# 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, 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**<br>**(State of Incorporation)** | **75-0289970**<br>**(I.R.S. Employer Identification No.)** |
| **12500 TI Boulevard, Dallas, Texas**<br>**(Address of principal executive offices)** | **75243**<br>**(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 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) | 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 ☒

972,195,072
Number of shares of Registrant's common stock outstanding as of
July 24, 2018

**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)** | **2018** | **2017** | **2018** | **2017** |
| Revenue | **$ 4,017** | $ 3,693 | **$ 7,806** | $ 7,095 |
| Cost of revenue (COR) | **1,398** | 1,319 | **2,740** | 2,577 |
| Gross profit | **2,619** | 2,374 | **5,066** | 4,518 |
| Research and development (R&D) | **384** | 378 | **769** | 747 |
| Selling, general and administrative (SG&A) | **441** | 434 | **874** | 873 |
| Acquisition charges | **79** | 79 | **159** | 159 |
| Restructuring charges/other | **3** | 3 | **4** | 7 |
| Operating profit | **1,712** | 1,480 | **3,260** | 2,732 |
| Other income (expense), net (OI&E) | **24** | 26 | **52** | 47 |
| Interest and debt expense | **30** | 20 | **53** | 38 |
| Income before income taxes | **1,706** | 1,486 | **3,259** | 2,741 |
| Provision for income taxes | **301** | 430 | **488** | 688 |
| Net income | **$ 1,405** | $ 1,056 | **$ 2,771** | $ 2,053 |
| | | | | |
| Earnings per common share (EPS): | | | | |
| Basic | **$ 1.43** | $ 1.05 | **$ 2.80** | $ 2.04 |
| Diluted | **$ 1.40** | $ 1.03 | **$ 2.75** | $ 2.00 |
| | | | | |
| Average shares outstanding (millions): | | | | |
| Basic | **977** | 994 | **980** | 996 |
| Diluted | **997** | 1,015 | **1,001** | 1,017 |
| | | | | |
| Cash dividends declared per common share | **$ .62** | $ .50 | **$ 1.24** | $ 1.00 |

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 | **$ 1,405** | $ 1,056 | **$ 2,771** | $ 2,053 |
| Income allocated to RSUs | **(11)** | (10) | **(22)** | (20) |
| Income allocated to common stock for diluted EPS | **$ 1,394** | $ 1,046 | **$ 2,749** | $ 2,033 |

See accompanying notes.

| Consolidated Statements of Comprehensive Income (Millions of dollars) | For Three Months Ended June 30, 2018 | For Three Months Ended June 30, 2017 | For Six Months Ended June 30, 2018 | For Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Net income | **$ 1,405** | $ 1,056 | **$ 2,771** | $ 2,053 |
| Other comprehensive income (loss), net of taxes | | | | |
| Net actuarial losses of defined benefit plans: | | | | |
| Adjustments | **15** | (3) | **(1)** | (15) |
| Recognized within Net income | **9** | 11 | **18** | 23 |
| Prior service credit of defined benefit plans: | | | | |
| Recognized within Net income | **(1)** | (1) | **(2)** | (2) |
| Derivative instruments: | | | | |
| Change in fair value | **(2)** | — | **(2)** | — |
| Other comprehensive income (loss) | **21** | 7 | **13** | 6 |
| Total comprehensive income | **$ 1,426** | $ 1,063 | **$ 2,784** | $ 2,059 |

See accompanying notes.

