

TEXAS INSTRUMENTS INC  
Form 10-Q  
October 30, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2009

○ 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

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

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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

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Yes ☐ No ☒

1,252,873,398

Number of shares of Registrant’s common stock outstanding as of  
September 30, 2009

## 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<br>Sept. 30, |         | For Nine Months Ended<br>Sept. 30, |          |
|---------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                   | 2009                                | 2008    | 2009                               | 2008     |
| Revenue                                           | \$2,880                             | \$3,387 | \$7,422                            | \$10,010 |
| Cost of revenue (COR)                             | 1,399                               | 1,744   | 4,012                              | 4,862    |
| Gross profit                                      | 1,481                               | 1,643   | 3,410                              | 5,148    |
| Research and development (R&D)                    | 368                                 | 507     | 1,122                              | 1,509    |
| Selling, general and administrative (SG&A)        | 340                                 | 390     | 972                                | 1,252    |
| Restructuring expense                             | 10                                  | --      | 200                                | --       |
| Operating profit                                  | 763                                 | 746     | 1,116                              | 2,387    |
| Other income (expense) net                        | 2                                   | 10      | 20                                 | 58       |
| Income before income taxes                        | 765                                 | 756     | 1,136                              | 2,445    |
| Provision for income taxes                        | 227                                 | 193     | 321                                | 632      |
| Net income                                        | \$538                               | \$563   | \$815                              | \$1,813  |
| Earnings per common share:                        |                                     |         |                                    |          |
| Basic                                             | \$.42                               | \$.43   | \$.64                              | \$1.37   |
| Diluted                                           | \$.42                               | \$.43   | \$.63                              | \$1.35   |
| Average shares outstanding (millions):            |                                     |         |                                    |          |
| Basic                                             | 1,255                               | 1,304   | 1,266                              | 1,317    |
| Diluted                                           | 1,268                               | 1,315   | 1,272                              | 1,333    |
| Cash dividends declared per share of common stock | \$.11                               | \$.10   | \$.33                              | \$.30    |

See accompanying notes.

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

|                                                                      | For Three Months Ended<br>Sept. 30, |       | For Nine Months Ended<br>Sept. 30, |         |
|----------------------------------------------------------------------|-------------------------------------|-------|------------------------------------|---------|
|                                                                      | 2009                                | 2008  | 2009                               | 2008    |
| Net income                                                           | \$538                               | \$563 | \$815                              | \$1,813 |
| Other comprehensive income (loss):                                   |                                     |       |                                    |         |
| Changes in available-for-sale investments:                           |                                     |       |                                    |         |
| Adjustment, net of taxes                                             | (2 )                                | (19 ) | 17                                 | (28 )   |
| Recognized in net income, net of taxes                               | 5                                   | --    | 6                                  | (3 )    |
| Changes in unrecognized net actuarial loss of defined benefit plans: |                                     |       |                                    |         |
| Adjustment, net of taxes                                             | (22 )                               | 2     | 58                                 | (8 )    |
| Recognized in net income, net of taxes                               | 14                                  | 5     | 39                                 | 17      |
| Changes in unrecognized prior service cost of defined benefit plans: |                                     |       |                                    |         |
| Adjustment, net of taxes                                             | 1                                   | 1     | (2 )                               | 4       |
| Recognized in net income, net of taxes                               | --                                  | --    | (6 )                               | --      |
| Total                                                                | (4 )                                | (11 ) | 112                                | (18 )   |
| Total comprehensive income                                           | \$534                               | \$552 | \$927                              | \$1,795 |

See accompanying notes.

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

|                                                                                                                                                      | Sept. 30,<br>2009 | Dec. 31,<br>2008 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|
| Assets                                                                                                                                               |                   |                  |
| Current assets:                                                                                                                                      |                   |                  |
| Cash and cash equivalents                                                                                                                            | \$1,294           | \$1,046          |
| Short-term investments                                                                                                                               | 1,533             | 1,494            |
| Accounts receivable, net of allowances of (\$22) and (\$30)                                                                                          | 1,435             | 913              |
| Raw materials                                                                                                                                        | 89                | 99               |
| Work in process                                                                                                                                      | 767               | 837              |
| Finished goods                                                                                                                                       | 260               | 439              |
| Inventories                                                                                                                                          | 1,116             | 1,375            |
| Deferred income taxes                                                                                                                                | 592               | 695              |
| Prepaid expenses and other current assets                                                                                                            | 168               | 267              |
| Total current assets                                                                                                                                 | 6,138             | 5,790            |
| Property, plant and equipment at cost                                                                                                                | 6,599             | 7,321            |
| Less accumulated depreciation                                                                                                                        | (3,654 )          | (4,017 )         |
| Property, plant and equipment, net                                                                                                                   | 2,945             | 3,304            |
| Long-term investments                                                                                                                                | 627               | 653              |
| Goodwill                                                                                                                                             | 926               | 840              |
| Acquisition-related intangibles                                                                                                                      | 138               | 91               |
| Deferred income taxes                                                                                                                                | 928               | 990              |
| Capitalized software licenses, net                                                                                                                   | 124               | 182              |
| Overfunded retirement plans                                                                                                                          | 20                | 17               |
| Other assets                                                                                                                                         | 57                | 56               |
| Total assets                                                                                                                                         | \$11,903          | \$11,923         |
| Liabilities and Stockholders' Equity                                                                                                                 |                   |                  |
| Current liabilities:                                                                                                                                 |                   |                  |
| Accounts payable                                                                                                                                     | \$467             | \$324            |
| Accrued expenses and other liabilities                                                                                                               | 959               | 1,034            |
| Income taxes payable                                                                                                                                 | 148               | 40               |
| Accrued profit sharing and retirement                                                                                                                | 88                | 134              |
| Total current liabilities                                                                                                                            | 1,662             | 1,532            |
| Underfunded retirement plans                                                                                                                         | 464               | 640              |
| Deferred income taxes                                                                                                                                | 60                | 59               |
| Deferred credits and other liabilities                                                                                                               | 279               | 366              |
| Total liabilities                                                                                                                                    | 2,465             | 2,597            |
| 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, 2009 – 1,739,770,537; December 31, 2008 – 1,739,718,073 | 1,740             | 1,740            |
| Paid-in capital                                                                                                                                      | 1,071             | 1,022            |
| Retained earnings                                                                                                                                    | 21,562            | 21,168           |

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Less treasury common stock at cost:

|                                                                           |           |           |
|---------------------------------------------------------------------------|-----------|-----------|
| Shares: September 30, 2009 – 486,897,139; December 31, 2008 – 461,822,215 | (14,257 ) | (13,814 ) |
| Accumulated other comprehensive income (loss), net of taxes               | (678 )    | (790 )    |
| Total stockholders' equity                                                | 9,438     | 9,326     |
| Total liabilities and stockholders' equity                                | \$11,903  | \$11,923  |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Millions of dollars)

