also included 300-millimeter production tools which we recorded as a capital purchase for net cash of $58 million. Of this amount, $36 million was for tools to be used primarily in our 300-millimeter analog wafer factory in Richardson, Texas and the remaining $22 million will be held for sale.

In connection with this acquisition, we also settled a contractual arrangement with a third party for our benefit for net cash of $12 million which was recorded as a charge in cost of revenue in our Other segment. Additionally, we incurred acquisition-related costs of $1 million which was recorded in selling, general and administrative expense.

In the second quarter of 2009, we acquired Luminary Micro for net cash of $51 million and other consideration of $7 million. These operations were integrated into our Embedded Processing segment.

In the first quarter of 2009, we acquired CICLON Semiconductor Device Corporation for net cash of $104 million and other consideration of $7 million. These operations were integrated into our Analog segment.

The results of operations of these business combinations have been included in our financial statements from their respective acquisition dates. Pro forma financial information for the comparable prior period of 2009 to reflect the latest acquisition would not be materially different from amounts reported.

3. Restructuring activities. In October 2008, we announced actions to reduce expenses in our Wireless segment, especially our baseband operation. In January 2009, we announced actions that included broad-based employment reductions to align our spending with weakened demand. Combined, these actions eliminated about 3,900 jobs; they were completed in 2009.

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

| | Severance and Benefits | Impairments and Other Charges | Total |
|---|---|---|---|
| Remaining accrual at December 31, 2009 | $ 84 | $ 10 | $ 94 |
| Restructuring expense | 31 | -- | 31 |
| Non-cash charges | (31)* | -- | (31) |
| Payments | (57) | (2) | (59) |
| Remaining accrual at September 30, 2010 | $ 27 | $ 8 | $ 35 |

* Reflects postretirement benefit plan settlement charges.

The accrual balances above are a component of Accrued expenses and other liabilities or Deferred credits and other liabilities on our balance sheets, depending on the expected timing of payment.

Restructuring expense recognized by segment from the actions above is as follows:

| | For Three Months Ended Sept. 30, | | For Nine Months Ended Sept. 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Analog | $ 1 | $ 4 | $ 12 | $ 78 |
| Embedded Processing | 1 | 2 | 6 | 40 |
| Wireless | 1 | 3 | 9 | 61 |
| Other | 1 | 1 | 4 | 21 |
| Total | $ 4 | $ 10 | $ 31 | $ 200 |

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 2010 does not assume reinstatement of the federal research tax credit, which expired at the end of 2009. As of September 30, 2010, the estimated annual effective tax rate for 2010 is about 31 percent, which differs from the 35 percent statutory corporate tax rate primarily due to the effects of non-U.S. tax rates.

5. 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:

| | For Three Months Ended September 30, 2010 | | | For Three Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | EPS | Income | Shares | EPS |
| Basic EPS: | | | | | | |
| Net Income | $859 | | | $538 | | |
| Less income allocated to RSUs | (13) | | | (6) | | |
| Income allocated to common stock for basic EPS calculation | $846 | 1,184 | $.71 | $532 | 1,255 | $.42 |
| Adjustment for dilutive shares: | | | | | | |
| Stock-based compensation plans | | 12 | | | 13 | |
| Diluted EPS: | | | | | | |
| Net Income | $859 | | | $538 | | |
| Less income allocated to RSUs | (13) | | | (6) | | |
| Income allocated to common stock for diluted EPS calculation | $846 | 1,196 | $.71 | $532 | 1,268 | $.42 |

| | For Nine Months Ended September 30, 2010 | | | For Nine Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | EPS | Income | Shares | EPS |

| | | | | | | |
|---|---|---|---|---|---|---|
| Basic EPS: | | | | | | |
| Net Income | $2,286 | | | $815 | | |
| Less income allocated to RSUs | (32) | | | (8) | | |
| Income allocated to common stock for basic EPS calculation | $2,254 | 1,208 | $1.87 | $807 | 1,266 | $.64 |
| | | | | | | |
| Adjustment for dilutive shares: | | | | | | |
| Stock-based compensation plans | | 13 | | | 6 | |
| | | | | | | |
| Diluted EPS: | | | | | | |
| Net Income | $2,286 | | | $815 | | |
| Less income allocated to RSUs | (31) | | | (8) | | |
| Income allocated to common stock for diluted EPS calculation | $2,255 | 1,221 | $1.85 | $807 | 1,272 | $.63 |

Options to purchase 96 million and 121 million shares of common stock that were outstanding during the third quarters of 2010 and 2009, and 96 million and 137 million shares outstanding during the nine months of 2010 and 2009, respectively, were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

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 securities consist primarily of money market funds and debt securities. Available-for-sale 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). We record other-than-temporary losses (impairments) on these securities in OI&E, and all other unrealized gains and losses as an increase or decrease, net of taxes, in accumulated other comprehensive income (AOCI).

Trading securities are stated at fair value based on market prices. Our trading securities consist exclusively of mutual funds that 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 our trading securities and the related deferred compensation liabilities in selling, general and administrative expense.

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 or 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. We determine cost or amortized cost, as appropriate, on a specific identification basis.