| Consolidated Balance Sheets | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **(Millions of dollars, except share amounts)** | | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 2,919** | $ 1,656 |
| Short-term investments | **2,211** | 2,813 |
| Accounts receivable, net of allowances of ($9) and ($8) | **1,551** | 1,278 |
| Raw materials | **155** | 126 |
| Work in process | **1,079** | 1,089 |
| Finished goods | **856** | 742 |
| Inventories | **2,090** | 1,957 |
| Prepaid expenses and other current assets | **821** | 1,030 |
| Total current assets | **9,592** | 8,734 |
| Property, plant and equipment at cost | **5,025** | 4,789 |
| Accumulated depreciation | **(2,170)** | (2,125) |
| Property, plant and equipment | **2,855** | 2,664 |
| Long-term investments | **271** | 268 |
| Goodwill | **4,362** | 4,362 |
| Acquisition-related intangibles | **787** | 946 |
| Deferred tax assets | **205** | 264 |
| Capitalized software licenses | **101** | 110 |
| Overfunded retirement plans | **205** | 208 |
| Other long-term assets | **149** | 86 |
| Total assets | **$ 18,527** | $ 17,642 |
| | | |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Current portion of long-term debt | **$ —** | $ 500 |
| Accounts payable | **492** | 466 |
| Accrued compensation | **472** | 722 |
| Income taxes payable | **120** | 128 |
| Accrued expenses and other liabilities | **382** | 442 |
| Total current liabilities | **1,466** | 2,258 |
| Long-term debt | **5,066** | 3,577 |
| Underfunded retirement plans | **82** | 89 |
| Deferred tax liabilities | **50** | 78 |
| Other long-term liabilities | **1,229** | 1,303 |
| Total liabilities | **7,893** | 7,305 |
| Stockholders' equity: | | |
| Preferred stock, $25 par value. Authorized – 10,000,000 shares | | |
| Participating cumulative preferred. None issued. | **—** | — |
| Common stock, $1 par value. Authorized – 2,400,000,000 shares | | |
| Shares issued – 1,740,815,939 | **1,741** | 1,741 |
| Paid-in capital | **1,867** | 1,776 |
| Retained earnings | **36,413** | 34,662 |
| Treasury common stock at cost | | |
| Shares: June 30, 2018 – 766,450,417; December 31, 2017 – 757,657,217 | **(29,016)** | (27,458) |
| Accumulated other comprehensive income (loss), net of taxes (AOCI) | **(371)** | (384) |
| Total stockholders' equity | **10,634** | 10,337 |
| Total liabilities and stockholders' equity | **$ 18,527** | $ 17,642 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

| Consolidated Statements of Cash Flows<br>(Millions of dollars) | For Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | **$ 2,771** | $ 2,053 |
| Adjustments to Net income: | | |
| Depreciation | **281** | 273 |
| Amortization of acquisition-related intangibles | **159** | 159 |
| Amortization of capitalized software | **22** | 23 |
| Stock compensation | **144** | 143 |
| Deferred taxes | **(30)** | (45) |
| Increase (decrease) from changes in: | | |
| Accounts receivable | **(273)** | (200) |
| Inventories | **(155)** | (157) |
| Prepaid expenses and other current assets | **417** | 12 |
| Accounts payable and accrued expenses | **(45)** | (66) |
| Accrued compensation | **(249)** | (225) |
| Income taxes payable | **(11)** | (236) |
| Changes in funded status of retirement plans | **14** | 5 |
| Other | **(107)** | (27) |
| Cash flows from operating activities | **2,938** | 1,712 |
| | | |
| **Cash flows from investing activities** | | |
| Capital expenditures | **(438)** | (278) |
| Proceeds from asset sales | **—** | 40 |
| Purchases of short-term investments | **(2,209)** | (1,887) |
| Proceeds from short-term investments | **2,830** | 2,385 |
| Other | **2** | (1) |
| Cash flows from investing activities | **185** | 259 |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of long-term debt | **1,500** | 605 |
| Repayment of debt | **(500)** | (625) |
| Dividends paid | **(1,217)** | (998) |
| Stock repurchases | **(1,891)** | (1,200) |
| Proceeds from common stock transactions | **280** | 245 |
| Other | **(32)** | (12) |
| Cash flows from financing activities | **(1,860)** | (1,985) |
| | | |
| Net change in Cash and cash equivalents | **1,263** | (14) |
| Cash and cash equivalents at beginning of period | **1,656** | 1,154 |
| Cash and cash equivalents at end of period | **$ 2,919** | $ 1,140 |

