UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

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

For the transition period from __________ to __________

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**75-0289970**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
12500 TI Boulevard, Dallas, Texas	**75243**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code 214-479-3773

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00	TXN	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

915,943,779

Number of shares of Registrant’s common stock outstanding as of
July 14, 2020

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. Financial statements

Consolidated Statements of Income	**For Three Months Ended June 30,**		**For Six Months Ended June 30,**	
(Millions of dollars, except share and per-share amounts)	**2020**	**2019**	**2020**	**2019**
Revenue	**$ 3,239**	$ 3,668	**$ 6,568**	$ 7,262
Cost of revenue (COR)	**1,157**	1,308	**2,398**	2,641
Gross profit	**2,082**	2,360	**4,170**	4,621
Research and development (R&D)	**379**	390	**756**	779
Selling, general and administrative (SG&A)	**401**	420	**818**	834
Acquisition charges	**50**	80	**100**	159
Restructuring charges/other	**24**	(36)	**24**	(36)
Operating profit	**1,228**	1,506	**2,472**	2,885
Other income (expense), net (OI&E)	**99**	52	**124**	88
Interest and debt expense	**48**	44	**93**	82
Income before income taxes	**1,279**	1,514	**2,503**	2,891
Provision for income taxes	**(101)**	209	**(51)**	369
Net income	**$ 1,380**	$ 1,305	**$ 2,554**	$ 2,522
Earnings per common share (EPS):				
Basic	**$ 1.50**	$ 1.38	**$ 2.75**	$ 2.67
Diluted	**$ 1.48**	$ 1.36	**$ 2.72**	$ 2.63
Average shares outstanding (millions):				
Basic	**916**	937	**923**	938
Diluted	**927**	953	**935**	954

A portion of net income is allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents. Diluted EPS is calculated using the following:

Net income	**$ 1,380**	$ 1,305	**$ 2,554**	$ 2,522
Income allocated to RSUs	**(7)**	(8)	**(13)**	(16)
Income allocated to common stock for diluted EPS	**$ 1,373**	$ 1,297	**$ 2,541**	$ 2,506

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income	**For Three Months Ended June 30,**		**For Six Months Ended June 30,**	
(Millions of dollars)	**2020**	**2019**	**2020**	**2019**
Net income	**$ 1,380**	$ 1,305	**$ 2,554**	$ 2,522
Other comprehensive income (loss)				
Net actuarial losses of defined benefit plans:				
Adjustments, net of tax effect of $4 and $2; $1 and $3	**(10)**	(3)	**(1)**	(5)
Recognized within net income, net of tax effect of ($3) and ($4); ($5) and ($7)	**6**	11	**14**	21
Available-for-sale investments:				
Unrealized losses, net of tax effect of $0 and $0; $0 and $0	**(2)**	—	**—**	—
Other comprehensive income (loss), net of taxes	**(6)**	8	**13**	16
Total comprehensive income	**$ 1,374**	$ 1,313	**$ 2,567**	$ 2,538

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets	June 30, 2020	December 31, 2019
(Millions of dollars, except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	**$ 4,294**	$ 2,437
Short-term investments	**666**	2,950
Accounts receivable, net of allowances of ($9) and ($8)	**1,176**	1,074
Raw materials	**182**	176
Work in process	**977**	916
Finished goods	**977**	909
Inventories	**2,136**	2,001
Prepaid expenses and other current assets	**216**	299
Total current assets	**8,488**	8,761
Property, plant and equipment at cost	**5,741**	5,740
Accumulated depreciation	**(2,540)**	(2,437)
Property, plant and equipment	**3,201**	3,303
Long-term investments	**36**	300
Goodwill	**4,362**	4,362
Acquisition-related intangibles	**240**	340
Deferred tax assets	**236**	197
Capitalized software licenses	**141**	69
Overfunded retirement plans	**223**	218
Other long-term assets	**518**	468
Total assets	**$ 17,445**	$ 18,018
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	**$ 551**	$ 500
Accounts payable	**409**	388
Accrued compensation	**505**	714
Income taxes payable	**179**	46
Accrued expenses and other liabilities	**519**	475
Total current liabilities	**2,163**	2,123
Long-term debt	**6,245**	5,303
Underfunded retirement plans	**99**	93
Deferred tax liabilities	**60**	78
Other long-term liabilities	**1,234**	1,514
Total liabilities	**9,801**	9,111
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred – None issued	**—**	—
Common stock, $1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	**1,741**	1,741
Paid-in capital	**2,182**	2,110
Retained earnings	**40,780**	39,898
Treasury common stock at cost		
Shares: June 30, 2020 – 825,225,307; December 31, 2019 – 808,784,381	**(36,725)**	(34,495)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	**(334)**	(347)
Total stockholders' equity	**7,644**	8,907
Total liabilities and stockholders' equity	**$ 17,445**	$ 18,018