|                                                     | For Nine Months Ended<br>Sept. 30, |          |
|-----------------------------------------------------|------------------------------------|----------|
|                                                     | 2009                               | 2008     |
| Cash flows from operating activities:               |                                    |          |
| Net income                                          | \$815                              | \$ 1,813 |
| Adjustments to net income:                          |                                    |          |
| Depreciation                                        | 668                                | 738      |
| Stock-based compensation                            | 143                                | 162      |
| Amortization of acquisition-related intangibles     | 34                                 | 28       |
| Deferred income taxes                               | 80                                 | (159 )   |
| Increase (decrease) from changes in:                |                                    |          |
| Accounts receivable                                 | (520 )                             | (24 )    |
| Inventories                                         | 263                                | (157 )   |
| Prepaid expenses and other current assets           | 24                                 | (25 )    |
| Accounts payable and accrued expenses               | 36                                 | (171 )   |
| Income taxes payable                                | 91                                 | 25       |
| Accrued profit sharing and retirement               | (43 )                              | (74 )    |
| Other                                               | 51                                 | 60       |
| Net cash provided by operating activities           | 1,642                              | 2,216    |
| Cash flows from investing activities:               |                                    |          |
| Additions to property, plant and equipment          | (317 )                             | (686 )   |
| Purchases of short-term investments                 | (1,442 )                           | (362 )   |
| Sales and maturities of short-term investments      | 1,412                              | 1,118    |
| Purchases of long-term investments                  | (5 )                               | (8 )     |
| Redemptions and sales of long-term investments      | 62                                 | 48       |
| Acquisitions, net of cash acquired                  | (155 )                             | (19 )    |
| Net cash (used in) provided by investing activities | (445 )                             | 91       |
| Cash flows from financing activities:               |                                    |          |
| Dividends paid                                      | (418 )                             | (396 )   |
| Sales and other common stock transactions           | 71                                 | 195      |
| Excess tax benefit from share-based payments        | --                                 | 17       |
| Stock repurchases                                   | (602 )                             | (1,736 ) |
| Net cash used in financing activities               | (949 )                             | (1,920 ) |
| Net increase in cash and cash equivalents           | 248                                | 387      |
| Cash and cash equivalents, beginning of period      | 1,046                              | 1,328    |
| Cash and cash equivalents, end of period            | \$1,294                            | \$1,715  |

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) makes, markets and sells high-technology components; 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. (US GAAP) and except for new accounting standards on business combinations, fair value measurements and earnings per share, on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2008. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended September 30, 2009 and 2008, and the balance sheet as of September 30, 2009, 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, 2008, 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 US 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, 2008. The results for the nine-month period 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.

**Acquisitions** – In the second quarter of 2009, we expanded our microcontroller portfolio by acquiring Luminary Micro for net cash of \$51 million and other consideration of \$7 million. We recognized \$15 million of goodwill, which is not expected to be deductible for tax purposes, \$41 million of intangible assets, and \$2 million of other net assets and liabilities. The former Luminary Micro operations were integrated into our Embedded Processing segment.

In the first quarter of 2009, we acquired CICLON Semiconductor Device Corporation (CICLON), a designer of high-frequency, high-efficiency power management semiconductors for net cash of \$104 million and other consideration of \$7 million. This acquisition expands our ability to help customers improve energy efficiency in end-equipment designs, such as high-power computing and server systems. We recognized \$70 million of goodwill, which is not expected to be deductible for tax purposes, \$40 million of intangible assets, and \$1 million of other net assets and liabilities. The former CICLON operations were integrated into our Analog segment.

The results of operations of these acquisitions have been included in our financial statements from their respective acquisition dates and were not significant for either the three or nine month periods of 2009. Pro forma information for the comparable periods of 2008 to reflect these acquisitions would not be materially different from amounts reported.

**Use of Derivatives and Hedging** - We use derivative financial instruments to manage exposure to foreign exchange risk. We do not apply hedge accounting to our foreign currency derivative instruments. 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 derivative financial instruments for speculative or trading purposes.

**Fair Values of Financial Instruments** – The fair values of our derivative financial instruments were not significant at September 30, 2009. Our investments in cash equivalents, short-term investments and certain long-term investments are carried at fair value and are disclosed in Note 5. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments.

**Changes in Accounting Standards** – In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (Codification) became the single source of authoritative US GAAP. The Codification did not create any new GAAP standards but incorporated existing accounting and reporting standards into a new topical structure with a new referencing system to identify authoritative accounting standards, replacing the prior references to Statement of Financial Accounting Standards (SFAS), Emerging Issues Task Force (EITF), FASB Staff Position (FSP), etc. Authoritative standards included in the Codification are designated by their Accounting Standards Codification (ASC) topical reference, and new standards will be designated as Accounting Standards Updates (ASU), with a year and assigned sequence number. Beginning with this interim report for the third quarter of 2009, references to prior standards have been updated to reflect the new referencing system.

In June 2009, the FASB concurrently issued amendments to ASC 860, Transfers and Servicing (formerly SFAS No. 166), and ASC 810, Consolidation (formerly SFAS No. 167), that change the way entities account for securitizations and other transfers of financial instruments. In addition to increased disclosure, these amendments eliminate the concept of qualifying special purpose entities and change the test for consolidation of variable interest entities. These amendments will be effective for us as of January 1, 2010. We have evaluated these amendments and believe they will have no impact on our financial condition or results of operations.

In October 2009, the FASB concurrently issued the following Accounting Standards Updates:

- ASU No. 2009-14 - Software (Topic 985): Certain Revenue Arrangements That Include Software Elements (formerly EITF Issue No. 09-3). This standard removes tangible products from the scope of software revenue recognition guidance and also provides guidance on determining whether software deliverables in an arrangement that includes a tangible product, such as embedded software, are within the scope of the software revenue guidance.
- ASU No. 2009-13 - Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (formerly EITF Issue No. 08-1). This standard modifies the revenue recognition guidance for arrangements that involve the delivery of multiple elements, such as product, software, services or support, to a customer at different times as part of a single revenue generating transaction. This standard provides principles and application guidance to determine whether multiple deliverables exist, how the individual deliverables should be separated and how to allocate the revenue in the arrangement among those separate deliverables. The standard also expands the disclosure requirements for multiple deliverable revenue arrangements.

These Accounting Standards Updates should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. Alternatively, an entity can elect to adopt these standards on a retrospective basis, but both these standards must be adopted in the same period using the same transition method. We expect to apply this standard on a prospective basis for revenue arrangements entered into or materially modified beginning January 1, 2011. We are currently evaluating the potential impact these standards may have on our financial position and results of operations.

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2. Restructuring activities. In October 2008, we announced actions to reduce annualized expenses by more than \$200 million in our Wireless segment, especially our baseband operation. Additionally, in January 2009, we announced actions that included employment reductions to align our spending with weakened demand. Combined, these actions have eliminated about 3,900 jobs and will reduce our annualized costs by more than \$700 million. The total restructuring charges for these actions are expected to be about \$450 million and will continue through the fourth quarter of 2009.

The table below reflects the changes in accrued restructuring balances:

|                                                                           | Severance<br>and Benefits | Impairments<br>and Other<br>Charges | Total  |
|---------------------------------------------------------------------------|---------------------------|-------------------------------------|--------|
| Restructuring charges recognized in the quarter ending December 31, 2008  | \$ 218                    | \$ 12                               | \$ 230 |
| Non-cash charges                                                          | (30 )*                    | (7 )                                | (37 )  |
| Payments                                                                  | (2 )                      | --                                  | (2 )   |
| Remaining accrual at December 31, 2008                                    | \$ 186                    | \$ 5                                | \$ 191 |
| Restructuring charges recognized in the quarter ending March 31, 2009     | 98                        | 7                                   | 105    |
| Non-cash charges                                                          | (8 )*                     | --                                  | (8 )   |
| Payments                                                                  | (62 )                     | --                                  | (62 )  |
| Remaining accrual at March 31, 2009                                       | \$ 214                    | \$ 12                               | \$ 226 |
| Restructuring charges recognized in the quarter ending June 30, 2009      | 79                        | 6                                   | 85     |
| Non-cash credits                                                          | 4 *                       | 2                                   | 6      |
| Payments                                                                  | (89 )                     | (3 )                                | (92 )  |
| Remaining accrual at June 30, 2009                                        | \$ 208                    | \$ 17                               | \$ 225 |
| Restructuring charges recognized in the quarter ending September 30, 2009 | 9                         | 1                                   | 10     |
| Non-cash charges                                                          | (7 )*                     | (1 )                                | (8 )   |
| Payments                                                                  | (76 )                     | (2 )                                | (78 )  |
| Remaining accrual at September 30, 2009                                   | \$ 134                    | \$ 15                               | \$ 149 |

\* Reflects charges and credits for post-employment benefit plan settlement, curtailment and special termination benefits.