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, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Revenue:** | | | | |
| Analog | **$ 2,690** | $ 2,411 | **$ 5,256** | $ 4,667 |
| Embedded Processing | **943** | 868 | **1,869** | 1,671 |
| Other | **384** | 414 | **681** | 757 |
| Total revenue | **$ 4,017** | $ 3,693 | **$ 7,806** | $ 7,095 |
| **Operating profit:** | | | | |
| Analog | **$ 1,263** | $ 1,077 | **$ 2,429** | $ 2,012 |
| Embedded Processing | **334** | 271 | **662** | 511 |
| Other | **115** | 132 | **169** | 209 |
| Total operating profit | **$ 1,712** | $ 1,480 | **$ 3,260** | $ 2,732 |

*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 June 30, | | For Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Revenue:** | | | | |
| United States | **$ 614** | $ 472 | **$ 1,118** | $ 871 |
| Asia (a) | **2,340** | 2,159 | **4,555** | 4,163 |
| Europe, Middle East and Africa | **764** | 733 | **1,535** | 1,416 |
| Japan | **218** | 261 | **438** | 511 |
| Rest of world | **81** | 68 | **160** | 134 |
| Total revenue | **$ 4,017** | $ 3,693 | **$ 7,806** | $ 7,095 |

(a) Revenue from products shipped into China, including Hong Kong, was $1.7 billion and $1.6 billion in the second quarters of 2018 and 2017, respectively, and $3.3 billion and $3.1 billion in the first six months of 2018 and 2017, respectively.

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 June 30, 2018 and 2017, and the Consolidated Balance Sheet as of June 30, 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- and six-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.

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

| | For Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Net Income | Shares | EPS | Net Income | Shares | EPS |
| **Basic EPS:** | | | | | | |
| Net income | **$ 1,405** | | | $ 1,056 | | |
| Income allocated to RSUs | **(11)** | | | (10) | | |
| Income allocated to common stock for basic EPS calculation | **$ 1,394** | **977** | **$ 1.43** | $ 1,046 | 994 | $ 1.05 |
| Adjustment for dilutive shares: | | | | | | |
| Stock compensation plans | | **20** | | | 21 | |
| **Diluted EPS:** | | | | | | |
| Net income | **$ 1,405** | | | $ 1,056 | | |
| Income allocated to RSUs | **(11)** | | | (10) | | |
| Income allocated to common stock for diluted EPS calculation | **$ 1,394** | **997** | **$ 1.40** | $ 1,046 | 1,015 | $ 1.03 |

| | For Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Net Income | Shares | EPS | Net Income | Shares | EPS |
| **Basic EPS:** | | | | | | |
| Net income | **$ 2,771** | | | $ 2,053 | | |
| Income allocated to RSUs | **(23)** | | | (20) | | |
| Income allocated to common stock for basic EPS calculation | **$ 2,748** | **980** | **$ 2.80** | $ 2,033 | 996 | $ 2.04 |
| Adjustment for dilutive shares: | | | | | | |
| Stock compensation plans | | **21** | | | 21 | |
| **Diluted EPS:** | | | | | | |
| Net income | **$ 2,771** | | | $ 2,053 | | |
| Income allocated to RSUs | **(22)** | | | (20) | | |
| Income allocated to common stock for diluted EPS calculation | **$ 2,749** | **1,001** | **$ 2.75** | $ 2,033 | 1,017 | $ 2.00 |

Potentially dilutive securities representing 5 million and 6 million shares of common stock that were outstanding during the second quarters of 2018 and 2017, and during the first six months 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 June 30, 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).

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 June 30, 2018, we had $72 million of remaining performance obligations that had not yet been satisfied. We expect to recognize 22 percent of our remaining performance obligations as income over the next 12 months and the remainder thereafter.