In the quarter ending September 30, 2010, $35 million of auction-rate securities were redeemed and $29 million of auction-rate securities were called for redemption in October 2010. The auction-rate securities that have been called have been reclassified from long-term to short-term investments on the balance sheet.

Details of our investments by class and related unrealized gains and losses included in AOCI are as follows:

| | September 30, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | 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 | | | | | | |
| Money market funds | $316 | $ -- | $ -- | $563 | $ -- | $ -- |
| Corporate obligations | 100 | 649 | -- | 100 | 438 | -- |
| U.S. government agency and Treasury securities | 461 | 739 | -- | 360 | 1,305 | -- |
| Auction-rate securities | -- | 29 | 331 | -- | -- | 458 |
| Trading | | | | | | |
| Mutual funds | -- | -- | 131 | -- | -- | 123 |
| Total | $877 | $ 1,417 | $ 462 | $1,023 | $ 1,743 | $ 581 |
| Other measurement basis: | | | | | | |
| Equity method investments | $-- | $ -- | $ 35 | $-- | $ -- | $ 33 |
| Cost method investments | -- | -- | 26 | -- | -- | 23 |
| Cash on hand | 216 | -- | -- | 159 | -- | -- |
| Total | $1,093 | $ 1,417 | $ 523 | $1,182 | $ 1,743 | $ 637 |
| Amounts included in AOCI from available-for-sale securities: | | | | | | |
| Unrealized gains (pre-tax) | $-- | $ 2 | $ -- | $-- | $ 1 | $ -- |
| Unrealized losses (pre-tax) | $-- | $ -- | $ 27 | $-- | $ -- | $ 32 |

As of September 30, 2010, about 66 percent of our investments in the corporate obligations shown above are insured by either the Federal Deposit Insurance Corporation (FDIC) or the U.K. government.

As of September 30, 2010 and December 31, 2009, unrealized losses included in AOCI were associated with auction-rate securities. We have determined that our available-for-sale investments with unrealized losses are not other-than-temporarily impaired. 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 nine months ended September 30, 2010 and 2009, we did not recognize in earnings any credit losses related to these investments.

For the nine months ended September 30, 2010 and 2009, the proceeds from sales of available-for-sale securities prior to their scheduled maturities were $3.94 billion and $837 million, 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 other debt securities classified as available-for-sale at September 30, 2010:

| Due | Fair Value |
|---|---|
| One year or less | $ 1,839 |
| One to three years | 455 |
| Greater than three years (auction-rate securities) | 331 |

Fair value

We measure and report our financial assets and liabilities at fair value. 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 use a market approach to determine the fair value, primarily utilizing 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.

We own auction-rate securities that 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. There is currently no active market for auction-rate securities, so we use a discounted cash flow (DCF) model to determine the estimated fair value of these investments as of each quarter end. The assumptions used in preparing the DCF 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. The principal associated with failed auctions will not be accessible until successful auctions resume, a buyer is found outside of the auction process, or issuers use a different form of financing to replace these securities. Meanwhile, issuers continue to repay principal over time from cash flows prior to final maturity, or make final payments when they come due according to contractual maturities ranging from 12 to 37 years. All of our auction-rate securities are backed by pools of student loans substantially guaranteed by the U.S. Department of Education and we continue to believe that the credit quality of these securities is high based on this guarantee. As of September 30, 2010, all of these securities were rated AAA or Aaa by at least one of the major rating agencies. Although most of these securities are dual rated AAA/Aaa, one ($25 million par value) is rated AAA/B3

and one ($12 million par value) is rated AAA/Baa1. While our ability to liquidate auction-rate investments is likely to be limited for some period of time, we do not believe this will materially impact our ability to fund our working capital needs, capital expenditures, dividend payments or other business requirements.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2010 and December 31, 2009. 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, 2010 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Money market funds | $ 316 | $316 | $-- | $-- |
| Corporate obligations | 749 | -- | 749 | -- |
| U.S. government agency and Treasury securities | 1,200 | 741 | 459 | -- |
| Auction–rate securities | 360 | -- | 29 | 331 |
| Mutual funds | 131 | 131 | -- | -- |
| Total assets | $ 2,756 | $1,188 | $1,237 | $331 |
| | | | | |
| Liabilities: | | | | |
| Contingent consideration | $ 16 | $-- | $-- | $16 |
| Deferred compensation | 150 | 150 | -- | -- |
| Total liabilities | $ 166 | $150 | $-- | $16 |

| | Fair Value December 31, 2009 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Money market funds | $ 563 | $563 | $-- | $-- |
| Corporate obligations | 538 | -- | 538 | -- |
| U.S. government agency and Treasury securities | 1,665 | 911 | 754 | -- |
| Auction–rate securities | 458 | -- | -- | 458 |
| Mutual funds | 123 | 123 | -- | -- |
| Total assets | $ 3,347 | $1,597 | $1,292 | $458 |
| | | | | |
| Liabilities: | | | | |
| Contingent consideration | $ 18 | $-- | $-- | $18 |
| Deferred compensation | 154 | 154 | -- | -- |
| Total liabilities | $ 172 | $154 | $-- | $18 |

The liabilities in the tables above are a component of Accrued expenses and other liabilities or Deferred credits and other liabilities on our balance sheets, depending on the expected timing of payment.