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows	For Six Months Ended June 30,	
(Millions of dollars)	**2020**	**2019**
Cash flows from operating activities		
Net income	**$ 2,554**	$ 2,522
Adjustments to net income:		
Depreciation	**370**	339
Amortization of acquisition-related intangibles	**100**	159
Amortization of capitalized software	**29**	27
Stock compensation	**132**	128
Gains on sales of assets	**(1)**	(23)
Deferred taxes	**(64)**	35
Increase (decrease) from changes in:		
Accounts receivable	**(102)**	(212)
Inventories	**(135)**	138
Prepaid expenses and other current assets	**(25)**	241
Accounts payable and accrued expenses	**73**	(93)
Accrued compensation	**(205)**	(244)
Income taxes payable	**(108)**	(107)
Changes in funded status of retirement plans	**17**	9
Other	**(64)**	(16)
Cash flows from operating activities	**2,571**	2,903
Cash flows from investing activities		
Capital expenditures	**(291)**	(535)
Proceeds from asset sales	**1**	30
Purchases of short-term investments	**(895)**	(388)
Proceeds from short-term investments	**3,448**	1,784
Other	**—**	24
Cash flows from investing activities	**2,263**	915
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**1,498**	743
Repayment of debt	**(500)**	—
Dividends paid	**(1,664)**	(1,446)
Stock repurchases	**(2,523)**	(2,015)
Proceeds from common stock transactions	**233**	297
Other	**(21)**	(22)
Cash flows from financing activities	**(2,977)**	(2,443)
Net change in cash and cash equivalents	**1,857**	1,375
Cash and cash equivalents at beginning of period	**2,437**	2,438
Cash and cash equivalents at end of period	**$ 4,294**	$ 3,813

See accompanying notes.

Notes to financial statements

1. Description of business, including segment and geographic area information

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. We have two reportable segments, which are established along major categories of products as follows:

- *Analog* – consisting of the following product lines: Power, Signal Chain and High Volume.
- *Embedded Processing* – consisting of the following product lines: Connected Microcontrollers and Processors.

We report the results of our remaining business activities in Other. Other includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other includes DLP® products, calculators and custom ASIC products.

Our centralized manufacturing and support organizations, such as facilities, procurement and logistics, provide support to our operating segments, including those in Other. Costs incurred by these organizations, including depreciation, are charged to the segments on a per-unit basis. Consequently, depreciation expense is not an independently identifiable component within the segments' results and, therefore, is not provided.

Segment information

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Revenue:				
Analog	**$ 2,434**	$ 2,534	**$ 4,894**	$ 5,052
Embedded Processing	**546**	790	**1,199**	1,586
Other	**259**	344	**475**	624
Total revenue	**$ 3,239**	$ 3,668	**$ 6,568**	$ 7,262
Operating profit:				
Analog	**$ 1,053**	$ 1,108	**$ 2,078**	$ 2,196
Embedded Processing	**125**	265	**307**	514
Other (a)	**50**	133	**87**	175
Total operating profit	**$ 1,228**	$ 1,506	**$ 2,472**	$ 2,885

(a) Includes acquisition charges and restructuring charges/other

Geographic area information

The following geographic area information includes revenue, based on product shipment destination. The geographic revenue information does not necessarily reflect end demand by geography because our products tend to be shipped to the locations where our customers manufacture their products.

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Revenue:				
United States	**$ 349**	$ 487	**$ 739**	$ 964
Asia (a)	**2,174**	2,157	**4,201**	4,249
Europe, Middle East and Africa	**451**	709	**1,070**	1,452
Japan	**193**	218	**383**	409
Rest of world	**72**	97	**175**	188
Total revenue	**$ 3,239**	$ 3,668	**$ 6,568**	$ 7,262

(a) Revenue from products shipped into China was $1.8 billion for the second quarters of both 2020 and 2019, and $3.5 billion for the first six months of both 2020 and 2019, which includes shipments to customers that manufacture in China and then export end products to their customers around the world, as well as distributors that transship inventory through China to service other countries.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2019. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended June 30, 2020 and 2019, and the Consolidated Balance Sheet as of June 30, 2020, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2019. The results for the three- and six-month periods are not necessarily indicative of a full year's results.

Significant accounting policies and practices

Earnings per share (EPS)
We use the two-class method for calculating EPS because the restricted stock units (RSUs) we grant are participating securities containing non-forfeitable rights to receive dividend equivalents. Under the two-class method, a portion of net income is allocated to RSUs and excluded from the calculation of income allocated to common stock.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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

	For Three Months Ended June 30,					
	2020			2019		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	**$ 1,380**			$ 1,305		
Income allocated to RSUs	**(7)**			(9)		
Income allocated to common stock	**$ 1,373**	**916**	**$ 1.50**	$ 1,296	937	$ 1.38
Dilutive effect of stock compensation plans		**11**			16	
Diluted EPS:						
Net income	**$ 1,380**			$ 1,305		
Income allocated to RSUs	**(7)**			(8)		
Income allocated to common stock	**$ 1,373**	**927**	**$ 1.48**	$ 1,297	953	$ 1.36

	For Six Months Ended June 30,					
	2020			2019		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	**$ 2,554**			$ 2,522		
Income allocated to RSUs	**(13)**			(17)		
Income allocated to common stock	**$ 2,541**	**923**	**$ 2.75**	$ 2,505	938	$ 2.67
Dilutive effect of stock compensation plans		**12**			16	
Diluted EPS:						
Net income	**$ 2,554**			$ 2,522		
Income allocated to RSUs	**(13)**			(16)		
Income allocated to common stock	**$ 2,541**	**935**	**$ 2.72**	$ 2,506	954	$ 2.63

Potentially dilutive securities representing 9 million and 7 million shares of common stock that were outstanding during the second quarters of 2020 and 2019, respectively, and 9 million shares outstanding during the first six months of both 2020 and 2019, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

Derivatives and hedging

We use derivative financial instruments to manage exposure to foreign exchange risk. These instruments are primarily forward foreign currency exchange contracts, which are used as economic hedges to reduce the earnings impact that exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. Gains and losses from changes in the fair value of these forward foreign currency exchange contracts are credited or charged to OI&E. We do not apply hedge accounting to our foreign currency derivative instruments.