Restructuring charges recognized by segment in the periods of 2009 are as follows:

|                             | For Three<br>Months<br>Ended<br>September<br>30, 2009 | For Nine<br>Months<br>Ended<br>September<br>30, 2009 |
|-----------------------------|-------------------------------------------------------|------------------------------------------------------|
| Analog                      | \$4                                                   | \$81                                                 |
| Embedded Processing         | 2                                                     | 40                                                   |
| Wireless                    | 3                                                     | 58                                                   |
| Other                       | 1                                                     | 21                                                   |
| Total restructuring charges | \$10                                                  | \$200                                                |

3. **Income taxes.** Federal income taxes have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. As of September 30, 2009, the estimated annual effective tax rate for 2009 is about 28 percent, which differs from the 35 percent statutory corporate tax rate primarily due to the effects of non-U.S. tax rates. Included in the tax provision for the first nine months of 2009 were \$9 million in discrete tax charges, with \$14 million recognized in the third quarter. The discrete charges relate primarily to adjustments identified through the completion of tax returns for prior years. The tax provision in the year-ago quarter included discrete tax benefits of \$34 million, which were primarily due to adjustments identified through the completion of tax returns for prior years. For the first nine months of 2008 there were discrete tax benefits of \$113 million, which were primarily due to our decision to indefinitely reinvest the accumulated earnings of a non-U.S. subsidiary.
4. **Earnings per share (EPS).** In 2008, the FASB issued an update to ASC 260, Earnings per Share (formerly FSP EITF 03-6-1), that became effective for us beginning January 1, 2009. Under this update, 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 should be 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. This update requires retrospective application for periods prior to the effective date and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. The adoption of this update resulted in no change to the previously reported basic or diluted EPS for the three months ended September 30, 2008 and a decrease of \$.01 per share to the previously reported basic and diluted EPS for the nine months ended September 30, 2008.

Computation and reconciliation of earnings per common share are as follows:

|                                                          | For Three Months Ended<br>September 30, 2009 |        |        | For Three Months Ended<br>September 30, 2008 |        |        |
|----------------------------------------------------------|----------------------------------------------|--------|--------|----------------------------------------------|--------|--------|
|                                                          | Income                                       | Shares | EPS    | Income                                       | Shares | EPS    |
| <b>Basic EPS:</b>                                        |                                              |        |        |                                              |        |        |
| Net Income                                               | \$ 538                                       |        |        | \$ 563                                       |        |        |
| Less income allocated to RSUs                            | (6 )                                         |        |        | (4 )                                         |        |        |
| Net Income allocated to common stock for EPS calculation | \$ 532                                       | 1,255  | \$0.42 | \$ 559                                       | 1,304  | \$0.43 |
| <b>Adjustment for dilutive shares:</b>                   |                                              |        |        |                                              |        |        |
| Stock-based compensation plans                           |                                              | 13     |        |                                              | 11     |        |
| <b>Diluted EPS:</b>                                      |                                              |        |        |                                              |        |        |
| Net Income                                               | \$ 538                                       |        |        | \$ 563                                       |        |        |
| Less income allocated to RSUs                            | (6 )                                         |        |        | (4 )                                         |        |        |
| Net Income allocated to common stock for EPS calculation | \$ 532                                       | 1,268  | \$0.42 | \$ 559                                       | 1,315  | \$0.43 |
|                                                          | For Nine Months Ended<br>September 30, 2009  |        |        | For Nine Months Ended<br>September 30, 2008  |        |        |
|                                                          | Income                                       | Shares | EPS    | Income                                       | Shares | EPS    |

## Basic EPS:

|                                                          |       |       |        |         |       |        |
|----------------------------------------------------------|-------|-------|--------|---------|-------|--------|
| Net Income                                               | \$815 |       |        | \$1,813 |       |        |
| Less income allocated to RSUs                            | (8)   | )     |        | (11)    | )     |        |
| Net Income allocated to common stock for EPS calculation | \$807 | 1,266 | \$0.64 | \$1,802 | 1,317 | \$1.37 |

## Adjustment for dilutive shares:

|                                |   |  |  |    |  |  |
|--------------------------------|---|--|--|----|--|--|
| Stock-based compensation plans | 6 |  |  | 16 |  |  |
|--------------------------------|---|--|--|----|--|--|

## Diluted EPS:

|                                                          |       |       |        |         |       |        |
|----------------------------------------------------------|-------|-------|--------|---------|-------|--------|
| Net Income                                               | \$815 |       |        | \$1,813 |       |        |
| Less income allocated to RSUs                            | (8)   | )     |        | (11)    | )     |        |
| Net Income allocated to common stock for EPS calculation | \$807 | 1,272 | \$0.63 | \$1,802 | 1,333 | \$1.35 |

Options to purchase 121 million and 138 million shares of common stock that were outstanding during the third quarters of 2009 and 2008, and 137 million and 97 million shares outstanding during the nine months of 2009 and 2008, 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.

- Valuation of debt and equity investments and certain liabilities. We present investments on our balance sheets as cash equivalents, short-term investments or long-term investments. This presentation reflects both the liquidity and intended use of the investments.

## Debt and equity investments

Our accounting policy is to 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 in our statement of income, and all other unrealized gains and losses as an increase or decrease, net of taxes, in accumulated other comprehensive income (AOCI) on our balance sheet.

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 that are 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 (SG&A) expense in our statement of income.

Our other investments are not measured at fair value but are accounted for using either the equity method or cost method of accounting. These investments consist of interests in venture capital funds and non-marketable equity securities. Gains or losses on 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.

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

|                                                                    | September 30, 2009            |                           |                          | December 31, 2008             |                           |                          |
|--------------------------------------------------------------------|-------------------------------|---------------------------|--------------------------|-------------------------------|---------------------------|--------------------------|
|                                                                    | Cash &<br>Cash<br>Equivalents | Short-term<br>Investments | Long-term<br>Investments | Cash &<br>Cash<br>Equivalents | Short-term<br>Investments | Long-term<br>Investments |
| Measured at fair value:                                            |                               |                           |                          |                               |                           |                          |
| Available-for-sale                                                 |                               |                           |                          |                               |                           |                          |
| Money market funds                                                 | \$ 953                        | \$ --                     | \$ --                    | \$ 796                        | \$ --                     | \$ --                    |
| Corporate obligations                                              | --                            | 441                       | --                       | 50                            | 590                       | --                       |
| U.S. government agency<br>and Treasury securities                  | 140                           | 1,092                     | --                       | --                            | 654                       | --                       |
| Mortgage-backed and other<br>securities                            | --                            | --                        | --                       | --                            | 250                       | --                       |
| Auction-rate securities                                            | --                            | --                        | 457                      | --                            | --                        | 482                      |
| Trading                                                            |                               |                           |                          |                               |                           |                          |
| Mutual funds                                                       | --                            | --                        | 115                      | --                            | --                        | 96                       |
| Total debt and equity<br>investments measured at<br>fair value     | \$ 1,093                      | \$ 1,533                  | \$ 572                   | \$ 846                        | \$ 1,494                  | \$ 578                   |
| Other measurement basis:                                           |                               |                           |                          |                               |                           |                          |
| Equity method investments                                          | --                            | --                        | 33                       | --                            | --                        | 53                       |
| Cost method investments                                            | --                            | --                        | 22                       | --                            | --                        | 22                       |
| Cash on hand                                                       | 201                           | --                        | --                       | 200                           | --                        | --                       |
| Total debt and equity<br>investments                               | \$ 1,294                      | \$ 1,533                  | \$ 627                   | \$ 1,046                      | \$ 1,494                  | \$ 653                   |
| Amounts included in AOCI<br>from available-for-sale<br>securities: |                               |                           |                          |                               |                           |                          |
| Unrealized gains (pre-tax)                                         | \$ --                         | \$ 2                      | \$ --                    | \$ --                         | \$ 6                      | \$ --                    |
| Unrealized losses (pre-tax)                                        | \$ --                         | \$ --                     | \$ 34                    | \$ --                         | \$ 19                     | \$ 53                    |

All of our investments in corporate obligations are insured by either the Federal Deposit Insurance Corporation (FDIC) or the U.K. government.