The following table provides a reconciliation of changes in the fair values for Level 3 assets and liabilities. In the quarter ending September 30, 2010, we were notified that $29 million of our auction-rate securities were called for redemption in the fourth quarter of 2010. As a result, we transferred these assets from Level 3 to Level 2 as of the end of the third quarter. These securities were redeemed in October 2010.

| | Level 3 | |
|---|---|---|
| Changes in fair value during the period (pre-tax): | Auction-rate securities | Contingent consideration |
| Beginning Balance, December 31, 2008 | $ 482 | $ -- |
| New contingent consideration | -- | 10 |
| Change in fair value of contingent consideration - included in operating profit | -- | 8 |
| Reduction in unrealized loss - included in AOCI | 19 | -- |
| Redemptions | (44) | -- |
| Ending Balance, September 30, 2009 | 457 | 18 |
| | | |
| Reduction in unrealized loss - included in AOCI | 2 | -- |
| Redemptions | (1) | -- |
| Ending Balance, December 31, 2009 | 458 | 18 |
| | | |
| Change in fair value of contingent consideration - included in operating profit | -- | (2) |
| Reduction in unrealized loss - included in AOCI | 5 | -- |
| Redemptions | (103) | -- |
| Transfers into Level 2 | (29) | -- |
| Ending Balance, September 30, 2010 | $ 331 | $ 16 |

7. Postretirement benefit plans. Components of net periodic employee benefit cost are as follows:

| For Three Months Ended September 30, | U.S. Defined Benefit 2010 | U.S. Defined Benefit 2009 | U.S. Retiree Health Care 2010 | U.S. Retiree Health Care 2009 | Non-U.S. Defined Benefit 2010 | Non-U.S. Defined Benefit 2009 |
|---|---|---|---|---|---|---|
| Service cost | $5 | $5 | $1 | $1 | $8 | $9 |
| Interest cost | 11 | 12 | 6 | 7 | 16 | 16 |
| Expected return on plan assets | (12) | (11) | (6) | (7) | (19) | (18) |
| Amortization of prior service cost | -- | -- | 1 | -- | (1) | (1) |
| Recognized net actuarial loss | 7 | 5 | 3 | 2 | 8 | 8 |
| Net periodic benefit cost | $11 | $11 | $5 | $3 | $12 | $14 |
| | | | | | | |
| Settlement charges * | 5 | 1 | -- | -- | -- | 6 |
| Total, including charges | $16 | $12 | $5 | $3 | $12 | $20 |

| For Nine Months Ended September 30, | U.S. Defined Benefit 2010 | U.S. Defined Benefit 2009 | U.S. Retiree Health Care 2010 | U.S. Retiree Health Care 2009 | Non-U.S. Defined Benefit 2010 | Non-U.S. Defined Benefit 2009 |
|---|---|---|---|---|---|---|
| Service cost | $15 | $15 | $3 | $3 | $25 | $28 |
| Interest cost | 35 | 37 | 19 | 20 | 46 | 46 |
| Expected return on plan assets | (37) | (36) | (17) | (21) | (54) | (51) |
| Amortization of prior service cost | 1 | 1 | 2 | 1 | (3) | (3) |
| Recognized net actuarial loss | 16 | 13 | 9 | 6 | 22 | 27 |
| Net periodic benefit cost | $30 | $30 | $16 | $9 | $36 | $47 |
| | | | | | | |
| Settlement charges * | 34 | 8 | -- | -- | -- | 6 |
| Curtailment charges (gains) | -- | -- | -- | 2 | -- | (10) |
| Special termination benefit charges | -- | 6 | -- | -- | -- | -- |
| Total, including charges and (gains) | $64 | $44 | $16 | $11 | $36 | $43 |

* Includes restructuring and non-restructuring related settlement charges.

8. Contingencies. 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.

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

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.

Discontinued Operations Indemnity – In connection with the 2006 sale of the former Sensors & Controls business, we have agreed to indemnify Sensata Technologies, Inc., for specified litigation matters and certain liabilities, including environmental liabilities. Our indemnification obligations with respect to breaches of representations and warranties and the specified litigation matters are generally subject to a total deductible of $30 million and our maximum potential exposure is limited to $300 million. We have not made any indemnity payments related to this matter and do not expect that any potential payments related to this indemnity obligation would have a material adverse effect on our financial condition, results of operations or liquidity in future periods.