We are exposed to variability in compensation charges related to certain deferred compensation obligations to employees. We use total return swaps to economically hedge this exposure and offset the related compensation expense, recognizing changes in the value of the swaps and the related deferred compensation liabilities in SG&A.

In connection with the issuance of long-term debt, we may use financial derivatives such as treasury-rate lock agreements that are recognized in AOCI and amortized over the life of the related debt. The results of these derivative transactions have not been material.

We do not use derivatives for speculative or trading purposes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Fair values of financial instruments

The fair values of our derivative financial instruments were not material as of June 30, 2020. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. 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. As of June 30, 2020, the carrying value of long-term debt, including the current portion, was $6.80 billion, and the estimated fair value was $7.74 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 4 for a description of fair value and the definition of Level 2 inputs.

Changes in accounting standards – adopted standards for current period

We adopted the following Accounting Standards Updates (ASU) during the current period, none of which had a material impact on our financial position or results of operations.

ASU	Description	Adopted Date
ASU No. 2016-13	*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*	January 1, 2020
ASU No. 2018-13	*Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*	January 1, 2020
ASU No. 2018-15	*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*	January 1, 2020

3. Income taxes

Our estimated annual effective tax rate is about 13%, which does not include discrete tax items. This differs from the 21% statutory corporate tax rate due to the effect of U.S. tax benefits.

Provision for income taxes is based on the following:

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Taxes calculated using the estimated annual effective tax rate	**$ 164**	$ 238	**$ 330**	$ 458
Discrete tax items	**(265)**	(29)	**(381)**	(89)
Provision for income taxes	**$ (101)**	$ 209	**$ (51)**	$ 369
Actual effective tax rate	**(8) %**	14 %	**(2) %**	13 %

Our provision for income taxes for the second quarter and first six months of 2020 includes a $249 million discrete tax benefit for the settlement of a depreciation-related uncertain tax position. Accrued interest of $46 million related to this uncertain tax position was reversed and included in OI&E.

4. Valuation of debt and equity investments and certain liabilities

Investments measured at fair value

Available-for-sale debt investments and trading securities are stated at fair value, which is generally based on market prices or broker quotes. See *Fair-value considerations* below. Unrealized gains and losses from available-for-sale debt securities are recorded as an increase or decrease, net of taxes, in AOCI on our Consolidated Balance Sheets and any credit losses on available-for-sale debt securities are recorded as an allowance for credit losses with an offset recognized in OI&E in our Consolidated Statements of Income.

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

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Other investments

Our other investments include equity-method investments and non-marketable equity investments, which are not measured at fair value. These investments consist of interests in venture capital funds and other non-marketable equity securities. Gains and losses from equity-method investments are recognized in OI&E based on our ownership share of the investee's financial results.

Non-marketable equity securities are measured at cost with adjustments for observable changes in price or impairments. Gains and losses on non-marketable equity investments are recognized in OI&E.

Details of our investments are as follows:

	June 30, 2020			December 31, 2019		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Measured at fair value:						
Available-for-sale debt securities:						
Money market funds	**$ 2,827**	**$ —**	**$ —**	$ 1,213	$ —	$ —
Corporate obligations	**99**	**216**	**—**	174	1,216	—
U.S. government agency and Treasury securities	**900**	**450**	**—**	604	1,734	—
Trading securities:						
Mutual funds	**—**	**—**	**16**	—	—	272
Total	**3,826**	**666**	**16**	1,991	2,950	272
Other measurement basis:						
Equity-method investments	**—**	**—**	**16**	—	—	24
Non-marketable equity investments	**—**	**—**	**4**	—	—	4
Cash on hand	**468**	**—**	**—**	446	—	—
Total	**$ 4,294**	**$ 666**	**$ 36**	$ 2,437	$ 2,950	$ 300

As of June 30, 2020 and December 31, 2019, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments for the first six months of 2020 and 2019. All of our debt securities classified as available for sale as of June 30, 2020, have maturities within one year.

Proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $1.81 billion and $200 million for the second quarters of 2020 and 2019, respectively, and $3.20 billion and $1.78 billion for the first six months of 2020 and 2019, respectively. Gross realized gains and losses from these sales were not material.

During the first six months of 2020, we entered into total return swaps to economically hedge the variability of certain deferred compensation obligations to employees. As a result, we received proceeds of $253 million from the sale of investments in mutual funds that were previously being utilized to offset this exposure.

Fair-value considerations

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

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

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

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

- *Level 2* – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.
- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of June 30, 2020 and December 31, 2019, we had no Level 3 assets or liabilities.

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

	June 30, 2020			December 31, 2019		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Money market funds	**$ 2,827**	**$ —**	**$ 2,827**	$ 1,213	$ —	$ 1,213
Corporate obligations	**—**	**315**	**315**	—	1,390	1,390
U.S. government agency and Treasury securities	**1,350**	**—**	**1,350**	2,338	—	2,338
Mutual funds	**16**	**—**	**16**	272	—	272
Total assets	**$ 4,193**	**$ 315**	**$ 4,508**	$ 3,823	$ 1,390	$ 5,213
Liabilities:						
Deferred compensation	**$ 286**	**$ —**	**$ 286**	$ 298	$ —	$ 298
Total liabilities	**$ 286**	**$ —**	**$ 286**	$ 298	$ —	$ 298

5. <u>Goodwill and acquisition-related intangibles</u>

Goodwill was $4.36 billion as of June 30, 2020 and December 31, 2019. There was no impairment of goodwill during the first six months of 2020 or 2019.