As of September 30, 2009, unrealized losses included in AOCI were associated with auction-rate securities. As of December 31, 2008, unrealized losses included in AOCI were primarily associated with auction-rate securities and mortgage-backed securities. The change in unrealized losses from December 31, 2008, was primarily due to increases in fair values of the investments held as well as the effects of redemptions and sales since that date.

As of September 30, 2009, we have determined that our investments classified as available-for-sale 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. For the nine months ended September 30, 2009, we did not recognize in earnings any credit losses related to these investments.

For the nine months ended September 30, 2009, the proceeds from sales of available-for-sale securities were \$837 million. Gross realized gains and losses from the sales of these securities were not significant for any periods presented.

The following table presents the aggregate maturities of investments in debt securities classified as available-for-sale at September 30, 2009:

| Due                                                | Fair Value |
|----------------------------------------------------|------------|
| One year or less                                   | \$ 2,050   |
| One to three years                                 | 576        |
| Greater than three years (auction-rate securities) | 457        |

#### Fair value

We measure and report our financial assets and liabilities under the provisions of ASC 820, Fair Value Measurement (formerly SFAS No. 157). Effective January 1, 2009, we adopted the provisions of ASC 820 for non-financial assets and liabilities. The adoption of ASC 820 for non-financial assets and liabilities did not have a significant impact on our financial condition or results of operations.

ASC 820 defines fair value 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.

ASC 820 establishes a three-level hierarchy for disclosure to show 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 the 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.

Level 3 – Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models which utilize management estimates of market participant assumptions.

Investments in auction-rate securities are our only 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 current 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 14 to 38 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, 2009, all but one of these securities were rated AAA/Aaa by the major credit rating agencies, with the remaining security (with a par value of \$25 million) rated AAA/B3. 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 table below sets forth, by level, our assets and liabilities that were accounted for at fair value as of September 30, 2009. The table does not include cash on hand and also does not include assets and liabilities that are measured at historical cost or any basis other than fair value.

|                                                    | Fair Value<br>at<br>September<br>30,<br>2009 | Level<br>1 | Level<br>2 | Level<br>3 |
|----------------------------------------------------|----------------------------------------------|------------|------------|------------|
| Items measured at fair value on a recurring basis: |                                              |            |            |            |
| Assets:                                            |                                              |            |            |            |
| Money market funds                                 | \$953                                        | \$953      | \$--       | \$--       |
| Corporate obligations                              | 441                                          | --         | 441        | --         |
| U.S. government agency and Treasury securities     | 1,232                                        | 666        | 566        | --         |
| Auction-rate securities                            | 457                                          | --         | --         | 457        |
| Mutual funds                                       | 115                                          | 115        | --         | --         |
| Total assets measured at fair value                | \$3,198                                      | \$1,734    | \$1,007    | \$457      |
| Liabilities:                                       |                                              |            |            |            |
| Contingent consideration                           | \$18                                         | \$--       | \$--       | \$18       |
| Deferred compensation liabilities                  | 147                                          | 147        | --         | --         |
| Total liabilities measured at fair value           | \$165                                        | \$147      | \$--       | \$18       |

The liabilities above are a component of Accrued expenses and other liabilities or Deferred credits and other liabilities on our balance sheets.

The following table summarizes the change in the fair values for Level 3 assets and liabilities for the three and nine months ending September 30, 2009.

|                                                                           | Level 3 |             |
|---------------------------------------------------------------------------|---------|-------------|
|                                                                           | Assets  | Liabilities |
| Changes in fair value for the three months ending September 30 (pre-tax): |         |             |
| Beginning Balance, June 30, 2009                                          | \$463   | \$18        |
| Increase in unrealized losses - included in AOCI                          | (4)     | --          |
| Redemptions at par                                                        | (2)     | --          |
| Ending Balance, September 30, 2009                                        | \$457   | \$18        |

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|                                                                                 |       |      |
|---------------------------------------------------------------------------------|-------|------|
| Changes in fair value for the nine months ending September 30 (pre-tax):        |       |      |
| Beginning Balance, December 31, 2008                                            | \$482 | \$-- |
| New contingent consideration                                                    | --    | 10   |
| Change in fair value of contingent consideration - included in operating profit | --    | 8    |
| Reduction of unrealized losses - included in AOCI                               | 19    | --   |
| Redemptions at par                                                              | (44 ) | --   |
| Ending Balance, September 30, 2009                                              | \$457 | \$18 |

6. Post-employment benefit plans. Components of net periodic employee benefit cost are as follows:

|                                         | U.S.<br>Defined Benefit |       | U.S.<br>Retiree Health Care |      | Non-U.S.<br>Defined Benefit |       |
|-----------------------------------------|-------------------------|-------|-----------------------------|------|-----------------------------|-------|
| For three months ended<br>September 30, | 2009                    | 2008  | 2009                        | 2008 | 2009                        | 2008  |
| Service cost                            | \$5                     | \$6   | \$1                         | \$1  | \$9                         | \$11  |
| Interest cost                           | 12                      | 12    | 7                           | 7    | 16                          | 15    |
| Expected return on plan assets          | (11 )                   | (11 ) | (7 )                        | (7 ) | (18 )                       | (21 ) |
| Amortization of prior service cost      | --                      | --    | --                          | 1    | (1 )                        | (1 )  |
| Recognized net actuarial loss           | 5                       | 4     | 2                           | 2    | 8                           | 1     |
| Net periodic benefit cost               | \$11                    | \$11  | \$3                         | \$4  | \$14                        | \$5   |
| Settlement charges                      | 1                       | --    | --                          | --   | 6                           | --    |
| Total, including charges                | \$12                    | \$11  | \$3                         | \$4  | \$20                        | \$5   |

|                                        | U.S.<br>Defined Benefit |       | U.S.<br>Retiree Health Care |       | Non-U.S.<br>Defined Benefit |       |
|----------------------------------------|-------------------------|-------|-----------------------------|-------|-----------------------------|-------|
| For nine months ended<br>September 30, | 2009                    | 2008  | 2009                        | 2008  | 2009                        | 2008  |
| Service cost                           | \$15                    | \$18  | \$3                         | \$3   | \$28                        | \$33  |
| Interest cost                          | 37                      | 37    | 20                          | 20    | 46                          | 46    |
| Expected return on plan assets         | (36 )                   | (34 ) | (21 )                       | (20 ) | (51 )                       | (63 ) |
| Amortization of prior service cost     | 1                       | 1     | 1                           | 2     | (3 )                        | (3 )  |
| Recognized net actuarial loss          | 13                      | 12    | 6                           | 6     | 27                          | 4     |
| Net periodic benefit cost              | \$30                    | \$34  | \$9                         | \$11  | \$47                        | \$17  |
| Settlement charges                     | 8                       | 3     | --                          | --    | 6                           | --    |
| Curtailment charges (gains)            | --                      | --    | 2                           | --    | (10 )                       | --    |
| Special termination benefit charges    | 6                       | --    | --                          | --    | --                          | --    |
| Total, including charges and (gains)   | \$44                    | \$37  | \$11                        | \$11  | \$43                        | \$17  |

We have made contributions of \$102 million to our post-employment benefit plans in 2009.



7. Contingencies. We routinely sell products with a limited intellectual property indemnification included in the terms of sale. Historically, we have had only minimal and 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, and historically we have experienced a low rate of payments on product claims. 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 other 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 sale of the former Sensors & Controls business to an affiliate of Bain Capital, LLC in 2006, we have agreed to indemnify the former business, renamed 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.

