

TEXAS INSTRUMENTS INC
Form 10-Q
May 03, 2018

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 March 31, 2018

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.)

Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q

12500 TI Boulevard, Dallas, Texas 75243
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(Do not check if a 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

978,918,151

Number of shares of Registrant's common stock outstanding as of

April 24, 2018

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Consolidated Statements of Income (Millions of dollars, except share and per-share amounts)	For Three Months Ended	
	March 31,	
	2018	2017
Revenue	\$ 3,789	\$ 3,402
Cost of revenue (COR)	1,342	1,258
Gross profit	2,447	2,144
Research and development (R&D)	385	369
Selling, general and administrative (SG&A)	433	439
Acquisition charges	80	80
Restructuring charges/other	1	4
Operating profit	1,548	1,252
Other income (expense), net (OI&E)	28	21
Interest and debt expense	23	18
Income before income taxes	1,553	1,255
Provision for income taxes	187	258
Net income	\$ 1,366	\$ 997
Earnings per common share (EPS):		
Basic	\$ 1.38	\$.99
Diluted	\$ 1.35	\$.97
Average shares outstanding (millions):		
Basic	983	998
Diluted	1,005	1,019
Cash dividends declared per common share	\$.62	\$.50

As a result of accounting rule ASC 260, which requires a portion of Net income to be allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents, diluted EPS is calculated using the following:

Net income	\$ 1,366	\$ 997
Income allocated to RSUs	(11)	(10)
Income allocated to common stock for diluted EPS	\$ 1,355	\$ 987

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Three Months Ended	
	March 31, 2018	2017
Net income	\$ 1,366	\$ 997
Other comprehensive income (loss), net of taxes		
Net actuarial losses of defined benefit plans:		
Adjustments	(16)	(12)
Recognized within Net income	9	12
Prior service credit of defined benefit plans:		
Recognized within Net income	(1)	(1)
Other comprehensive income (loss)	(8)	(1)
Total comprehensive income	\$ 1,358	\$ 996

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

	March 31, 2018	December 31, 2017
Consolidated Balance Sheets		
(Millions of dollars, except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,717	\$ 1,656
Short-term investments	2,362	2,813
Accounts receivable, net of allowances of (\$8) and (\$8)	1,454	1,278
Raw materials	144	126
Work in process	1,076	1,089
Finished goods	812	742
Inventories	2,032	1,957
Prepaid expenses and other current assets	1,025	1,030
Total current assets	8,590	8,734
Property, plant and equipment at cost	4,907	4,789
Accumulated depreciation	(2,171)	(2,125)
Property, plant and equipment	2,736	2,664
Long-term investments	271	268
Goodwill	4,362	4,362
Acquisition-related intangibles	866	946
Deferred tax assets	218	264
Capitalized software licenses	102	110
Overfunded retirement plans	215	208
Other long-term assets	147	86
Total assets	\$ 17,507	\$ 17,642
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 500	\$ 500
Accounts payable	488	466
Accrued compensation	344	722
Income taxes payable	133	128
Accrued expenses and other liabilities	395	442
Total current liabilities	1,860	2,258
Long-term debt	3,578	3,577
Underfunded retirement plans	92	89
Deferred tax liabilities	53	78
Other long-term liabilities	1,282	1,303
Total liabilities	6,865	7,305
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	1,770	1,776
Retained earnings	35,619	34,662

Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q

Treasury common stock at cost

Shares: March 31, 2018 – 759,098,020; December 31, 2017 – 757,657,217	(28,096)	(27,458)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(392)	(384)
Total stockholders' equity	10,642	10,337
Total liabilities and stockholders' equity	\$ 17,507	\$ 17,642