9. Segment data. In the first quarter of 2010, we transferred a low-power wireless product line from the Analog segment to the Wireless segment. All segment results for prior periods have been restated to conform to this new presentation.

| | For Three Months Ended Sept. 30, | | For Nine Months Ended Sept. 30, | |
|---|---|---|---|---|
| Segment Revenue | 2010 | 2009 | 2010 | 2009 |
| Analog | $ 1,581 | $ 1,168 | $ 4,461 | $ 2,940 |
| Embedded Processing | 579 | 393 | 1,535 | 1,059 |
| Wireless | 767 | 691 | 2,211 | 1,868 |
| Other | 813 | 628 | 2,234 | 1,555 |
| Total revenue | $ 3,740 | $ 2,880 | $ 10,441 | $ 7,422 |

| | For Three Months Ended Sept. 30, | | For Nine Months Ended Sept. 30, | |
|---|---|---|---|---|
| Segment Operating Profit | 2010 | 2009 | 2010 | 2009 |
| Analog | $ 520 | $ 311 | $ 1,391 | $ 387 |
| Embedded Processing | 160 | 75 | 348 | 105 |
| Wireless | 180 | 105 | 502 | 134 |
| Other | 367 | 272 | 1,043 | 490 |
| Total operating profit | $ 1,227 | $ 763 | $ 3,284 | $ 1,116 |

See Note 3 for restructuring expenses impacting segment results for the three and nine months ended September 30, 2010 and 2009.

10. Subsequent events. On October 14, 2010, we announced the acquisition of a fully equipped 200-millimeter wafer fabrication facility (fab) from Cension Semiconductor Manufacturing Company in China to further expand our analog manufacturing capacity. The facility is located in the Chengdu High-tech Zone. The acquisition also includes a non-operating fab reserved for future capacity expansion. The acquisition will be recorded as a business combination in the fourth quarter of 2010 and we expect to use net cash of $140 million. Up to an additional $35 million may be paid to the seller over the next twelve months based on certain performance criteria.

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 30 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 2009 as measured by revenue, according to an external source. Additionally, we sell calculators and related products.

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 semiconductors 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. Our portfolio includes products that are integral to almost all electronic equipment.

We sell custom and standard 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. Standard 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 standard 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 nearly 80,000 customers generated about 40 percent of our revenue in 2009. According to external sources, the worldwide market for analog semiconductors was about $32 billion in 2009. Our Analog segment's revenue in 2009 was $4.2 billion, or about 13 percent of this market, the leading position. We believe that we are well-positioned to increase our market share over time.

Our Analog product lines are: high-volume analog & logic, high-performance analog and power management.

High-volume analog & logic 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 those of our

high-performance analog products. 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.

High-performance analog products: These include standard analog semiconductors, such as amplifiers, data converters and interface semiconductors (our portfolio includes more than 15,000 products), 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. High-performance analog products generally have long life cycles, often more than 10 years.

Power management products: These include both standard 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 base stations and high-voltage industrial equipment).

Embedded Processing

Our Embedded Processing products include our DSPs (other than DSPs specific to our Wireless segment) 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 2009. The worldwide market for embedded processors was about $14 billion in 2009. According to external sources, we have about 11 percent share in this fragmented market, and 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 standard, or 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

Smartphones (phones which contain computing capability) are a rapidly growing portion of the cell phone market. These devices require an applications processor to run the phone’s software and services, and other semiconductors to enable connectivity through means other than the cellular network (for example, Bluetooth® devices, WiFi networks or GPS location services).

We concentrate our Wireless investments on our OMAPTM applications processors and connectivity products. These products are central to smartphones and offer growth opportunities with a broad set of customers.

We have discontinued investment in baseband chips, a market with shrinking competitive barriers and slowing growth rates. We expect substantially all of our baseband revenue, which was $1.73 billion in 2009, to cease by the end of 2012.

Wireless products are typically sold in high volumes, and our Wireless portfolio includes both standard products and custom products. Sales of Wireless products generated about 25 percent of our revenue in 2009, and a significant portion of our Wireless sales were to a single customer.

Other

Our Other segment includes revenue from sales from our smaller semiconductor product lines and of our handheld graphing and scientific calculators, as well as royalties received for our patented technology that we license to other electronics companies and transition service agreements 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 20 percent of our revenue in 2009.

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 standard products and their inherently lower risk of obsolescence, we generally carry more of those products than custom products. Additionally, we sometimes maintain standard-product inventory in unfinished wafer form, allowing greater flexibility to meet final package and test configurations.

As a result of two multi-year trends, in general we expect to carry higher levels of inventory relative to our revenue expectations (commonly viewed by investors as days of inventory) than in past years. First, standard products have become a larger part of our portfolio. Second, we have increased consignment programs for our largest customers and some distributors and, as a result, we now carry more inventory on average than in the past in order to service the needs of these customers.

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 may be 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 varies 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 expenditures, our wafer manufacturing strategy utilizes the capacity of outside suppliers, commonly known as foundries. Our strategy involves installing internal wafer fabrication capacity to a level we believe will remain fully utilized over the equipment’s useful lifetime and then outsourcing remaining capacity needs to foundries. In 2009, external foundries provided about 55 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 in 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.

During 2010 we qualified the industry's first 300-millimeter analog wafer factory, located in Richardson, Texas, and acquired two operating wafer factories, one in Japan and one in China.

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 high-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. This 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. Royalty revenue 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.

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.

Third-Quarter 2010 results

Our third-quarter revenue was $3.74 billion, net income was $859 million and earnings per share were 71 cents.

Our strong performance was driven by growth in all of our segments. Our continuing transformation to a company focused on Analog and Embedded Processing delivered new highs for both gross and operating margins. Strong earnings per share demonstrate the combined impact of solid profits and our diligence to return excess capital to our shareholders through stock repurchases.