8. Segment data.

|                                 | For Three Months Ended<br>September 30, |          | For Nine Months Ended<br>September 30, |           |
|---------------------------------|-----------------------------------------|----------|----------------------------------------|-----------|
|                                 | 2009                                    | 2008     | 2009                                   | 2008      |
| <b>Segment Revenue</b>          |                                         |          |                                        |           |
| Analog                          | \$ 1,184                                | \$ 1,289 | \$ 2,981                               | \$ 3,841  |
| Embedded Processing             | 393                                     | 427      | 1,059                                  | 1,291     |
| Wireless                        | 675                                     | 915      | 1,827                                  | 2,737     |
| Other                           | 628                                     | 756      | 1,555                                  | 2,141     |
| Total revenue                   | \$ 2,880                                | \$ 3,387 | \$ 7,422                               | \$ 10,010 |
| <b>Segment Operating Profit</b> |                                         |          |                                        |           |
| Analog                          | \$ 306                                  | \$ 274   | \$ 367                                 | \$ 972    |
| Embedded Processing             | 75                                      | 73       | 105                                    | 270       |
| Wireless                        | 110                                     | 155      | 154                                    | 434       |
| Other                           | 272                                     | 244      | 490                                    | 711       |
| Total operating profit          | \$ 763                                  | \$ 746   | \$ 1,116                               | \$ 2,387  |

See Note 2 for restructuring charges impacting segment results for the three months and nine months ended September 30, 2009. There were no restructuring charges impacting segment results for the periods ended September

30, 2008.

9. Subsequent Events. We have evaluated subsequent events through the issuance of these financial statements which occurred on October 30, 2009.

In October 2009, we purchased semiconductor manufacturing equipment from the bankruptcy proceedings of a U.S. subsidiary of German chipmaker Qimonda AG for \$172.5 million. The majority of this equipment will be used in our newly opened manufacturing facility in Richardson, Texas. This facility will be the world's first production facility to use 300-millimeter silicon wafers to manufacture analog chips.

On October 15, 2009, we declared a \$0.12 quarterly dividend on common stock payable November 16, 2009, to shareholders of record on October 30, 2009, which represents a nine percent increase from our prior rate.

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## 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 in Item 1. All dollar amounts in the tables in this discussion are stated in millions of U.S. dollars, except per-share amounts.

### Overview

At Texas Instruments, we design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930 and are incorporated in Delaware. We are 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 2008 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 two general categories of semiconductor products: custom and standard. A custom product is designed for a specific customer for a specific application, is sold only to that customer and is typically sold directly to the customer. A standard product is designed for use by many customers and/or many applications and is generally sold through both distribution and direct channels. Standard products include both proprietary and commodity 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 so the signals can be processed by other semiconductors, such as digital signal processors (DSPs). Analog semiconductors are also used to manage power distribution and consumption. Sales from our Analog segment accounted for about 40 percent of our revenue in 2008. According to WSTS, an industry data-gathering organization, the worldwide market for analog semiconductors was about \$36 billion in 2008. Our Analog segment's revenue in 2008 was \$4.9 billion, or about 14 percent of this market, giving us the leading position. We believe that we are well positioned to increase our share over time.

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

High-performance analog products: These include standard analog semiconductors, such as amplifiers, data converters, low-power radio frequency devices and interface semiconductors (our standard analog portfolio includes more than 15,000 products), that we market to many different customers (nearly 80,000) who use them in a wide range of products across the industrial, communications, computing and consumer markets. High-performance analog products generally have long life cycles, often 10 to 20 years.

**High-volume analog & logic products:** These include two product types. The first, high-volume analog, includes products for specific applications, including custom products for specific customers. 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. The second product type, standard linear and logic, includes commodity products marketed to many different customers for many different applications.

**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 accounted for about 15 percent of our revenue in 2008. The worldwide market for embedded processors was about \$17 billion in 2008. According to external sources, we have about 10 percent market share in this fragmented market, and we believe we are well positioned to increase our share over time.

An important characteristic of 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

Cell phones require a modem or “baseband” to connect to the wireless carrier’s network. Many of today’s advanced cell phones also require an applications processor to run the phone’s software and services, and semiconductors to enable connectivity to Bluetooth® devices, WiFi networks or GPS location services. We design, make and sell products to satisfy each of these requirements. Wireless products are typically sold in high volumes and our Wireless portfolio includes both standard products and custom products. Sales of Wireless products accounted for about 25 percent of our revenue in 2008, and a significant portion of our Wireless sales were to a single customer.

As wireless communications have proliferated, consumers have demanded capabilities beyond voice. Smartphones (phones that contain email, media, games and computing capability) represent one of the fastest growing wireless markets. These phones tend to include many semiconductor products. Major handset manufacturers are actively pursuing the smartphone market and increasingly focusing their R&D on applications and services. As a result, we believe customer demand for applications processors will grow as handset manufacturers seek to differentiate their products by providing software and a unique user experience. Our OMAP™ product line has a leading position in the applications processor market and is used by most of the top handset manufacturers.

Our Wireless segment has been shifting focus from baseband chips, a market with shrinking competitive barriers and slowing growth rates, to applications processors, a market we expect will grow faster than the baseband market. Consistent with this shift in market focus, we are concentrating our Wireless investments on our applications processors and connectivity products and have discontinued further development of standard baseband

products. While we continue to sell custom baseband products, we are also decreasing custom baseband investments and expect substantially all of this revenue to cease by the end of 2012.

#### Other

Our Other segment includes revenue from smaller semiconductor product lines and handheld graphing and scientific calculators, and from royalties received for our patented technology that we license to other electronics companies. The semiconductor products in our Other segment include DLP® products (primarily used to create high-definition images for business and home theater projectors, televisions and movie projectors), reduced-instruction set computing (RISC) microprocessors (designed to provide very fast computing and often implemented in servers) and custom semiconductors known as application-specific integrated circuits (ASICs). This segment accounted for about 20 percent of our revenue in 2008.

#### Inventory

While our inventory practices differ by product, we generally maintain inventory levels that are consistent with our expectations of customer demand.

For custom semiconductor products, where the risk of obsolescence is higher, we carry lower levels of inventory when possible. These products have a single customer, are sold in high volumes and have comparatively shorter life cycles. Life cycles of these products are often determined by end-equipment upgrade cycles and can be as short as 12 to 24 months.

For standard semiconductor products, where the risk of obsolescence is low, we generally carry higher levels of inventory. These products usually have many customers and long life cycles, and are often ordered in small quantities. Standard product inventory is sometimes held in unfinished wafer form, giving us greater flexibility to meet final package and test configurations.

As a result of the following multi-year trends, in general we expect to carry relatively higher levels of inventory (as measured in days of inventory) than in past years: standard products have become a larger part of our portfolio; we have increased consignment programs with our largest customers; and our distributors now carry relatively less inventory on average than in the past.

We manage calculator inventory consistent with expected seasonality.

#### Manufacturing

Semiconductor manufacturing begins with the wafer fabrication manufacturing process: 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 twelve and eighteen weeks and takes place in highly specialized facilities.

We own and operate semiconductor manufacturing sites in North America, Asia and Europe. These facilities include high-volume wafer fabrication plants and assembly/test sites. 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 and can adversely affect our profit margins as a result. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, potentially benefiting our profit margins.

Most of our Analog semiconductors require a lower level of capital investment in manufacturing and equipment than is needed for equivalent production levels of our Embedded Processing and Wireless semiconductors, which are manufactured using advanced logic wafer manufacturing equipment. While analog chips benefit from unique, proprietary wafer manufacturing processes, these processes can be applied using older, less expensive equipment. In addition, these processes and equipment remain usable for much longer than the manufacturing processes and equipment required for advanced logic wafer manufacturing.

To supplement our internal advanced logic wafer fabrication capacity, maximize our responsiveness to customer demand and minimize our overall 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 2008, external foundries provided about 50 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 substantially all 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 in the event demand temporarily exceeds our internal capacity. We believe we often have a cost advantage in maintaining internal assembly/test capacity. Accordingly, we have recently opened an environmentally efficient assembly/test facility in the Philippines, and the facility is in the initial stages of production.