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Millions of dollars)	For Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 1,366	\$ 997
Adjustments to Net income:		
Depreciation	137	139
Amortization of acquisition-related intangibles	80	80
Amortization of capitalized software	12	11
Stock compensation	70	68
Deferred taxes	(31)	9
Increase (decrease) from changes in:		
Accounts receivable	(176)	(68)
Inventories	(97)	(53)
Prepaid expenses and other current assets	356	(71)
Accounts payable and accrued expenses	(51)	(78)
Accrued compensation	(372)	(356)
Income taxes payable	(131)	149
Changes in funded status of retirement plans	(15)	(14)
Other	(36)	(18)
Cash flows from operating activities	1,112	795
Cash flows from investing activities		
Capital expenditures	(189)	(127)
Proceeds from asset sales	—	40
Purchases of short-term investments	(996)	(757)
Proceeds from short-term investments	1,455	1,120
Other	(4)	(9)
Cash flows from investing activities	266	267
Cash flows from financing activities		
Repayment of debt	—	(250)
Dividends paid	(611)	(500)
Stock repurchases	(873)	(550)
Proceeds from common stock transactions	178	161
Other	(11)	(4)
Cash flows from financing activities	(1,317)	(1,143)
Net change in Cash and cash equivalents	61	(81)
Cash and cash equivalents at beginning of period	1,656	1,154
Cash and cash equivalents at end of period	\$ 1,717	\$ 1,073

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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 March 31,	
	2018	2017
Revenue:		
Analog	\$ 2,566	\$ 2,256
Embedded Processing	926	803
Other	297	343
Total revenue	\$ 3,789	\$ 3,402
Operating profit:		
Analog	\$ 1,166	\$ 935
Embedded Processing	328	240
Other	54	77
Total operating profit	\$ 1,548	\$ 1,252

Geographic area information

The following geographic area information includes revenue based on product shipment destination. The revenue information is not necessarily indicative of the geographic area in which the end applications containing our products are ultimately consumed because our products tend to be shipped to the locations where our customers manufacture their products. Specifically, many of our products are shipped to our customers in China who may include these parts in the manufacture of their own end products, which they may in turn export to their customers around the world.

For Three
Months Ended

	March 31,	
	2018	2017
Revenue:		
United States	\$ 504	\$ 399
Asia (a)	2,215	2,004
Europe, Middle East and Africa	771	683
Japan	220	250
Rest of world	79	66
Total revenue	\$ 3,789	\$ 3,402

(a) Revenue from products shipped into China, including Hong Kong, was \$1.6 billion and \$1.5 billion in the three months ended March 31, 2018, and March 31, 2017, respectively.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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, 2017, except for the effects of adopting Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended March 31, 2018 and 2017, and the Consolidated Balance Sheet as of March 31, 2018, 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, 2017. The results for the three-month periods are not necessarily indicative of a full year's results.

Significant accounting policies and practices

Revenue recognition

We generate revenue primarily from the sale of semiconductor products, either directly to a customer or to a distributor, or at the conclusion of a consignment process. We have a variety of types of contracts with our customers and distributors. In determining whether a contract exists, we evaluate the terms of the agreement, the relationship with the customer or distributor and their ability to pay.

We recognize revenue from sales of our products, including sales to our distributors, at a point in time, generally upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where required, when the customer has accepted the products. For sales to distributors, payment is due on our standard commercial terms and is not contingent upon resale of the products.

Revenue from sales of our products that is subject to inventory consignment agreements is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that we store at designated locations. Transfer of control occurs at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, we retain control over the products' disposition, including the right to pull back or relocate the products.

The amount of revenue recognized is adjusted based on allowances, which are prepared on a portfolio basis using a most likely amount methodology based on analysis of historical data, current economic conditions and contractual terms. These allowances, which are not material, generally include adjustments for pricing arrangements, product returns and incentives. The length of time between invoicing and payment is not significant under any of our payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

In addition, we record allowances for accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, record a charge in the period such determination is made.

We recognize shipping fees, if any, received from customers in revenue. We include shipping and handling costs in COR. The majority of our customers pay these fees directly to third parties.

Earnings per share (EPS)

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

7

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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

	For Three Months Ended March 31,					
	2018			2017		
	Net		Net			
	Income	Shares	EPS	Income	Shares	EPS
Basic EPS:						
Net income	\$ 1,366			\$ 997		
Income allocated to RSUs	(11)			(10)		
Income allocated to common stock for basic EPS calculation	\$ 1,355	983	\$ 1.38	\$ 987	998	\$.99
Adjustment for dilutive shares:						
Stock compensation plans		22			21	
Diluted EPS:						
Net income	\$ 1,366			\$ 997		
Income allocated to RSUs	(11)			(10)		
Income allocated to common stock for diluted EPS calculation	\$ 1,355	1,005	\$ 1.35	\$ 987	1,019	\$.97

Potentially dilutive securities representing 5 million and 6 million shares of common stock that were outstanding during the first quarters of 2018 and 2017, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

Derivatives and hedging

We 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.