The components of acquisition-related intangibles are as follows:

		June 30, 2020			December 31, 2019		
	Amortization Period (Years)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Developed technology	8 – 10	**$ 2,000**	**$ 1,760**	**$ 240**	$ 2,000	$ 1,660	$ 340

Acquisition charges

Acquisition charges represent the ongoing amortization of intangible assets resulting from the acquisition of National Semiconductor Corporation. These amounts are included in Other for segment reporting purposes, consistent with how management measures the performance of its segments.

Amortization of acquisition-related intangibles was $50 million and $80 million for the second quarters of 2020 and 2019, respectively, and $100 million and $159 million for the first six months of 2020 and 2019. Fully amortized assets are written off against accumulated amortization.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

6. Postretirement benefit plans

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

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Three Months Ended June 30,	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Service cost	**$ 5**	$ 5	**$ —**	$ —	**$ 8**	$ 8
Interest cost	**8**	10	**3**	4	**10**	11
Expected return on plan assets	**(9)**	(12)	**(3)**	(3)	**(20)**	(23)
Recognized net actuarial loss	**2**	3	**—**	—	**4**	8
Net periodic benefit costs	**6**	6	**—**	1	**2**	4
Settlement losses	**3**	3	**—**	—	**—**	1
Total, including other postretirement losses	**$ 9**	$ 9	**$ —**	$ 1	**$ 2**	$ 5

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Six Months Ended June 30,	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Service cost	**$ 9**	$ 9	**$ 1**	$ 1	**$ 16**	$ 16
Interest cost	**17**	19	**6**	7	**19**	22
Expected return on plan assets	**(18)**	(21)	**(6)**	(7)	**(38)**	(44)
Recognized net actuarial loss	**4**	5	**—**	—	**7**	15
Net periodic benefit costs	**12**	12	**1**	1	**4**	9
Settlement losses	**7**	6	**—**	—	**1**	2
Total, including other postretirement losses	**$ 19**	$ 18	**$ 1**	$ 1	**$ 5**	$ 11

7. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of June 30, 2020, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to $2 billion until March 2024. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of June 30, 2020, our credit facility was undrawn, and we had no commercial paper outstanding.

Long-term debt

In the first quarter of 2020, we issued a principal amount of $750 million of fixed-rate, long-term debt due in 2025. We incurred $4 million of issuance costs. The proceeds of the offering were $749 million, net of the original issuance discount, which were used for general corporate purposes and the repayment of maturing debt.

In the second quarter of 2020, we retired $500 million of maturing debt. We also issued a principal amount of $750 million of fixed-rate, long-term debt due in 2030. We incurred $5 million of issuance costs. The proceeds of the offering were $749 million, net of the original issuance discount, to be used for general corporate purposes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Long-term debt outstanding is as follows:

	June 30, 2020	December 31, 2019
Notes due 2020 at 1.75%	$ —	$ 500
Notes due 2021 at 2.75%	550	550
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	300
Notes due 2025 at 1.375%	750	—
Notes due 2027 at 2.90%	500	500
Notes due 2029 at 2.25%	750	750
Notes due 2030 at 1.75%	750	—
Notes due 2039 at 3.875%	750	750
Notes due 2048 at 4.15%	1,500	1,500
Total debt	6,850	5,850
Net unamortized discounts, premiums and issuance costs	(54)	(47)
Total debt, including net unamortized discounts, premiums and issuance costs	6,796	5,803
Current portion of long-term debt	(551)	(500)
Long-term debt	$ 6,245	$ 5,303

Interest and debt expense was $48 million and $44 million for the second quarters of 2020 and 2019, respectively, and $93 million and $82 million for the first six months of 2020 and 2019, respectively. This was net of the amortized discounts, premiums and issuance costs. Capitalized interest was not material.

8. Stockholders' equity

Changes in equity are as follows:

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2019	$ 1,741	$ 2,110	$ 39,898	$ (34,495)	$ (347)
2020					
Net income	—	—	1,174	—	—
Dividends declared and paid ($0.90 per share)	—	—	(841)	—	—
Common stock issued for stock-based awards	—	(77)	—	223	—
Stock repurchases	—	—	—	(1,730)	—
Stock compensation	—	63	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	19
Dividend equivalents on RSUs	—	—	(4)	—	—
Balance, March 31, 2020	1,741	2,096	40,227	(36,002)	(328)
Net income	**—**	**—**	**1,380**	**—**	**—**
Dividends declared and paid ($0.90 per share)	**—**	**—**	**(823)**	**—**	**—**
Common stock issued for stock-based awards	**—**	**17**	**—**	**70**	**—**
Stock repurchases	**—**	**—**	**—**	**(793)**	**—**
Stock compensation	**—**	**69**	**—**	**—**	**—**
Other comprehensive income (loss), net of taxes	**—**	**—**	**—**	**—**	**(6)**
Dividend equivalents on RSUs	**—**	**—**	**(4)**	**—**	**—**
Balance, June 30, 2020	**$ 1,741**	**$ 2,182**	**$ 40,780**	**$ (36,725)**	**$ (334)**