Demand from industrial markets was especially strong, while consumer demand cooled, impacting markets such as computing and televisions. Across a wide array of markets, our Analog and Embedded Processing products and Wireless smartphone chips continued to gain share. These products are broadly needed in today’s electronic equipment, and our market share gains reflect the focused investments we have made in our portfolio, applications support and manufacturing capacity.

Importantly, we soon will begin initial shipments from RFAB, the world’s first 300-millimeter manufacturing facility for analog semiconductors. In the quarter, we also purchased a 200-millimeter analog manufacturing facility in Aizu, Japan, and in October we began our first semiconductor manufacturing operations in China with the purchase of a facility in the high-tech region of Chengdu. These purchases have been made at substantial discounts, and they support our plans to continue gaining market share over the long term.

In the fourth quarter, we expect sequentially lower revenue reflecting a combination of seasonal patterns, continued soft demand in computing and consumer markets, and slowing growth in the industrial market.

19

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

| | For Three Months Ended | | |
|---|---|---|---|
| | Sept. 30, 2010 | Sept. 30, 2009 | June 30, 2010 |
| Revenue | $ 3,740 | $ 2,880 | $ 3,496 |
| Cost of revenue | 1,701 | 1,399 | 1,602 |
| Gross profit | 2,039 | 1,481 | 1,894 |
| Research and development (R&D) | 417 | 368 | 392 |
| Selling, general and administrative (SG&A) | 391 | 340 | 378 |
| Restructuring expense | 4 | 10 | 17 |
| Operating profit | 1,227 | 763 | 1,107 |
| Other income (expense) net | 8 | 2 | 4 |
| Income before income taxes | 1,235 | 765 | 1,111 |
| Provision for income taxes | 376 | 227 | 342 |
| Net income | $ 859 | $ 538 | $ 769 |
| | | | |
| Earnings per common share: | | | |
| Basic | $ .71 | $ .42 | $ .63 |
| Diluted | $ .71 | $ .42 | $ .62 |
| | | | |
| Average shares outstanding (millions): | | | |
| Basic | 1,184 | 1,255 | 1,208 |
| Diluted | 1,196 | 1,268 | 1,221 |
| | | | |
| Cash dividends declared per share of common stock | $ .12 | $ .11 | $ .12 |
| | | | |
| Percentage of revenue: | | | |
| Gross profit | 54.5 % | 51.4 % | 54.2 % |
| R&D | 11.1 % | 12.7 % | 11.2 % |
| SG&A | 10.5 % | 11.8 % | 10.8 % |
| Operating profit | 32.8 % | 26.5 % | 31.7 % |

As required by accounting rule ASC 260, net income allocated to unvested restricted stock units (RSUs) that receive dividends is excluded from the calculation of EPS. The amount excluded was $13 million, $6 million and $11 million for the quarters ending September 30, 2010, September 30, 2009 and June 30, 2010, respectively.

Details of financial results

Revenue for the third quarter of 2010 was $3.74 billion, an increase of $860 million, or 30 percent, from the year-ago quarter, and $244 million, or 7 percent, from the prior quarter. Revenue in all segments increased over both the year-ago quarter and the prior quarter primarily due to increased shipments across a broad range of products, with particular strength in our core businesses. Our core businesses are the Analog and Embedded Processing segments

and the smartphone-focused applications processors and connectivity products of our Wireless segment.

Gross profit for the third quarter of 2010 was $2.04 billion, or 54.5 percent of revenue, an increase of $558 million, or 38 percent, from the year-ago quarter, and $145 million, or 8 percent, from the prior quarter. The increase in gross profit in both comparisons was due to higher revenue.

Operating expenses for the third quarter of 2010 were $417 million for R&D and $391 million for SG&A. R&D expense increased $49 million, or 13 percent, from the year-ago quarter primarily due to higher compensation-related costs and, to a lesser extent, higher product development costs, in our core businesses. R&D expense increased $25 million, or 6 percent, from the prior quarter primarily due to higher product development costs and, to a lesser extent, higher compensation-related costs, in our core businesses. SG&A expense increased $51 million, or 15 percent, from the year-ago quarter due to higher compensation-related costs and, to a lesser extent, higher sales and marketing costs. Compared with the prior quarter, SG&A expense increased $13 million, or 3 percent, primarily due to higher compensation-related costs.

Restructuring costs in the third quarter of 2010 were $4 million compared with $10 million in the year-ago quarter and $17 million in the prior quarter, reflecting settlements of U.S. pension plan benefits for employees affected by actions taken in 2008 and 2009. All of these actions were completed in 2009 (see Note 3 to the Financial Statements for a discussion of these charges and payments made during the quarter).

For the third quarter of 2010, our operating profit was $1.23 billion, or 32.8 percent of revenue, compared with $763 million, or 26.5 percent of revenue, for the year-ago quarter and $1.11 billion, or 31.7 percent of revenue, for the prior quarter. The increase in operating profit in both comparisons was due to higher gross profit, partially offset by higher operating expenses.