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.

Fair values of financial instruments

The fair values of our derivative financial instruments were not material as of March 31, 2018. 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. The carrying value of our long-term debt approximates the fair value as 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

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. We adopted Accounting Standards Codification Topic 606 (ASC 606) as of January 1, 2018, using the modified retrospective transition method applied only to contracts that were not completed as of the adoption date. The reported results for 2018 reflect the application of the new accounting guidance, while the reported results for prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under ASC 605, Revenue Recognition (ASC 605).

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

The most significant impact from adopting the standard relates to our accounting for royalty income on licenses of intellectual property; however, the effect of such change during any individual reporting period will not materially impact our results of operations and financial position. Although royalty income is recorded within OI&E, the new revenue guidance applies to these agreements by analogy, and therefore, such agreements have been evaluated for ASC transition considerations. Under ASC 606, royalty income for our fixed-rate royalty agreements is bifurcated between two performance obligations: providing a right to use our initial patent portfolio and the right to access our future patents when those patents are developed. We have determined that the value of these agreements is allocated more heavily to the initial performance obligation. As a result, income from these agreements is recognized predominately at the time of contract execution rather than ratably over the life of the agreements, accelerating the timing of when we recognize royalty income in OI&E.

The timing of revenue recognition, billings and cash collections may result in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities). These items are included in other current and non-current assets and liabilities on the Consolidated Balance Sheets.

The time frame between when the customer places an order for products and when it is shipped is less than 12 months. Generally, we invoice customers for payment upon shipment or when goods are pulled from consignment inventory, which results in an unconditional right to consideration. Our contract assets are primarily related to our rights to consideration for satisfied or partially satisfied performance obligations on our royalty agreements for which payment has not been received as of the reporting date.

We recognized an increase to opening retained earnings of \$206 million, net of taxes, as of January 1, 2018, due to the cumulative impact of adopting ASC 606, with the impact primarily related to our fixed payment patent licensing agreements that were not completed as of the adoption date. A contract asset of \$283 million and deferred tax liabilities of \$55 million were recorded as of January 1, 2018, related to the transition period adjustments.

Occasionally, as of the end of a reporting period, some of the performance obligations associated with contracts will have been unsatisfied or only partially satisfied. In accordance with the practical expedients available in the guidance, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less. Similarly, we do not disclose information for variable-rate consideration on our sales-based or usage-based royalties for our patent licenses.

For royalty income from licensing our patent portfolios, income is allocated to performance obligations that have not yet been satisfied. The remaining performance obligations represent contracted income that has not yet been recognized, including amounts that will be invoiced and recognized as income in future periods. As of March 31, 2018, we had \$75 million of remaining performance obligations that had not yet been satisfied. We expect to recognize approximately 20 percent of our remaining performance obligations as income over the next 12 months and the remainder thereafter.

As of March 31, 2018, we had contract assets of \$273 million. During the three months ended March 31, 2018, our contract assets were reduced by \$10 million, due to \$14 million of cash received offset by \$4 million of income recognized.

We incur commission expenses paid to internal sales personnel that are incremental to obtaining contracts with customers. We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are included in SG&A.

Other standards

The following standards were adopted during the current period and did not have a material impact on our financial position and results of operations:

ASU	Description	Adopted Date
ASU No. 2016-01	Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018
ASU No. 2017-01	Business Combinations (Topic 805): Clarifying the Definition of a Business	January 1, 2018
ASU No. 2017-05	Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	January 1, 2018

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Changes in accounting standards – standards not yet adopted

ASU No. 2016-02, Leases (Topic 842)

This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis. In March 2018, the FASB tentatively approved an optional transition method to initially account for the impact of the adoption with a cumulative-effect adjustment to the January 1, 2019, rather than January 1, 2017, financial statements. This would eliminate the need to restate amounts presented prior to January 1, 2019. We plan to adopt the standard effective January 1, 2019, and expect to elect this optional transition method. We are currently evaluating the potential impact of this standard on our financial position, but we do not expect it to have a material impact on our results of operations.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which requires waiting to recognize a loss until it is probable of having been incurred. There are other provisions within the standard that affect how impairments of other financial assets may be recorded and presented, and that expand disclosures. This standard will be effective for our interim and annual periods beginning January 1, 2020, and permits earlier application but not before periods beginning January 1, 2019. The standard will be applied using a modified retrospective approach. We are currently evaluating the potential impact of this standard, but we do not expect it to have a material impact on our financial position and results of operations.

ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This standard allows a reclassification of stranded tax effects as a result of the U.S. Tax Cuts and Jobs Act (the Tax Act) from accumulated other comprehensive income to retained earnings. The provisions from this guidance are effective for interim and annual periods beginning after January 1, 2019. Early adoption is permitted. This standard should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effects of the Tax Act are recognized. We plan to adopt this standard during the interim period in which we complete our accounting for the tax effects of the enactment of the Tax Act, applying the guidance to the period of adoption. This standard will have no impact on our results of operations. We are currently evaluating the potential impact of this standard on our financial position.

3. Income taxes

Our Provision for income taxes was \$187 million and \$258 million for the first quarters of 2018 and 2017, respectively.

Our estimated annual effective tax rate is about 20 percent, which does not include discrete tax items. This differs from the 21 percent statutory corporate tax rate due to the effect of U.S. tax benefits, offset by a 2018 transitional tax effect.

We have included the provisions of the Tax Act in the calculation of our estimated annual effective tax rate. The estimates could change when additional information on implementation of the provisions of the Tax Act becomes available.

The Tax Act was enacted on December 22, 2017. We have not completed our accounting for the tax effects of enactment of the Tax Act. We have made reasonable estimates of the tax on indefinitely reinvested earnings and the effects on our existing deferred tax balances. This resulted in additional tax expense in 2017 of \$773 million, consisting of \$714 million related to the tax on indefinitely reinvested earnings and \$59 million related to remeasuring our existing deferred tax balances.

The tax on indefinitely reinvested earnings is based on our non-U.S. post-1986 earnings and profits (E&P) that we previously deferred from U.S. income taxes. We have not yet completed our calculation of the total post-1986 E&P for these non-U.S. subsidiaries.

In the first quarter of 2018 we reduced the amount of income tax expense recorded for indefinitely reinvested earnings to \$669 million from \$714 million recorded in 2017. This adjustment did not affect the estimated annual effective tax rate for 2018.

The calculations of the tax effect of the Tax Act for both indefinitely reinvested earnings and deferred tax assets and liabilities are expected to be completed with the preparation of the U.S. 2017 tax return in the third quarter of 2018.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Provision for income taxes is based on the following:

	For Three Months Ended March 31,	
	2018	2017
Taxes calculated using the estimated annual effective tax rate	\$ 316	\$ 382
Discrete tax items	(129)	(124)
Provision for income taxes	\$ 187	\$ 258
Estimated annual effective tax rate	20 %	30 %
Actual effective tax rate	12 %	21 %

4. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

We classify our investments as available for sale, trading, equity method or non-marketable equity. Most of our investments are debt securities, which are classified as available for sale.

Available-for-sale 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. We record other-than-temporary impairments on available-for-sale debt securities in OI&E in our Consolidated Statements of Income.

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

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.

Details of our investments are as follows:

March 31, 2018			December 31, 2017		
Cash			Cash		
and			and		
Cash	Short-Term	Long-Term	Cash	Short-Term	Long-Term
Equivalents	Investments	Investments	Equivalents	Investments	Investments

Measured at fair value:						
Available-for-sale debt securities:						
Money market funds	\$ 369	\$ —	\$ —	\$ 525	\$ —	\$ —
Corporate obligations	413	764	—	172	698	—
U.S. government agency and Treasury securities	699	1,598	—	700	2,115	—
Trading securities:						
Mutual funds	—	—	243	—	—	236
Total	1,481	2,362	243	1,397	2,813	236
Other measurement basis:						
Equity-method investments	—	—	24	—	—	26
Non-marketable equity investments	—	—	4	—	—	6
Cash on hand	236	—	—	259	—	—
Total	\$ 1,717	\$ 2,362	\$ 271	\$ 1,656	\$ 2,813	\$ 268

As of March 31, 2018, and December 31, 2017, 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 three months ended March 31, 2018, and March 31, 2017.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

For the three months ended March 31, 2018, and March 31, 2017, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$1.46 billion and \$1.12 billion, respectively. Gross realized gains and losses from these sales were not material.