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2018	$ 1,741	$ 1,950	$ 37,906	$ (32,130)	$ (473)
2019					
Net income	—	—	1,217	—	—
Dividends declared and paid ($0.77 per share)	—	—	(724)	—	—
Common stock issued for stock-based awards	—	(84)	—	235	—
Stock repurchases	—	—	—	(1,185)	—
Stock compensation	—	61	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	8
Dividend equivalents on RSUs	—	—	(4)	—	—
Other	—	—	1	—	—
Balance, March 31, 2019	1,741	1,927	38,396	(33,080)	(465)
Net income	—	—	1,305	—	—
Dividends declared and paid ($0.77 per share)	—	—	(722)	—	—
Common stock issued for stock-based awards	—	10	—	136	—
Stock repurchases	—	—	—	(830)	—
Stock compensation	—	67	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	8
Dividend equivalents on RSUs	—	—	(4)	—	—
Other	—	(1)	(1)	(1)	—
Balance, June 30, 2019	$ 1,741	$ 2,003	$ 38,974	$ (33,775)	$ (457)

9. Contingencies

Indemnification guarantees

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

Warranty costs/product liabilities

We accrue for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability. Historically, we have experienced a low rate of payments on product claims. Although we cannot predict the likelihood or amount of any future claims, we do not believe they will have a material adverse effect on our financial condition, results of operations or liquidity. Our stated warranties for semiconductor products obligate us to repair, replace or credit the purchase price of a covered product back to the buyer. Product claim consideration may exceed the price of our products.

General

We are subject to various legal and administrative proceedings. Although it is not possible to predict the outcome of these matters, we believe that the results of these proceedings will not have a material adverse effect on our financial condition, results of operations or liquidity.

10. Supplemental financial information

Restructuring charges/other

In the second quarter of 2020, we recognized $24 million of restructuring charges for severance and benefit costs associated with our Embedded Processing business. As of June 30, 2020, no payments have been made.

Details on amounts reclassified out of accumulated other comprehensive income (loss), net of taxes, to net income

Our Consolidated Statements of Comprehensive Income include items that have been recognized within net income during the second quarters and first six months of 2020 and 2019. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Three Months Ended June 30,		For Six Months Ended June 30,		Impact to Related Statement of Income Lines
	2020	**2019**	**2020**	**2019**	
Net actuarial losses of defined benefit plans:					
Recognized net actuarial loss and settlement losses (a)	**$ 9**	$ 15	**$ 19**	$ 28	Decrease to OI&E
Tax effect	**(3)**	(4)	**(5)**	(7)	Decrease to provision for income taxes
Recognized within net income, net of taxes	**$ 6**	$ 11	**$ 14**	$ 21	Decrease to net income

(a) Detailed in Note 6.

Stock compensation

Total shares of 1,568,938 and 6,783,180 were issued from treasury shares during the second quarter and first six months of 2020, respectively, related to stock compensation.

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

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. For many years, we have run our business with three overarching ambitions in mind. First, we will act like owners who will own the company for decades. Second, we will adapt and succeed in a world that is ever changing. And third, we will be a company that we are personally proud to be a part of and that we would want as our neighbor. When we are successful in achieving these ambitions, our employees, customers, communities and shareholders all win.

Our business model is designed around the following four sustainable competitive advantages that we believe, in combination, put us in a unique class of companies:

- *A strong foundation of manufacturing and technology.* We invest in manufacturing technologies and do most of our manufacturing in-house. This strategic decision to directly control our manufacturing helps ensure a consistent supply of products for our customers and also allows us to invest in technology that differentiates the features of our products. We have focused on creating a competitive manufacturing cost advantage by investing in our advanced analog 300-millimeter capacity, which has about a 40% cost advantage per unpackaged chip over 200-millimeter. To strengthen this advantage, we are moving forward with our plan to build our new 300-millimeter wafer fabrication facility in Richardson, Texas, as 300-millimeter wafers will continue to support the majority of our Analog growth.
- *Broad portfolio of differentiated analog and embedded processing products.* Our customers need multiple chips for their systems. The breadth of our portfolio means we can meet more of these needs than our competitors can, which gives us access to more customers and the opportunity to sell more products and generate more revenue per customer system. We invest more than $1 billion each year to develop new products for our portfolio, which includes tens of thousands of products.
- *Reach of market channels.* Customers often begin their initial product selection process and design-in journey on our website, and the breadth of our portfolio attracts more customers to our website than any of our competitors' websites. Our web presence and global sales and applications team are advantages that give us unique access and insight to about 100,000 customers designing TI semiconductors into their end products.
- *Diversity and longevity of our products, markets and customer positions.* Together, the attributes above result in diverse and long-lived positions that deliver high terminal value to our shareholders. Because of the breadth of our portfolio, we are not dependent on any single product, customer, technology or market. Some of our products generate revenue for decades, which strengthens the return on our investments.

Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets. We believe these markets represent the best growth opportunities over the next decade or longer, due to increasing semiconductor content. Additionally, analog and embedded processing products sold into industrial and automotive markets provide long product life cycles, intrinsic diversity and less capital-intensive manufacturing, which we believe offer stability, profitability and strong cash generation.

This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth, especially on a per-share basis, is important for maximizing shareholder value over the long term. We also believe that free cash flow will be valued only if it is productively invested in the business or returned to shareholders.

The combined effect of our ambitions, business model and sustainable competitive advantages is that we have continued to build a stronger company. Over time, we have gained market share in Analog and Embedded Processing and grown and returned all free cash flow to our owners.

Management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the financial statements and the related notes that appear elsewhere in this document. In the following discussion of our results of operations:

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.