As of September 30, 2010, the estimated annual effective tax rate is expected to be about 31 percent (see Note 4 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 2009.

Quarterly income taxes are calculated using the estimated annual effective tax rate. For the third quarter of 2010, our tax provision was $376 million compared with $227 million in the year-ago quarter and $342 million in the prior quarter. The increase in the tax provision from both periods was due to higher income before income taxes.

In the third quarter of 2010, our net income was $859 million compared with $538 million for the year-ago quarter and $769 million for the prior quarter. Earnings per share (EPS) were $0.71 compared with $0.42 for the year-ago quarter and $0.62 for the prior quarter. EPS benefitted $0.04 from the year-ago quarter and $0.01 sequentially from a lower number of average shares outstanding as a result of our stock repurchase program.

Orders in the third quarter were $3.43 billion, an increase of 10 percent from the year-ago quarter. Compared with the prior quarter, orders decreased 8 percent.

Segment results

Information regarding the third quarter of 2009 has been restated to reflect the transfer of a low-power wireless product line from our Analog segment to our Wireless segment in the first quarter of 2010. For 2009, revenue from this product line was $68 million, and it operated at a loss of $17 million.

Analog

| | 3Q10 | 3Q09 | 3Q10 vs. 3Q09 | 2Q10 | 3Q10 vs. 2Q10 |
|---|---|---|---|---|---|
| Revenue | $1,581 | $1,168 | 35 % | $1,512 | 5 % |
| Operating profit* | 520 | 311 | 67 % | 472 | 10 % |
| Operating profit % of revenue | 32.9 % | 26.6 % | | 31.2 % | |
| *Includes restructuring expenses of | $1 | $4 | | $7 | |

Analog revenue increased 35 percent from the year-ago quarter due to increased shipments of, in decreasing order, high-performance analog products, power management products and high-volume analog & logic products. Revenue increased 5 percent from the prior quarter due to higher shipments of, in decreasing order, high-performance analog products, high-volume analog & logic products and power management products. Operating profit increased compared with both the year-ago quarter and the prior quarter due to higher revenue and associated gross profit.

Embedded Processing

| | 3Q10 | 3Q09 | 3Q10 vs. 3Q09 | 2Q10 | 3Q10 vs. 2Q10 |
|---|---|---|---|---|---|
| Revenue | $579 | $393 | 47 % | $516 | 12 % |
| Operating profit* | 160 | 75 | 113 % | 115 | 39 % |
| Operating profit % of revenue | 27.6 % | 19.0 % | | 22.3 % | |
| *Includes restructuring expenses of | $1 | $2 | | $3 | |

Embedded Processing revenue increased 47 percent from the year-ago quarter and 12 percent from the prior quarter. The increase from the year-ago quarter was primarily due to increased shipments of catalog products, and to a lesser extent, in decreasing order, increased shipments of communications infrastructure and automotive products. The increase from the prior quarter was due about equally to increased shipments of communications infrastructure and catalog products, while shipments of automotive products were even. Operating profit increased compared with both the year-ago quarter and the prior quarter due to higher revenue and associated gross profit.

Wireless

| | 3Q10 | 3Q09 | 3Q10 vs. 3Q09 | 2Q10 | 3Q10 vs. 2Q10 |
|---|---|---|---|---|---|
| Revenue | $767 | $691 | 11 % | $727 | 6 % |
| Operating profit* | 180 | 105 | 71 % | 165 | 9 % |
| Operating profit % of revenue | 23.5 % | 15.2 % | | 22.7 % | |
| | | | | | |
| *Includes restructuring expenses of | $1 | $3 | | $5 | |

Wireless revenue increased 11 percent from the year-ago quarter and 6 percent from the prior quarter. The increase from the year-ago quarter was due to increased shipments of connectivity products and, to a lesser extent, applications processors. The increase in revenue from the prior quarter was primarily due to an increased proportion of shipments of higher-priced baseband products, and to a lesser extent, increased shipments of connectivity products and applications processors. Baseband revenue for the third quarter of 2010 was $438 million, a decrease of $12 million, or 3 percent, from the year-ago quarter and an increase of $22 million, or 5 percent, compared with the prior quarter. The increase in Wireless operating profit compared with the year-ago quarter and the prior quarter was due to higher revenue and associated gross profit.

Other

| | 3Q10 | 3Q09 | 3Q10 vs. 3Q09 | 2Q10 | 3Q10 vs. 2Q10 |
|---|---|---|---|---|---|
| Revenue | $813 | $628 | 29 % | $741 | 10 % |
| Operating profit* | 367 | 272 | 35 % | 355 | 3 % |
| Operating profit % of revenue | 45.2 % | 43.4 % | | 47.9 % | |
| | | | | | |
| *Includes restructuring expenses of | $1 | $1 | | $2 | |

Other revenue increased 29 percent from the year-ago quarter, primarily due to, in decreasing order, higher shipments of DLP products and custom ASIC products and higher royalties, offset by decreased shipments of calculators. Compared with the prior quarter, revenue increased 10 percent primarily due to increased shipments of, in decreasing order, custom ASIC products, DLP products and graphing calculators. This revenue was partially offset by lower royalties. Operating profit for the third quarter of 2010 increased from both the year-ago quarter and the prior quarter due to higher revenue and associated gross profit. Also included in the current quarter were the operating results from, and expenses associated with, the acquisition of our manufacturing facilities in Japan that were purchased in August (see Note 2 to the Financial Statements for a description of the acquisition).