The following table presents the aggregate maturities of our available-for-sale investments as of March 31, 2018:

Due	Fair Value
One year or less	\$ 3,833
One to two years	10

Other-than-temporary declines and impairments in the values of our available-for-sale investments, which were recognized in OI&E, were not material in the three months ended March 31, 2018, and March 31, 2017.

Fair-value considerations

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

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

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

- Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. 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 March 31, 2018 and December 31, 2017, we had no Level 3 assets or liabilities, other than certain assets held by our postretirement plans.

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.

Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q

	March 31, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	2	Total
Assets:						
Money market funds	\$ 369	\$ —	\$ 369	\$ 525	\$ —	\$ 525
Corporate obligations	—	1,177	1,177	—	870	870
U.S. government agency and Treasury securities	2,247	50	2,297	2,765	50	2,815
Mutual funds	243	—	243	236	—	236
Total assets	\$ 2,859	\$ 1,227	\$ 4,086	\$ 3,526	\$ 920	\$ 4,446
Liabilities:						
Deferred compensation	\$ 256	\$ —	\$ 256	\$ 255	\$ —	\$ 255
Total liabilities	\$ 256	\$ —	\$ 256	\$ 255	\$ —	\$ 255

5. Goodwill and acquisition-related intangibles

Goodwill was \$4.36 billion as of March 31, 2018, and December 31, 2017. There was no impairment of goodwill during the three months ended March 31, 2018, or March 31, 2017.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

The components of Acquisition-related intangibles are as follows:

	Amortization Period (Years)	March 31, 2018			December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	\$ 2,130	\$ 1,415	\$ 715	\$ 2,130	\$ 1,361	\$ 769
Customer relationships	8	810	659	151	810	633	177
Total		\$ 2,940	\$ 2,074	\$ 866	\$ 2,940	\$ 1,994	\$ 946

Amortization of acquisition-related intangibles was \$80 million for the first quarters of both 2018 and 2017. Fully amortized assets are written off against accumulated amortization.

6. Postretirement benefit plans

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

For Three Months Ended March 31,	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2018	2017	2018	2017	2018	2017
Service cost	\$ 5	\$ 5	\$ 1	\$ 1	\$ 9	\$ 9
Interest cost	9	10	4	4	12	11
Expected return on plan assets	(11)	(10)	(4)	(4)	(17)	(16)
Recognized net actuarial loss	4	4	1	1	5	7
Amortization of prior service credit	—	—	(1)	(1)	—	—
Net periodic benefit costs	7	9	1	1	9	11
Settlement losses	2	6	—	—	—	—
Total, including other postretirement losses	\$ 9	\$ 15	\$ 1	\$ 1	\$ 9	\$ 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 March 31, 2018, 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 2023. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of March 31, 2018, our credit facility was undrawn, and we had no commercial paper outstanding.

Long-term debt

On April 30, 2018, we agreed to issue \$1.30 billion principal amount of debt that we expect to use for general corporate purposes, including to replenish our cash on hand following the repayment of maturing debt. The offering is expected to close on May 7, 2018.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Long-term debt outstanding is as follows:

	March 31, 2018	December 31, 2017
Notes due 2018 at 1.00%	500	500
Notes due 2019 at 1.65%	750	750
Notes due 2020 at 1.75%	500	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 2027 at 2.90%	500	500
Total debt	4,100	4,100
Net unamortized discounts, premiums and debt issuance costs	(22)	(23)
Total debt, including net unamortized discounts, premiums and debt issuance costs	4,078	4,077
Current portion of long-term debt	(500)	(500)
Long-term debt	\$ 3,578	\$ 3,577

Interest and debt expense was \$23 million and \$18 million for the first quarters of 2018 and 2017, respectively. This was net of the amortization of the debt discounts, premiums and debt issuance costs. Capitalized interest was not material.

8. 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.

9. Supplemental financial information

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. See Note 5 for additional information.

Restructuring charges/other

Restructuring charges/other are included in Other for segment reporting purposes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

As of March 31, 2018, we have recognized \$21 million of restructuring charges for severance and benefit costs related to the previously reported reorganization of the product lines within our two reportable segments. We have paid \$18 million to terminated employees for severance and benefits. Any further charges are not expected to be material.

As of March 31, 2018, we have recognized \$33 million of restructuring charges for severance and benefits costs, as well as accelerated depreciation, related to the phase out of a manufacturing facility in Greenock, Scotland. Total restructuring charges, primarily severance and benefit costs, are estimated to be about \$40 million. The remaining charges are expected to be recognized through 2019.