- When we discuss our results:
  - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
  - New products do not tend to have a significant impact on our revenue in any given period because we sell such a large number of products.
  - From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the "mix" of products shipped.
  - Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.
  - For an explanation of free cash flow and the term "annual operating tax rate," see the Non-GAAP financial information section.
- All dollar amounts in the tables are stated in millions of U.S. dollars.

Impact of COVID-19

The coronavirus (COVID-19) pandemic and its follow-on effects are impacting and will likely continue to impact business activity across industries worldwide, including TI. While second quarter did not experience the depth of decline we saw in the 2008 financial crisis, nonetheless we remain cautious of how the economy might behave for the next few years.

The impact to our lead times and ability to fulfill orders was minimal in the first six months of 2020. However, depending on pandemic-related factors like the potential of local manufacturing restrictions on our factories, we could experience constraints in fulfilling customer orders in future periods. The coronavirus pandemic remains dynamic with uncertainty around its duration and broader impact. We are monitoring and assessing the situation and preparing for implications to our business, supply chain and customer demand.

We have long had a business continuity plan in place for unforeseeable situations, like we are experiencing with COVID-19. Additionally, over the past several years, we have invested in building inventory and expanding our global internally-owned manufacturing footprint. Investing in these capabilities has given us flexibility, such as the ability to build products across multiple manufacturing sites. These investments have helped to minimize disruptions, but may not be sufficient to eliminate them.

Performance summary

Our second quarter revenue was $3.24 billion, net income was $1.38 billion and earnings per share (EPS) were $1.48.

Revenue decreased 12% from the same quarter a year ago, driven primarily by weakness in the automotive market.

In our core businesses, Analog revenue declined 4% and Embedded Processing declined 31% from the same quarter a year ago. Analog and Embedded Processing both had positive sequential growth in the second quarter excluding the automotive market.

Our cash flow from operations of $6.3 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the same period was $5.7 billion and 42% of revenue. This reflects the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

We have returned $6.7 billion to shareholders in the past 12 months through stock repurchases and dividends. Over the same period, our dividends represented 56% of free cash flow, underscoring their sustainability. Together, our stock repurchases and dividends reflect our continued commitment to return all free cash flow to our shareholders.

Results of operations – second quarter 2020 compared with second quarter 2019

Revenue of $3.24 billion decreased $429 million, or 12%, primarily due to lower revenue from Embedded Processing and, to a lesser extent, Analog.

Gross profit of $2.08 billion was down $278 million, or 12%, due to lower revenue. As a percentage of revenue, gross profit was 64.3% in both periods.

Operating expenses (R&D and SG&A) were $780 million compared with $810 million.

Acquisition charges were $50 million compared with $80 million and were non-cash. See Note 5 to the financial statements.

Restructuring charges/other was a charge of $24 million, due to an Embedded Processing action, compared with a credit of $36 million due to the sale of our manufacturing facility in Greenock, Scotland in 2019.

Operating profit was $1.23 billion, or 37.9% of revenue, compared with $1.51 billion, or 41.1% of revenue.

OI&E was $99 million of income compared with $52 million of income, which increased primarily due to the reversal of interest accrued on an uncertain tax position.

Interest and debt expense of $48 million increased $4 million due to the issuance of additional long-term debt.

Our provision for income taxes was a benefit of $101 million compared with an expense of $209 million. This change was due to higher discrete tax benefits, which included a $249 million benefit from the settlement of a depreciation-related uncertain tax position, and, to a lesser extent, lower income before income taxes. Our annual operating tax rate, which does not include discrete tax items, is about 13% compared with 16% in 2019. We use “annual operating tax rate” to describe the estimated annual effective tax rate. The 2020 rate differs from the 21% U.S. statutory corporate tax rate due to the effect of U.S. tax benefits.

Net income was $1.38 billion compared with $1.31 billion. EPS was $1.48 compared with $1.36.

Second quarter 2020 segment results

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

Analog (includes Power, Signal Chain and High Volume product lines)

	Q2 2020	Q2 2019	Change
Revenue	**$ 2,434**	$ 2,534	(4)%
Operating profit	**1,053**	1,108	(5)%
Operating profit % of revenue	**43.3 %**	43.7 %	

Analog revenue decreased in High Volume and Power, while Signal Chain was about even. The decrease in High Volume revenue was due to the mix of products shipped. Operating profit decreased due to lower revenue and associated gross profit.

Embedded Processing (includes Connected Microcontrollers and Processors product lines)

	Q2 2020	Q2 2019	Change
Revenue	**$ 546**	$ 790	(31)%
Operating profit	**125**	265	(53)%
Operating profit % of revenue	**22.9 %**	33.5 %	

Embedded Processing revenue decreased in both product lines, led by Processors. Operating profit decreased due to lower revenue and associated gross profit.

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

	Q2 2020	Q2 2019	Change
Revenue	**$ 259**	$ 344	(25)%
Operating profit*	**50**	133	(62)%
Operating profit % of revenue	**19.3 %**	38.7 %	

* Includes acquisition charges and restructuring charges/other

Other revenue decreased $85 million, and operating profit decreased $83 million.

Results of operations – first six months of 2020 compared with first six months of 2019

Revenue of $6.57 billion decreased $694 million, or 10%, primarily due to lower revenue from Embedded Processing and, to a lesser extent, Analog.

Gross profit of $4.17 billion was down $451 million, or 10%, due to lower revenue. As a percentage of revenue, gross profit decreased to 63.5% from 63.6%.

Operating expenses were $1.57 billion compared with $1.61 billion.