As of June 30, 2018, we had contract assets of $275 million. During the six months ended June 30, 2018, our contract assets were reduced by $8 million, due to $16 million of cash received offset by $8 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 |

*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. We do not expect to have any financing leases at the time of adoption. 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 July 2018, the FASB 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 the January 1, 2017, financial statements. This will eliminate the need to restate amounts presented prior to January 1, 2019. We will adopt the standard effective January 1, 2019, and we expect to elect this optional transition method, as well as certain practical expedients permitted under the transition guidance within the standard. 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 $301 million and $430 million for the second quarters of 2018 and 2017, respectively, and $488 million and $688 million for the first six months 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 that we previously deferred from U.S. income taxes. We have not yet completed our calculation of the total post-1986 earnings and profits 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. In the second quarter of 2018, we reduced the amount of income tax expense recorded for the effects of the Tax Act on our deferred tax balances to $50 million from $59 million recorded in 2017. These adjustments 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 fourth quarter of 2018.

Provision for income taxes is based on the following:

| | For Three Months Ended June 30, | | For Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Taxes calculated using the estimated annual effective tax rate | **$ 344** | $ 458 | **$ 660** | $ 840 |
| Discrete tax items | **(43)** | (28) | **(172)** | (152) |
| Provision for income taxes | **$ 301** | $ 430 | **$ 488** | $ 688 |
| | | | | |
| Estimated annual effective tax rate | **20%** | 31% | **20%** | 31% |
| Actual effective tax rate | **18%** | 29% | **15%** | 25% |

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:

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **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 | **$ 441** | **$ —** | **$ —** | $ 525 | $ — | $ — |
| Corporate obligations | **474** | **1,150** | **—** | 172 | 698 | — |
| U.S. government agency and Treasury securities | **1,841** | **1,061** | **—** | 700 | 2,115 | — |
| Trading securities: | | | | | | |
| Mutual funds | **—** | **—** | **243** | — | — | 236 |
| Total | **2,756** | **2,211** | **243** | 1,397 | 2,813 | 236 |
| | | | | | | |
| **Other measurement basis:** | | | | | | |
| Equity-method investments | **—** | **—** | **24** | — | — | 26 |
| Non-marketable equity investments | **—** | **—** | **4** | — | — | 6 |
| Cash on hand | **163** | **—** | **—** | 259 | — | — |
| Total | **$ 2,919** | **$ 2,211** | **$ 271** | $ 1,656 | $ 2,813 | $ 268 |

As of June 30, 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 first six months of 2018 and 2017.

Proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $1.38 billion and $1.27 billion for the second quarters of 2018 and 2017, respectively, and $2.83 billion and $2.39 billion for the first six months of 2018 and 2017, 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 June 30, 2018:

| **Due** | **Fair Value** |
|---|---|
| One year or less | $ 4,892 |
| One to two years | 75 |

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 first six months of 2018 and 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 June 30, 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.

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | **Level 1** | **Level 2** | **Total** |
| **Assets:** | | | | | | |
| Money market funds | **$ 441** | **$ —** | **$ 441** | $ 525 | $ — | $ 525 |
| Corporate obligations | **—** | **1,624** | **1,624** | — | 870 | 870 |
| U.S. government agency and Treasury securities | **2,902** | **—** | **2,902** | 2,765 | 50 | 2,815 |
| Mutual funds | **243** | **—** | **243** | 236 | — | 236 |
| Total assets | **$ 3,586** | **$ 1,624** | **$ 5,210** | $ 3,526 | $ 920 | $ 4,446 |
| | | | | | | |
| **Liabilities:** | | | | | | |
| Deferred compensation | **$ 263** | **$ —** | **$ 263** | $ 255 | $ — | $ 255 |
| Total liabilities | **$ 263** | **$ —** | **$ 263** | $ 255 | $ — | $ 255 |

5. Goodwill and acquisition-related intangibles

Goodwill was $4.36 billion as of June 30, 2018, and December 31, 2017. There was no impairment of goodwill during the first six months of 2018 or 2017.