Changes in accrued restructuring balances are as follows:

Balance, December 31, 2017	\$ 29
Restructuring charges	1
Non-cash items (a)	1
Payments	(2)
Balance, March 31, 2018	\$ 29

(a) Reflects charges for impacts of accelerated depreciation and changes in exchange rates.

The restructuring accrual balances are primarily reported as a component of either Accrued expenses and other liabilities or Other long-term liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

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 periods ended March 31, 2018, and March 31, 2017. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Three Months Ended		Impact to Related
	March 31, 2018	March 31, 2017	Statement of Income Lines
Net actuarial losses of defined benefit plans:			
Recognized net actuarial loss and Settlement losses (a)	\$ 12	\$ 18	Decrease to OI&E
Tax effect	(3)	(6)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	\$ 9	\$ 12	Decrease to Net income
Prior service credit of defined benefit plans:			
Amortization of prior service credit (a)	\$ (1)	\$ (1)	Increase to OI&E
Tax effect	—	—	Increase to Provision for income taxes
Recognized within Net income, net of taxes	\$ (1)	\$ (1)	Increase to Net income

(a) Detailed in Note 6.

Stock compensation

Total shares of 6,893,414 were issued from treasury shares during the first quarter of 2018 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. 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 increasing factory loadings of our advanced analog 300-millimeter wafers, which have about a 40 percent cost advantage per unpackaged chip over 200-millimeter wafers. 300-millimeter wafers will support the majority of our Analog growth going forward. Additionally, we keep our manufacturing costs low by using mature assets acquired ahead of demand when their prices are most attractive.

• **Broad portfolio of differentiated analog and embedded processing semiconductors.** Our customers need multiple chips for their systems. The breadth of our portfolio means we can solve more of these needs than our competitors, 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.

• **Broadest 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. Our web presence, combined with our global sales force that is also greater in size than those of our competitors, are advantages that give us unique access 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, and because of the breadth of our markets we are not dependent on any single application or customer. 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, which we believe represent the best growth opportunities. 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 these sustainable competitive advantages is that over time we have gained market share in Analog and Embedded Processing and have grown free cash flow. Our business model puts us in a unique class of companies with the ability to grow, generate cash, and return that cash to shareholders.

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.

• All dollar amounts in the tables are stated in millions of U.S. dollars.

• When we discuss our results:

o Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.

o New products tend not to have a significant impact on our revenue in any given period because we sell such a large number of products.

- o 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.
- o 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.
- o Over time, we have been allocating resources from areas like manufacturing support and SG&A into R&D activities.

Performance summary

Our first-quarter revenue was \$3.79 billion, net income was \$1.37 billion and earnings per share (EPS) were \$1.35. Earnings per share include 14 cents in tax-related benefits not in our original guidance.

Revenue increased 11 percent from the same quarter a year ago. Demand for our Analog and Embedded Processing products continued to be strong in the industrial and automotive markets.

Our cash flow from operations of \$5.7 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the trailing 12 months was up 17 percent from a year ago to \$4.9 billion, or 32.1 percent 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 \$5.1 billion to owners in the past 12 months through stock repurchases and dividends, consistent with our strategy to return to owners all of our free cash flow. Over the last 12 months, our dividends represented 45 percent of free cash flow, emphasizing their sustainability.

We now expect our ongoing annual operating tax rate to be about 16 percent starting in 2019 and 20 percent in 2018, lower than our previous expectation of 18 percent and 23 percent, respectively.

For an explanation of free cash flow and the term “annual operating tax rate,” see the Non-GAAP financial information section.

Results of operations – first-quarter 2018 compared with first-quarter 2017

Revenue increased \$387 million, or 11 percent, due to higher revenue from Analog and Embedded Processing.

Gross profit of \$2.45 billion was up \$303 million, or 14 percent, due to higher revenue and lower manufacturing costs. As a percentage of revenue, gross profit increased to 64.6 percent from 63.0 percent.

Operating expenses (R&D and SG&A) were \$818 million compared with \$808 million.

Acquisition charges of \$80 million were non-cash. See Note 9 to the financial statements.

Operating profit was \$1.55 billion, or 40.9 percent of revenue, compared with \$1.25 billion, or 36.8 percent of revenue.

OI&E was \$28 million of income compared with \$21 million.