Restructuring charges/other was a charge of $24 million, due to an Embedded Processing action, compared with a credit of $36 million due to the sale of our manufacturing facility in Greenock, Scotland in 2019.

Acquisition charges were $100 million compared with $159 million and were non-cash. See Note 5 to the financial statements.

Operating profit was $2.47 billion, or 37.6% of revenue, compared with $2.89 billion, or 39.7% of revenue.

OI&E was $124 million of income compared with $88 million of income, which increased primarily due to the reversal of interest accrued on an uncertain tax position.

Interest and debt expense of $93 million increased $11 million due to the issuance of additional long-term debt.

Our provision for income taxes was a benefit of $51 million compared with an expense of $369 million. This change was due to higher discrete tax benefits, which included a $249 million benefit from the settlement of a depreciation-related uncertain tax position, and, to a lesser extent, lower income before income taxes.

Net income was $2.55 billion compared with $2.52 billion. EPS was $2.72 compared with $2.63.

<u>Year-to-date segment results</u>

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

Analog

	YTD 2020	YTD 2019	Change
Revenue	**$ 4,894**	$ 5,052	(3) %
Operating profit	**2,078**	2,196	(5) %
Operating profit % of revenue	**42.5 %**	43.5 %	

Analog revenue decreased in High Volume and Signal Chain due to changes in the mix of products shipped. Power revenue was about even. Operating profit decreased due to lower revenue and associated gross profit.

Embedded Processing

	YTD 2020	YTD 2019	Change
Revenue	**$ 1,199**	$ 1,586	(24) %
Operating profit	**307**	514	(40) %
Operating profit % of revenue	**25.6 %**	32.4 %	

Embedded Processing revenue decreased in both product lines, led by Processors. Operating profit decreased due to lower revenue and associated gross profit.

Other

	YTD 2020	YTD 2019	Change
Revenue	**$ 475**	$ 624	(24)%
Operating profit*	**87**	175	(50)%
Operating profit % of revenue	**18.3 %**	28.0 %	

* Includes acquisition charges and restructuring charges/other

Other revenue decreased $149 million, and operating profit decreased $88 million.

Financial condition

At the end of the second quarter of 2020, total cash (cash and cash equivalents plus short-term investments) was $4.96 billion, a decrease of $427 million from the end of 2019.

Accounts receivable were $1.18 billion, an increase of $102 million compared with the end of 2019. Days sales outstanding at the end of the second quarter of 2020 were 33 compared with 29 at the end of 2019.

Inventory was $2.14 billion, an increase of $135 million from the end of 2019. Days of inventory at the end of the second quarter of 2020 were 166 compared with 144 at the end of 2019. The increase in inventory reflects our desire to maintain high optionality with our operating plan so we can keep our lead times stable and product availability high, particularly during this time when our customers' ability to forecast their demand is limited. It is also higher as we reduce the number of distributors this year and have a closer, more direct relationship with our customers.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and a variable-rate, revolving credit facility. Cash flows from operating activities for the first six months of 2020 were $2.57 billion, a decrease of $332 million from the year-ago period primarily due to an increase in cash used for working capital.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to $2 billion until March 2024. This credit facility also serves as support for the issuance of commercial paper. As of June 30, 2020, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for the first six months of 2020 provided $2.26 billion compared with $915 million in the year-ago period. Capital expenditures were $291 million compared with $535 million in the year-ago period and were primarily for semiconductor manufacturing equipment and facilities in both periods. Short-term investments provided cash of $2.55 billion compared with $1.40 billion in the year-ago period.

Financing activities for the first six months of 2020 used $2.98 billion compared with $2.44 billion in the year-ago period. In 2020, we received net proceeds of $1.50 billion from the issuance of fixed-rate, long-term debt, and we retired maturing debt of $500 million. In the year-ago period, we received net proceeds of $743 million from the issuance of fixed-rate, long-term debt. Dividends paid were $1.66 billion compared with $1.45 billion in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used $2.52 billion to repurchase 23.2 million shares of our common stock compared with $2.02 billion used in the year-ago period to repurchase 19.6 million shares. Employee exercises of stock options provided cash proceeds of $233 million compared with $297 million in the year-ago period.

We had $4.29 billion of cash and cash equivalents and $666 million of short-term investments as of June 30, 2020. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

Non-GAAP financial information

This MD&A includes references to free cash flow and ratios based on that measure. These are financial measures that were not prepared in accordance with generally accepted accounting principles in the United States (GAAP). Free cash flow was calculated by subtracting capital expenditures from the most directly comparable GAAP measure, cash flows from operating activities (also referred to as cash flow from operations).

We believe that free cash flow and the associated ratios provide insight into our liquidity, our cash-generating capability and the amount of cash potentially available to return to shareholders, as well as insight into our financial performance. These non-GAAP measures are supplemental to the comparable GAAP measures.

Reconciliation to the most directly comparable GAAP measures is provided in the table below.

	For 12 Months Ended June 30,		
	2020	**2019**	**Change**
Cash flow from operations (GAAP)	**$ 6,317**	$ 7,154	(12)%
Capital expenditures	**(603)**	(1,228)	
Free cash flow (non-GAAP)	**$ 5,714**	$ 5,926	(4)%
Revenue	**$ 13,689**	$ 15,240	
Cash flow from operations as a percentage of revenue (GAAP)	**46.1 %**	46.9 %	
Free cash flow as a percentage of revenue (non-GAAP)	**41.7 %**	38.9 %	

This MD&A also includes references to an annual operating tax rate, a non-GAAP term we use to describe the estimated annual effective tax rate, a GAAP measure that by definition does not include discrete tax items. We believe the term annual operating tax rate helps differentiate from the effective tax rate, which includes discrete tax items.