First nine months of 2010 results

For the first nine months of 2010, we report the following:

Revenue was $10.44 billion, an increase of $3.02 billion, or 41 percent, compared with the year-ago period due to increased shipments across a broad range of products. Every segment experienced double-digit revenue growth.

Gross profit was $5.62 billion, an increase of $2.21 billion, or 65 percent, from the year-ago period primarily due to higher revenue, and to a lesser extent, the impact of improved factory utilization. Improved factory utilization increased our gross profit by $296 million from the year-ago period. Gross profit margin was 53.9 percent of revenue compared with 45.9 percent in the year-ago period.

R&D expense of $1.18 billion increased 5 percent from the year-ago period due to higher compensation-related costs. R&D expense as a percent of revenue was 11.3 percent compared with 15.1 percent in the year-ago period. Consistent with our strategic focus, R&D expense increased in the core businesses and decreased in Wireless baseband products.

SG&A expense was $1.13 billion, an increase of 16 percent from the year-ago period, primarily due to higher compensation-related costs, and to a lesser extent, higher sales and marketing costs. SG&A expense as a percent of revenue was 10.8 percent compared with 13.1 percent in the year-ago period.

Restructuring expenses were $31 million compared with $200 million for the year-ago period.

Operating profit was $3.28 billion, or 31.5 percent of revenue, compared with $1.12 billion, or 15.0 percent of revenue, in the year-ago period. The increase was due to higher gross profit.

The tax provision was $1.02 billion compared with $321 million in the year-ago period. The increase was due to higher income before income taxes.

Net income was $2.29 billion compared with $815 million in the year-ago period. Earnings per share were $1.85, compared with $0.63 in the year-ago period. EPS benefitted $0.08 from the year-ago period from a lower number of average shares outstanding as a result of our stock repurchase program.

Orders were $10.81 billion, an increase of 33 percent from the year-ago period.

Segment results

Information regarding 2009 has been restated to reflect the transfer of a low-power wireless product line from our Analog segment to our Wireless segment in the first quarter of 2010. For 2009, revenue from this product line was $68 million, and it operated at a loss of $17 million.

Analog

| | YTD 2010 | | YTD 2009 | | YTD 2010 vs. YTD 2009 | |
|---|---|---|---|---|---|---|
| Revenue | $4,461 | | $2,940 | | 52 | % |
| Operating profit* | 1,391 | | 387 | | 259 | % |
| Operating profit % of revenue | 31.2 | % | 13.2 | % | | |
| | | | | | | |
| *Includes restructuring expenses of | $12 | | $78 | | | |

Analog revenue increased 52 percent from the year-ago period, due to increased shipments of, in decreasing order, high-volume analog & logic products, power management products and high-performance analog products. For the first nine months of 2010, operating profit increased compared with the year-ago period due to higher revenue and associated gross profit.

Embedded Processing

| | YTD 2010 | | YTD 2009 | | YTD 2010 vs. YTD 2009 | |
|---|---|---|---|---|---|---|
| Revenue | $1,535 | | $1,059 | | 45 | % |
| Operating profit* | 348 | | 105 | | 231 | % |
| Operating profit % of revenue | 22.7 | % | 9.9 | % | | |
| | | | | | | |
| *Includes restructuring expenses of | $6 | | $40 | | | |

Embedded Processing revenue increased 45 percent from the year-ago period, primarily due to increased shipments of catalog products, and to a lesser extent, increased shipments of communications infrastructure and automotive

products. Compared with the year ago-period, operating profit increased due to higher revenue and associated gross profit.

Wireless

| | YTD 2010 | YTD 2009 | YTD 2010 vs. YTD 2009 |
|---|---|---|---|
| Revenue | $2,211 | $1,868 | 18 % |
| Operating profit* | 502 | 134 | 275 % |
| Operating profit % of revenue | 22.7 % | 7.2 % | |
| | | | |
| *Includes restructuring expenses of | $9 | $61 | |

Wireless revenue increased 18 percent from the year-ago period primarily due to increased shipments of connectivity products, and to a lesser extent, applications processors. Shipments of baseband products declined, but baseband revenue of $1.28 billion was about even compared with the year-ago period, as we shipped a greater proportion of higher-priced products. Compared with the year-ago period, operating profit increased primarily due to higher revenue and associated gross profit. Lower restructuring and operating expenses also contributed to the increase but to a lesser extent.

Other

| | YTD 2010 | YTD 2009 | YTD 2010 vs. YTD 2009 |
|---|---|---|---|
| Revenue | $2,234 | $1,555 | 44 % |
| Operating profit* | 1,043 | 490 | 113 % |
| Operating profit % of revenue | 46.7 % | 31.5 % | |
| | | | |
| *Includes restructuring expenses of | $4 | $21 | |

Other revenue increased 44 percent from the year-ago period due to, in decreasing order, increased shipments of DLP products, higher royalties, increased shipments of custom ASIC products and increased shipments of calculators. Operating profit was higher than the year-ago period due to higher revenue and associated gross profit.