This internal/external manufacturing strategy is designed to reduce the level of our required capital expenditures, and thereby reduce our subsequent levels of depreciation. Expected end results include less fluctuation in our profit margins due to changing product demand, and lower cash requirements for expanding and updating our manufacturing capabilities. As our internal manufacturing efforts shift to a higher percentage of analog products, an increasing proportion of our capital expenditures is devoted to assembly/test facilities and equipment. This is primarily due to the lower capital needs of analog wafer manufacturing equipment.

#### Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing methods. Chip prices and manufacturing costs tend to decline over time as manufacturing methods 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 impact on revenue for one or more quarters after they are introduced. In the discussion 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, with relatively stable demand. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. 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. Sales of our semiconductor products are seasonally weaker in the first quarter than in other quarters, particularly for products sold into cell phones and

consumer electronics applications that have stronger sales later in the year as manufacturers prepare for the holiday selling season. Calculator revenue is tied to the U.S. back-to-school season and, as a result, is 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 among the various jurisdictions and their taxing authorities. 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 2009 results

Our third-quarter revenue was \$2.88 billion, net income was \$538 million and earnings per share (EPS) were \$0.42.

Our performance in the quarter exceeded our expectations and was led by a second consecutive quarter of 20-percent growth in Analog. We are encouraged with the strong sequential increase in demand for our products over the past two quarters as our customers are winding down their inventory corrections and have begun to increase production levels in their factories. This revenue growth, combined with our early actions to pare costs so that we would not be dependent upon an uncertain rebound in the overall economy, has resulted in solid improvements in our profitability.

Our balance sheet is strong and has allowed us to opportunistically make investments in Analog and Embedded Processing throughout this downturn that should provide returns for years to come. For example, we are increasing our investments in manufacturing capacity to support higher levels of growth, including start-up of the world's first facility to produce analog chips on 300-millimeter wafers. Applying advanced manufacturing technology to analog at an attractive cost will give us an opportunity to accelerate our strategy and extend our leadership.

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## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Income

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

|                                                   | For Three Months Ended |                   |                  |
|---------------------------------------------------|------------------------|-------------------|------------------|
|                                                   | Sept. 30,<br>2009      | Sept. 30,<br>2008 | June 30,<br>2009 |
| Revenue                                           | \$2,880                | \$3,387           | \$2,457          |
| Cost of revenue                                   | 1,399                  | 1,744             | 1,333            |
| Gross profit                                      | 1,481                  | 1,643             | 1,124            |
| Research and development (R&D)                    | 368                    | 507               | 369              |
| Selling, general and administrative (SG&A)        | 340                    | 390               | 327              |
| Restructuring expense                             | 10                     | -                 | 85               |
| Operating profit                                  | 763                    | 746               | 343              |
| Other income (expense) net                        | 2                      | 10                | 13               |
| Income before income taxes                        | 765                    | 756               | 356              |
| Provision for income taxes                        | 227                    | 193               | 96               |
| Net income                                        | \$538                  | \$563             | \$260            |
| Earnings per common share:                        |                        |                   |                  |
| Basic                                             | \$.42                  | \$.43             | \$.20            |
| Diluted                                           | \$.42                  | \$.43             | \$.20            |
| Average shares outstanding (millions):            |                        |                   |                  |
| Basic                                             | 1,255                  | 1,304             | 1,267            |
| Diluted                                           | 1,268                  | 1,315             | 1,272            |
| Cash dividends declared per share of common stock | \$.11                  | \$.10             | \$.11            |
| Percentage of revenue:                            |                        |                   |                  |
| Gross profit                                      | 51.4                   | % 48.5            | % 45.7           |
| R&D                                               | 12.7                   | % 15.0            | % 15.0           |
| SG&A                                              | 11.8                   | % 11.5            | % 13.3           |
| Operating profit                                  | 26.5                   | % 22.0            | % 14.0           |

## Details of Financial Results

Revenue for the third quarter of 2009 was \$2.88 billion, a decrease of \$507 million, or 15 percent, from the year-ago quarter as revenue declined across all segments, particularly in our Wireless segment. Revenue increased \$423 million, or 17 percent, from the prior quarter due to growth in all segments, particularly in our Analog segment.

Gross profit for the third quarter of 2009 was \$1.48 billion, or 51.4 percent of revenue, a decrease of \$162 million, or 10 percent, from the year-ago quarter due to lower revenue. This decrease was partially offset by the favorable impact of lower manufacturing costs. Gross profit increased \$357 million, or 32 percent, from the prior quarter primarily due to higher revenue.

Operating expenses for the third quarter of 2009 were \$368 million for R&D and \$340 million for SG&A. R&D expense decreased \$139 million, or 27 percent, from a year ago primarily due to the combination of the effects of our previously-announced employment reductions and, to a lesser extent, our cost-control efforts. R&D expense was about even compared with the prior quarter. SG&A expense decreased \$50 million, or 13 percent, from the year-ago



quarter primarily due to the effects of employment reductions. SG&A increased \$13 million, or 4 percent, from the prior quarter primarily due to higher compensation-related costs resulting from our improved profitability.

Restructuring costs in the third quarter of 2009 were \$10 million compared with \$85 million in the prior quarter. The restructuring costs in the third quarter were primarily for additional severance and benefits costs (see Note 2 to the Financial Statements for a detailed discussion of these charges and payments made during the quarter). We expect to incur restructuring charges equivalent to about one cent of earnings per share in the fourth quarter of 2009. As of September 30, 2009, a total of about 3,900 jobs have been eliminated as a result of these actions.

For the third quarter of 2009, we had operating profit of \$763 million, an increase of \$17 million, or 2 percent, compared with the year-ago quarter, and an increase of \$420 million, or 122 percent, compared with the previous quarter. The increase from a year ago was due to lower operating expenses. The increase from the prior quarter was primarily due to higher revenue and the associated higher gross profit. Operating profit increased from the prior quarter in all segments.

As of September 30, 2009, the estimated annual effective tax rate for 2009 is expected to be about 28 percent (see Note 3 to the Financial Statements for additional information).

Quarterly income taxes are calculated using the estimated annual effective tax rate.

The tax provision for the third quarter of 2009 was \$227 million, compared with \$193 million in the year-ago quarter. The increase was due to a change in discrete tax items, partially offset by the federal research tax credit, which was not in effect in the year-ago quarter. We had discrete tax charges of \$14 million in the third quarter of 2009, compared with \$34 million of discrete tax benefits in the year-ago quarter. These items were primarily related to adjustments identified through the completion of tax returns for prior years. For the second quarter of 2009 we had a tax provision of \$96 million. The sequential increase in the tax provision for the third quarter of 2009 was due to higher income before income taxes.

In the third quarter of 2009, we had net income of \$538 million, or earnings per share of \$0.42, compared with net income of \$563 million, or earnings per share of \$0.43, for the year-ago quarter, and \$260 million, or earnings per share of \$0.20, for the prior quarter.

Orders in the third quarter were \$3.11 billion, a decrease of 4 percent from the year-ago quarter. Compared with the prior quarter, orders increased 11 percent.