Our Provision for income taxes was \$187 million compared with \$258 million, which includes discrete tax benefits of \$129 million and \$124 million, respectively. The decrease in our tax provision was primarily due to a lower U.S. statutory corporate tax rate and other net benefits resulting from the U.S. Tax Cuts and Jobs Act (the Tax Act), partially offset by higher income before income taxes. The \$129 million discrete tax benefits include \$82 million due to stock-based compensation, \$45 million due to updated estimates related to the Tax Act, and \$2 million of other net tax benefits.

Our annual operating tax rate, which does not include discrete tax items, is about 20 percent compared with 31 percent in 2017. We use “annual operating tax rate” to describe the estimated annual effective tax rate. The 2018 rate differs from the 21 percent U.S. statutory corporate tax rate due to the effect of U.S. tax benefits, offset by a transitional non-cash tax expense.

Net income was \$1.37 billion compared with \$997 million. EPS was \$1.35 compared with \$0.97.

First-quarter 2018 segment results

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

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

	1Q18	1Q17	Change
Revenue	\$ 2,566	\$ 2,256	14 %
Operating profit	1,166	935	25 %
Operating profit % of revenue	45.4 %	41.4 %	

Analog revenue increased due to Power and, to a lesser extent, Signal Chain. High Volume revenue was about even. Operating profit increased due to higher revenue and associated gross profit.

Embedded Processing (includes Connected Microcontrollers and Processors product lines)

	1Q18	1Q17	Change
Revenue	\$ 926	\$ 803	15 %
Operating profit	328	240	37 %
Operating profit % of revenue	35.4 %	29.9 %	

Embedded Processing revenue increased in both product lines, led by Processors. Operating profit increased primarily due to higher revenue and associated gross profit.

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

	1Q18	1Q17	Change
Revenue	\$ 297	\$ 343	(13)%
Operating profit*	54	77	(30)%
Operating profit % of revenue	18.2 %	22.4 %	

* Includes Acquisition charges and Restructuring charges/other

Other revenue decreased by \$46 million, and operating profit declined by \$23 million.

Financial condition

At the end of the first quarter of 2018, total cash (Cash and cash equivalents plus Short-term investments) was \$4.08 billion, a decrease of \$390 million from the end of 2017.

Accounts receivable were \$1.45 billion, an increase of \$176 million compared with the end of 2017. Days sales outstanding at the end of the first quarter of 2018 were 35 compared with 31 at the end of 2017.

Inventory was \$2.03 billion, an increase of \$75 million from the end of 2017. Days of inventory at the end of the first quarter of 2018 were 136 compared with 134 at the end of 2017.

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 three months of 2018 were \$1.11 billion, an increase of \$317 million from the year-ago period. This

increase was primarily due to higher Net income.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2023. This credit facility also serves as support for the issuance of commercial paper. As of March 31, 2018, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for the first three months of 2018 provided \$266 million compared with \$267 million in the year-ago period. Capital expenditures were \$189 million compared with \$127 million in the year-ago period and were primarily for semiconductor manufacturing equipment in both periods. We had proceeds from sales of short-term investments, net of purchases, that provided cash of \$459 million compared with \$363 million in the year-ago period.

Financing activities for the first three months of 2018 used \$1.32 billion compared with \$1.14 billion in the year-ago period. In the year-ago period, we repaid \$250 million of maturing debt. Dividends paid were \$611 million compared with \$500 million in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used \$873 million to repurchase 8.2 million shares of our common stock compared with \$550 million used in the year-ago period to repurchase 7.1 million shares. Employee exercises of stock options provided cash proceeds of \$178 million compared with \$161 million in the year-ago period.

On April 30, 2018, we agreed to issue \$1.30 billion principal amount of debt that we expect to use for general corporate purposes, including to replenish our cash on hand following the repayment of maturing debt. The offering is expected to close on May 7, 2018.

We had \$1.72 billion of Cash and cash equivalents and \$2.36 billion of Short-term investments as of March 31, 2018. 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			
	March 31,			
	2018	2017	Change	
Cash flow from operations (GAAP)	\$ 5,680	\$ 4,756	19	%
Capital expenditures	(757)	(534)		
Free cash flow (non-GAAP)	\$ 4,923	\$ 4,222	17	%
Revenue	\$ 15,348	\$ 13,764		
Cash flow from operations as a percent of revenue (GAAP)	37.0 %	34.6 %		
Free cash flow as a percent of revenue (non-GAAP)	32.1 %	30.7 %		

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 more clearly communicates that discrete tax items are excluded from such rate. The term also helps differentiate from the effective tax rate, which includes discrete tax items. No adjustments are made to the estimated annual effective tax rate when using the term annual operating tax rate.