Financial condition

At the end of the third quarter of 2010, total cash (cash and cash equivalents plus short-term investments) was $2.51 billion. This was $415 million lower than at the end of 2009.

Accounts receivable were $1.75 billion at the end of the quarter. This was an increase of $477 million from the end of 2009. Days sales outstanding (DSO) were 42 at the end of the quarter compared with 38 at the end of 2009. The increase in DSO was primarily the result of seasonally lower shipments in December 2009 compared with September 2010.

Inventory was $1.42 billion at the end of the quarter. This was an increase of $222 million from the end of 2009. Days of inventory at the end of the third quarter were 75 compared with 76 at the end of 2009.

Liquidity and capital resources

Our sources of liquidity are our cash flows from operations, cash and cash equivalents, short-term investments and a revolving credit facility. Our primary source of liquidity is cash flow from operations. Cash flow from operations for the first nine months of 2010 was $2.59 billion, an increase of $948 million from the year-ago period due to the increase in net income that was partially offset by changes in working capital.

We have $1.09 billion of cash and cash equivalents and $1.42 billion of short-term investments as of September 30, 2010. We have a variable rate revolving credit facility that allows us to borrow up to $1 billion until August 2011 and up to $920 million from August 2011 until August 2012. We also have a non-U.S. revolving credit facility of $175 million that expires in November 2010. As of September 30, 2010, these credit facilities were not being utilized.

For the first nine months of 2010, investing activities used cash of $509 million compared with $445 million in the year-ago period. The increase was primarily due to capital expenditures, which were $898 million in the current

period compared with $317 million in the year-ago period. These capital expenditures were primarily for analog wafer manufacturing equipment (including 300-millimeter production tools acquired under Spansion Japan Limited's court-approved plan of reorganization) and assembly/test manufacturing equipment. Additionally, in 2010 we used $59 million for a business acquisition that included $42 million for wafer fabrication facilities and related 200-millimeter equipment (see Note 2 to the Financial Statements for details regarding acquisitions). During the first nine months of 2010, sales and maturities of short-term investments net of purchases provided cash of $364 million. This compares with net purchases of short-term investments during the same period a year ago that used $30 million.

For the first nine months of 2010, net cash used in financing activities was $2.17 billion, compared with $949 million in the year-ago period. We used $1.85 billion of cash in the first nine months of 2010 to repurchase 74.3 million shares of our common stock and paid dividends of $439 million. In the same period last year we used $602 million of cash to repurchase 30.5 million shares of common stock and paid $418 million in dividends.

In the third quarter, we announced that our Board of Directors authorized us to repurchase an additional $7.5 billion of our common stock. This is in addition to the $1.3 billion in repurchase authorizations remaining at the end of June 2010. We plan to repurchase shares at times and prices we consider appropriate. Since September 2004, the Board has authorized the repurchase of $27.5 billion of stock. During that period, we have reduced our shares outstanding by 32 percent.

In addition, the Board of Directors announced an increase in our quarterly cash dividend to $0.13 per share from $0.12 per share, resulting in annual dividend payments of $0.52 per common share. Our Board of Directors declared a dividend at the new quarterly rate on October 21, 2010, payable November 22, 2010, to stockholders of record on November 1, 2010. The Board has increased the dividend every year beginning in September 2004. We have paid dividends to our shareholders on an uninterrupted basis since June 1, 1962.

In 2010, we expect: an annual effective tax rate of about 31 percent; R&D expense of $1.6 billion, up from the prior expectation of $1.5 billion; capital expenditures of $1.2 billion; and depreciation of $0.9 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 2009.

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

Changes in accounting standards

See Note 1 to the Financial Statements for detailed information regarding the status of new accounting standards that are not yet effective for us.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is contained on page 45 of Exhibit 13 to our Form 10-K for the year ended December 31, 2009, 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 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) |
|---|---|---|---|---|
| July 1 through July 31, 2010 | 6,935,200 | $ 25.23 | 6,935,200 | $ 1,170 million |
| August 1 through August 31, 2010 | 13,017,264 | $ 24.97 | 13,017,264 | $ 845 million |
| September 1 through September 30, 2010 | 4,016,714 | $ 24.90 | 4,016,714 | $ 8,245 million |
| Total | 23,969,178 | $ 25.03 | 23,969,178 (2) | $ 8,245 million |

(1) All purchases during the quarter were made under an authorization to purchase up to $5 billion of our common stock, which was announced on September 21, 2007. On September 16, 2010, our Board of Directors authorized the purchase of an additional $7.5 billion of our common stock. No expiration date has been specified for these authorizations.

(2) All purchases in the period were made through open-market purchases.

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 | 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 word phrases of similar import. Similarly, statements herein that describe our 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 entertainment 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 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; and
- Timely implementation of new manufacturing technologies, installation of manufacturing equipment and the ability to obtain needed third-party foundry and assembly/test subcontract services.

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 quarterly report on Form 10-Q 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: November 4, 2010