## Segment results

### Analog

|                                     | 3Q09     | 3Q08     | 3Q09<br>vs. 3Q08 | 2Q09   | 3Q09<br>vs. 2Q09 |
|-------------------------------------|----------|----------|------------------|--------|------------------|
| Revenue                             | \$ 1,184 | \$ 1,289 | -8%              | \$ 983 | 20%              |
| Operating profit*                   | 306      | 274      | 12%              | 96     | 219%             |
| Operating profit % of revenue       | 25.8%    | 21.2%    |                  | 9.7%   |                  |
|                                     |          |          |                  |        |                  |
| *Includes restructuring expenses of | \$ 4     | \$ --    |                  | \$ 35  |                  |

Analog revenue decreased 8 percent from the year-ago quarter primarily due to lower shipments of high-volume analog & logic products, and to a lesser extent, high-performance analog products. Partially offsetting these decreases were increased shipments of power management products. Compared with the prior quarter, revenue increased 20 percent, primarily due to increased shipments of high-volume analog & logic products, and to a lesser extent,

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shipments of power management and high-performance analog products. Operating profit increased compared with the year-ago quarter primarily due to a combination of reduced operating expenses and, to a lesser extent, improvements in gross profit. Operating profit increased from the previous quarter primarily due to higher revenue and the associated higher gross profit.

### Embedded Processing

|                                     | 3Q09   | 3Q08   | 3Q09<br>vs. 3Q08 | 2Q09   | 3Q09<br>vs. 2Q09 |
|-------------------------------------|--------|--------|------------------|--------|------------------|
| Revenue                             | \$ 393 | \$ 427 | -8%              | \$ 350 | 12%              |
| Operating profit*                   | 75     | 73     | 3%               | 28     | 168%             |
| Operating profit % of revenue       | 19.0%  | 17.0%  |                  | 8.1%   |                  |
|                                     |        |        |                  |        |                  |
| *Includes restructuring expenses of | \$ 2   | \$ --  |                  | \$ 18  |                  |

Embedded Processing revenue decreased 8 percent from the year-ago quarter primarily due to normal price declines in catalog products, and to a lesser extent, decreased shipments of communications infrastructure and automotive products. Compared with the prior quarter, revenue increased 12 percent primarily due to higher shipments of catalog products. Shipments of automotive products also increased, although by a lesser amount. Operating profit increased 3 percent compared with the year-ago quarter due to reduced operating expenses. Compared with the prior quarter, operating profit increased due to higher revenue and the associated higher gross profit.

### Wireless

|                                     | 3Q09   | 3Q08   | 3Q09<br>vs. 3Q08 | 2Q09   | 3Q09<br>vs. 2Q09 |
|-------------------------------------|--------|--------|------------------|--------|------------------|
| Revenue                             | \$ 675 | \$ 915 | -26%             | \$ 601 | 12%              |
| Operating profit*                   | 110    | 155    | -29%             | 58     | 90%              |
| Operating profit % of revenue       | 16.3%  | 16.9%  |                  | 9.6%   |                  |
|                                     |        |        |                  |        |                  |
| *Includes restructuring expenses of | \$ 3   | \$ --  |                  | \$ 23  |                  |

Wireless revenue decreased 26 percent from the year-ago quarter due to decreased shipments of baseband products, and to a lesser extent, OMAP applications processor products. Baseband revenue was \$450 million in the third quarter, a decrease of 33 percent from a year ago. Compared with the previous quarter, Wireless revenue increased 12 percent primarily due to higher shipments of baseband products, and to a lesser extent, connectivity products and OMAP applications processor products. Baseband revenue increased 10 percent from the prior quarter. Operating profit decreased 29 percent compared with the year-ago quarter, due to lower revenue and the associated lower gross profit, partially offset by lower operating expenses. Compared with the prior quarter, operating profit increased primarily due to the combination of higher revenue and the associated gross profit, and lower restructuring expenses.

### Other

|                                     | 3Q09   | 3Q08   | 3Q09<br>vs. 3Q08 | 2Q09   | 3Q09<br>vs. 2Q09 |
|-------------------------------------|--------|--------|------------------|--------|------------------|
| Revenue                             | \$ 628 | \$ 756 | -17%             | \$ 523 | 20%              |
| Operating profit*                   | 272    | 244    | 11%              | 161    | 69%              |
| Operating profit % of revenue       | 43.4%  | 32.3%  |                  | 31.0%  |                  |
|                                     |        |        |                  |        |                  |
| *Includes restructuring expenses of | \$ 1   | \$ --  |                  | \$ 9   |                  |

Other revenue decreased 17 percent from the year-ago quarter, primarily due to, in decreasing order, lower shipments of RISC microprocessors, ASIC products and DLP products and lower royalties. Compared with the previous quarter, revenue increased 20 percent due to the combination of a seasonal increase in shipments of calculators and, to a lesser extent, increased shipments of DLP products and higher royalties. These increases were partially offset by lower shipments of RISC microprocessors. Operating profit for the third quarter of 2009 was higher than the year-ago quarter due to lower operating expenses. Compared with the prior quarter, operating profit increased primarily due to higher revenue and the associated higher gross profit.

#### First nine months of 2009 results

For the first nine months of 2009, we report the following:

Revenue of \$7.42 billion was \$2.59 billion, or 26 percent, lower than the year-ago period as a result of the downturn in global markets.

Gross profit was \$3.41 billion, a decrease of \$1.74 billion, or 34 percent, from the year-ago period primarily due to lower revenue, and to a lesser extent, the impact of lower factory utilization. About \$400 million of the decline in gross profit resulted from lower factory utilization. Gross profit margin was 45.9 percent of revenue compared with 51.4 percent in the year-ago period.

R&D expense of \$1.12 billion decreased 26 percent compared with the year-ago period primarily due to the combination of our employment reductions and, to a lesser extent, cost-control efforts. R&D expense was 15.1 percent of revenue, unchanged from the year-ago period.

SG&A expense was \$972 million, a decrease of 22 percent from \$1.25 billion in the year-ago period, primarily due to the combination of our employment reductions and, to a lesser extent, cost-control efforts. SG&A expense was 13.1 percent of revenue compared with 12.5 percent in the year-ago period.

Restructuring expenses were \$200 million, compared with zero in the year-ago period.

Operating profit was \$1.12 billion, or 15.0 percent of revenue, compared with \$2.39 billion, or 23.8 percent of revenue, in the year-ago period. The decrease was due to lower gross profit, and to a lesser extent, higher restructuring charges. These decreases were partially offset by lower operating expenses.

Other income and expense net (OI&E) was \$20 million, a decrease of \$38 million from the year-ago period due to lower interest income.

The tax provision for the first nine months of 2009 was \$321 million, compared with \$632 million in the same period of 2008. The decrease was due to lower income before income taxes, partially offset by a change in discrete tax items. Included in the tax provision for the first nine months of 2009 were \$9 million in discrete tax charges primarily related to adjustments identified through the completion of tax returns for prior years. This compares with discrete tax benefits of \$113 million in the year-ago period, which were primarily due to our decision to indefinitely reinvest the accumulated earnings of a non-U.S. subsidiary.

Net income was \$815 million compared with \$1.81 billion in the year-ago period. Earnings per share were \$0.63 per share, compared with \$1.35 per share in the year-ago period.

Orders of \$8.10 billion were down 19 percent from the year-ago period.

#### Segment results

## Analog

|                               |    | YTD<br>2009 |    | YTD<br>2008 | YTD 2009<br>vs.<br>YTD 2008 |
|-------------------------------|----|-------------|----|-------------|-----------------------------|
| Revenue                       | \$ | 2,981       | \$ | 3,841       | -22%                        |
| Operating profit*             |    | 367         |    | 972         | -62%                        |
| Operating profit % of revenue |    | 12.3%       |    | 25.3%       |                             |

\*Includes restructuring expenses of \$ 81 \$ --

Analog revenue decreased 22 percent from the year-ago period due to lower shipments of, in decreasing order, high-volume analog & logic products, high-performance analog products and power management products. Compared with the year-ago period, operating profit decreased 62 percent, primarily due to lower revenue.

## Embedded Processing

|                               |    | YTD<br>2009 |    | YTD<br>2008 | YTD 2009<br>vs.<br>YTD 2008 |
|-------------------------------|----|-------------|----|-------------|-----------------------------|
| Revenue                       | \$ | 1,059       | \$ | 1,291       | -18%                        |
| Operating profit*             |    | 105         |    | 270         | -61%                        |
| Operating profit % of revenue |    | 9.9%        |    | 20.9%       |                             |

\*Includes restructuring expenses of \$ 40 \$ --

Embedded Processing revenue decreased 18 percent from the year-ago period, primarily due to decreased shipments of catalog products, and to a lesser extent, automotive products. Compared with the year ago-period, operating profit decreased 61 percent, primarily due to lower revenue.