Long-term contractual obligations

Information regarding long-term contractual obligations is in Item 7 of our Form 10-K for the year ended December 31, 2019. Additionally, in the first six months of 2020, we issued $750 million principal amount of 1.375% notes maturing in 2025 and $750 million principal amount of 1.75% notes maturing in 2030. We retired $500 million of maturing debt in April 2020.

Changes in accounting standards

See Note 2 to the financial statements for information regarding the status of new accounting and reporting standards.

ITEM 4. Controls and procedures

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

PART II – OTHER INFORMATION

ITEM 1A. Risk factors

Information concerning our risk factors is contained in Item 1A of our Form 10-Q for the quarter ended March 31, 2020, and is incorporated by reference herein.

ITEM 2. Unregistered sales of equity securities and use of proceeds

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
April 1, 2020 through April 30, 2020	7,463,609	$ 106.34	7,459,148	$ 10.66 billion
May 1, 2020 through May 31, 2020	—	—	—	10.66 billion
June 1, 2020 through June 30, 2020	—	—	—	10.66 billion
Total	7,463,609 (b)	$ 106.34 (b)	7,459,148	$ 10.66 billion (c)

(a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to $12.0 billion of additional shares of TI common stock announced September 20, 2018.

(b) In addition to open-market purchases, 4,461 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

(c) As of June 30, 2020, this amount consisted of the remaining portion of the $12.0 billion authorized in September 2018. No expiration date has been specified for this authorization.

ITEM 6. Exhibits

Designation of Exhibits in This Report	Description of Exhibit
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended (incorporated by reference to Exhibit 3(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
3(b)	By-Laws of the Registrant (incorporated by reference to Exhibit 3 of the Registrant's Current Report on Form 8-K filed July 16, 2020).
4(a)	Officer's Certificate, dated May 4, 2020 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed May 4, 2020).
31(a)	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a).†
31(b)	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a).†
32(a)	Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.†
32(b)	Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.†
101.ins	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.†
101.def	XBRL Taxonomy Extension Definition Linkbase Document.†
101.sch	XBRL Taxonomy Extension Schema Document.†
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document.†
101.lab	XBRL Taxonomy Extension Label Linkbase Document.†
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document.†
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).†

† Filed or furnished herewith.

Notice regarding forward-looking statements

This report includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as TI or its management "believes," "expects," "anticipates," "foresees," "forecasts," "estimates" or other words or phrases of similar import. Similarly, statements herein that describe TI's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in forward-looking statements.

We urge you to carefully consider the following important factors that could cause actual results to differ materially from the expectations of TI or our management:

- The duration and scope of the COVID-19 pandemic, government and other third-party responses to it and the consequences for the global economy, including to our business and the businesses of our suppliers, customers and distributors;
- Economic, social and political conditions, and natural events in the countries in which we, our customers or our suppliers operate, including global trade policies;
- Market demand for semiconductors, particularly in the industrial and automotive markets, and customer demand that differs from forecasts;
- Our ability to compete in products and prices in an intensely competitive industry;
- Evolving cybersecurity and other threats relating to our information technology systems or those of our customers or suppliers;
- Our ability to successfully implement and realize opportunities from strategic, business and organizational changes, or our ability to realize our expectations regarding the amount and timing of restructuring charges and associated cost savings;
- Our ability to develop, manufacture and market innovative products in a rapidly changing technological environment, and our timely implementation of new manufacturing technologies and installation of manufacturing equipment;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Product liability, warranty or other claims relating to our products, manufacturing, delivery, services, design or communications, or recalls by our customers for a product containing one of our parts;
- Compliance with or changes in the complex laws, rules and regulations to which we are or may become subject, or actions of enforcement authorities, that restrict our ability to operate our business, or subject us to fines, penalties or other legal liability;
- Changes in tax law and accounting standards that impact the tax rate applicable to us, the jurisdictions in which profits are determined to be earned and taxed, adverse resolution of tax audits, increases in tariff rates, and the ability to realize deferred tax assets;
- A loss suffered by one of our customers or distributors with respect to TI-consigned inventory;
- Financial difficulties of our distributors or their promotion of competing product lines to our detriment; or disputes with significant distributors;
- Losses or curtailments of purchases from key customers or the timing and amount of distributor and other customer inventory adjustments;
- Our ability to maintain or improve profit margins, including our ability to utilize our manufacturing facilities at sufficient levels to cover our fixed operating costs, in an intensely competitive and cyclical industry and changing regulatory environment;
- Our ability to maintain and enforce a strong intellectual property portfolio and maintain freedom of operation in all jurisdictions where we conduct business; or our exposure to infringement claims;
- Instability in the global credit and financial markets;
- Increases in health care and pension benefit costs;
- Our ability to recruit and retain skilled personnel, and effectively manage key employee succession; and

- Impairments of our non-financial assets.

For a more detailed discussion of these factors, see the Risk factors discussion in Item 1A of our Form 10-Q for the quarter ended March 31, 2020. The forward-looking statements included in this report are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances. If we do update any forward-looking statement, you should not infer that we will make additional updates with respect to that statement or any other forward-looking statement.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Rafael R. Lizardi

Rafael R. Lizardi
Senior Vice President and
Chief Financial Officer

Date: July 22, 2020