Long-term contractual obligations

Information regarding long-term debt obligations is described in the long-term contractual obligations table in Item 7 of our Form 10-K for the year ended December 31, 2017.

Critical accounting policies

Our critical accounting policies are described in Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2017.

On January 1, 2018, we adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which is discussed in Note 2 of our consolidated financial statements.

Changes in accounting standards

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

ITEM 4. Controls and Procedures.

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

PART II – OTHER INFORMATION

ITEM 1A. Risk Factors.

Information concerning our risk factors is contained in Item 1A of our Form 10-K for the year ended December 31, 2017, and is incorporated by reference herein.

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
January 1, 2018 through January 31, 2018	3,446,350	\$ 110.91	2,978,806	\$ 8.91 billion
February 1, 2018 through February 28, 2018	3,814,825	104.01	3,814,825	8.52 billion
March 1, 2018 through March 31, 2018	1,540,586	105.76	1,540,586	8.35 billion
Total	8,801,761 ⁽²⁾	\$ 107.02 ⁽²⁾	8,334,217	\$ 8.35 billion ⁽³⁾

⁽¹⁾All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$7.5 billion of additional shares of TI common stock announced September 17, 2015. On September 21, 2017, our board of directors authorized the purchase of an additional \$6.0 billion of our common stock.

⁽²⁾In addition to open-market purchases, 467,544 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

⁽³⁾As of March 31, 2018, this amount consisted of the remaining portion of the \$7.5 billion authorized in September 2015 and the \$6.0 billion authorized in September 2017. No expiration date has been specified for these authorizations.

ITEM 6. Exhibits.

Designation

of Exhibits

in This

Report	Description of Exhibit
3(a)	<u>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).</u>
3(b)	<u>By-Laws of the Registrant (incorporated by reference to Exhibit 3 of the Registrant's Current Report on Form 8-K filed December 12, 2016).</u>
31(a)	<u>Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).[†]</u>
31(b)	<u>Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).[†]</u>
32(a)	<u>Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.[†]</u>
32(b)	<u>Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.[†]</u>
101.ins	XBRL Instance Document [†]
101.def	XBRL Taxonomy Extension Definition Linkbase Document [†]
101.sch	XBRL Taxonomy Extension Schema Document [†]
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document [†]
101.lab	XBRL Taxonomy Extension Label Linkbase Document [†]
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document [†]

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:

- Market demand for semiconductors, particularly in our end markets;
- Our ability to compete in products and prices in an intensely competitive industry;
- Customer demand that differs from forecasts and the financial impact of inadequate or excess company inventory that results from demand that differs from projections;
- Economic, social and political conditions in the countries in which we, our customers or our suppliers operate, including security risks; global trade policies; political and social instability; health conditions; possible disruptions in transportation, communications and information technology networks; and fluctuations in foreign currency exchange rates;
- Evolving cybersecurity threats to our information technology systems or those of our customers or suppliers;
- Natural events such as severe weather, geological events or health epidemics in the locations in which we, our customers or our suppliers operate;
- Our ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- Timely implementation of new manufacturing technologies and installation of manufacturing equipment, and the ability to obtain needed third-party foundry and assembly/test subcontract services;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- 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 manufacture or ship our products or operate our business, or subject us to fines, penalties or other legal liability;
- Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, manufacturing, services, design or communications, or recalls by our customers for a product containing one of our parts;
- Changes in tax law and accounting standards that can 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 the loss of a significant number of 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 despite changes in the 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 that affects our ability to fund our daily operations, invest in the business, make strategic acquisitions, or make principal and interest payments on our debt;

- Increases in health care and pension benefit costs;
- Our ability to recruit and retain skilled engineering, management and technical personnel;
- Our ability to successfully integrate and realize opportunities for growth from acquisitions, or our ability to realize our expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Impairments of our non-financial assets.

23

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of our most recent Form 10-K. The forward-looking statements included in this report are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances. 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,
Chief Financial Officer and Chief Accounting Officer

Date: May 3, 2018

25