## Wireless

|                               |    | YTD<br>2009 |    | YTD<br>2008 | YTD 2009<br>vs.<br>YTD 2008 |
|-------------------------------|----|-------------|----|-------------|-----------------------------|
| Revenue                       | \$ | 1,827       | \$ | 2,737       | -33%                        |
| Operating profit*             |    | 154         |    | 434         | -65%                        |
| Operating profit % of revenue |    | 8.5%        |    | 15.8%       |                             |

\*Includes restructuring expenses of \$ 58 \$ --

Wireless revenue declined 33 percent from the year-ago period primarily due to decreased shipments of baseband products, and to a lesser extent, OMAP applications processor products. These decreases were partially offset by increased shipments of connectivity products. Baseband revenue was \$1.26 billion, a decrease of 39 percent from a year ago. Compared with the year-ago period, Wireless operating profit decreased 65 percent, due to lower revenue.

## Other

|  |  | YTD<br>2009 |  | YTD<br>2008 | YTD 2009<br>vs.<br>YTD 2008 |
|--|--|-------------|--|-------------|-----------------------------|
|--|--|-------------|--|-------------|-----------------------------|

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|                               |    |       |    |       |      |
|-------------------------------|----|-------|----|-------|------|
| Revenue                       | \$ | 1,555 | \$ | 2,141 | -27% |
| Operating profit*             |    | 490   |    | 711   | -31% |
| Operating profit % of revenue |    | 31.5% |    | 33.2% |      |

|                                     |    |    |    |    |
|-------------------------------------|----|----|----|----|
| *Includes restructuring expenses of | \$ | 21 | \$ | -- |
|-------------------------------------|----|----|----|----|

Other revenue decreased 27 percent from the year-ago period due to, in decreasing order, lower shipments of RISC microprocessors, DLP products and calculators. Lower royalties also contributed to the decline. Compared with the year-ago period, operating profit decreased 31 percent, due to lower revenue.

#### Financial condition

At the end of the third quarter of 2009, total cash (cash and cash equivalents plus short-term investments) was \$2.83 billion. This was \$287 million higher than at the end of 2008.

Accounts receivable were \$1.44 billion at the end of the quarter. This was an increase of \$522 million from the end of 2008. Days sales outstanding were 45 at the end of the quarter compared with 33 at the end of 2008. Days sales outstanding were unusually low at year end due to a sharp decrease in shipments to customers during the fourth quarter of 2008, particularly in December.

Inventory was \$1.12 billion at the end of the quarter. This was a reduction of \$259 million from the end of 2008. Days of inventory at the end of the third quarter were 72, compared with 89 days at the end of 2008.

Depreciation in the first nine months of 2009 was \$668 million, a decrease of \$70 million from the same period a year ago. Capital spending in the first nine months of 2009 totaled \$317 million. This was a decrease of \$369 million from a year ago primarily due to lower expenditures for analog manufacturing facilities, and to a lesser extent, for semiconductor assembly/test facilities and equipment. We expect our capital expenditures for 2009 to be about \$800 million. We are purchasing additional semiconductor assembly/test equipment to alleviate the stress of current high demand for certain product types. In addition, beginning in the fourth quarter, we will be equipping a 300-millimeter-wafer analog manufacturing facility. Once that facility is equipped, we would expect our capital expenditures to return to a range of about 5% to 8% of revenue.

#### Liquidity and capital resources

Our sources of liquidity are our cash flows from operations, cash and cash equivalents, short-term investments and revolving credit facilities. Cash flow from operations for the first nine months of 2009 was \$1.64 billion, a decrease of \$574 million from the year-ago period. This decrease was due to lower net income, partially offset by changes in working capital.

We have \$1.29 billion of cash and cash equivalents and \$1.53 billion of short-term investments as of September 30, 2009. We have a multi-year \$1 billion revolving credit facility and a non-U.S. revolving credit facility of \$175 million. As of September 30, 2009, these credit facilities were not being utilized.

For the first nine months of 2009, cash used in investing activities was \$445 million, compared with \$91 million of cash provided in the year-ago period. The change in cash from investing activities primarily reflects the movement in 2008 of our investments from short-term investments to cash securities. This was partially offset by lower capital expenditures. We also used \$155 million for acquisitions in the first nine months of 2009, compared with \$19 million in the year-ago period (see Note 1 to the Financial Statements for additional information).

For the first nine months of 2009, net cash used in financing activities was \$949 million compared with \$1.92 billion in the year-ago period. We used \$602 million of cash in the first nine months of 2009 to repurchase 30.5 million

shares of our common stock. In the same period last year, we used \$1.74 billion of cash to repurchase 60 million shares of common stock.

In October 2009, we raised our quarterly cash dividend rate by \$0.01 per common share to \$0.12 per share, effective with the dividend payable November 16, 2009, to stockholders of record on October 30, 2009. Cash dividends paid during the first nine months of 2009 were \$418 million, compared with \$396 million for the same period last year.

In 2009, we expect approximately the following: an annual effective tax rate of 28 percent; R&D expense of \$1.5 billion; capital expenditures of \$800 million; and depreciation of \$900 million.

We believe we have the necessary financial resources to fund our working capital needs, capital expenditures, authorized stock repurchases, 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 48 of Exhibit 13 to our Form 10-K for the year ended December 31, 2008, 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.

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## 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<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs(1) | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs(1) |
|----------------------------------------|-------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| July 1 through July 31, 2009           | 10,439,000                                | \$23.94                            | 10,439,000                                                                                               | \$2.95 billion                                                                                                |
| August 1 through August 31, 2009       | 50,000                                    | \$18.74                            | 50,000                                                                                                   | \$2.95 billion                                                                                                |
| September 1 through September 30, 2009 | 0                                         | --                                 | 0                                                                                                        | \$2.95 billion                                                                                                |
| Total                                  | 10,489,000                                | \$23.92                            | 10,489,000(2)                                                                                            | \$2.95 billion                                                                                                |

- (1) All purchases during the quarter were made under an authorization to purchase up to \$5 billion of additional shares of TI common stock announced on September 21, 2007. No expiration date has been specified for this authorization.
- (2) All purchases were made through open-market purchases except for 50,000 shares that were acquired in August through a privately negotiated forward purchase contract with a non-affiliated financial institution. The forward purchase contract was designed to minimize the adverse impact on our earnings from the effect of stock market value fluctuations on the portion of our deferred compensation obligations denominated in TI stock.

## ITEM 6. Exhibits.

| Designation of<br>Exhibits in This<br>Report | Description of Exhibit                                                                                    |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| 10.1                                         | Texas Instruments 2009 Long-Term Incentive Plan.                                                          |
| 10.2                                         | Texas Instruments Executive Officer Performance Plan.                                                     |
| 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.           |

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|         |                                                                                                 |
|---------|-------------------------------------------------------------------------------------------------|
| 32.2    | Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document.*                                                                        |
| 101.SCH | XBRL Taxonomy Extension Schema.*                                                                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase.*                                                  |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase.*                                                       |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase.*                                                 |
| 101.DEF | XBRL Taxonomy Extension Definition Document.*                                                   |

\* Furnished, not filed.

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

This report includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as TI or its management “believes,” “expects,” “anticipates,” “foresees,” “forecasts,” “estimates” or other words or phrases of similar import. Similarly, statements herein that describe 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, entertainment electronics and computing;
- 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;
- The ability of TI and its customers and suppliers to access their bank accounts and lines of credit or otherwise access the capital markets;
- 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

Date: October 30, 2009

By:

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