The components of Acquisition-related intangibles are as follows:

| | Amortization Period (Years) | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| | | **Gross Carrying Amount** | **Accumulated Amortization** | **Net** | **Gross Carrying Amount** | **Accumulated Amortization** | **Net** |
| Developed technology | 7 - 10 | **$ 2,130** | **$ 1,469** | **$ 661** | $ 2,130 | $ 1,361 | $ 769 |
| Customer relationships | 8 | **810** | **684** | **126** | 810 | 633 | 177 |
| Total | | **$ 2,940** | **$ 2,153** | **$ 787** | $ 2,940 | $ 1,994 | $ 946 |

Amortization of acquisition-related intangibles was $79 million for the second quarters of both 2018 and 2017, and $159 million for the first six months 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:

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|---|---|---|---|---|---|---|
| **For Three Months Ended June 30,** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Service cost | **$ 5** | $ 6 | **$ 1** | $ 1 | **$ 9** | $ 9 |
| Interest cost | **9** | 11 | **3** | 5 | **11** | 11 |
| Expected return on plan assets | **(10)** | (10) | **(3)** | (5) | **(17)** | (15) |
| Recognized net actuarial loss | **4** | 3 | **—** | 1 | **6** | 7 |
| Amortization of prior service credit | **—** | — | **—** | (1) | **(1)** | (1) |
| Net periodic benefit costs | **8** | 10 | **1** | 1 | **8** | 11 |
| Settlement losses | **—** | 4 | **—** | — | **1** | 1 |
| Total, including other postretirement losses | **$ 8** | $ 14 | **$ 1** | $ 1 | **$ 9** | $ 12 |

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|---|---|---|---|---|---|---|
| **For Six Months Ended June 30,** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Service cost | **$ 10** | $ 11 | **$ 2** | $ 2 | **$ 18** | $ 18 |
| Interest cost | **18** | 21 | **7** | 9 | **23** | 22 |
| Expected return on plan assets | **(21)** | (20) | **(7)** | (9) | **(34)** | (31) |
| Recognized net actuarial loss | **8** | 7 | **1** | 2 | **11** | 14 |
| Amortization of prior service credit | **—** | — | **(1)** | (2) | **(1)** | (1) |
| Net periodic benefit costs | **15** | 19 | **2** | 2 | **17** | 22 |
| Settlement losses | **2** | 10 | **—** | — | **1** | 1 |
| Total, including other postretirement losses | **$ 17** | $ 29 | **$ 2** | $ 2 | **$ 18** | $ 23 |

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, 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 June 30, 2018, our credit facility was undrawn, and we had no commercial paper outstanding.

*Long-term debt*

We retired $500 million of maturing debt in May 2018.

In the second quarter of 2018, we issued an aggregate principal amount of $1.5 billion of fixed-rate, long-term debt due in 2048, comprised of the issuance of $1.3 billion in May 2018 and an additional $200 million in June 2018. We incurred $16 million of issuance and other related costs. We received $1.5 billion in proceeds, net of the original issuance discount and premium, to be used for general corporate purposes.

Long-term debt outstanding is as follows:

| | **June 30, 2018** | **December 31, 2017** |
|---|---|---|
| Notes due 2018 at 1.00% | **$ —** | $ 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 |
| Notes due 2048 at 4.15% | **1,500** | — |
| Total debt | **5,100** | 4,100 |
| Net unamortized discounts, premiums and debt issuance costs | **(34)** | (23) |
| Total debt, including net unamortized discounts, premiums and debt issuance costs | **5,066** | 4,077 |
| Current portion of long-term debt | **—** | (500) |
| Long-term debt | **$ 5,066** | $ 3,577 |

Interest and debt expense was $30 million and $20 million for the second quarters of 2018 and 2017, respectively, and $53 million and $38 million for the first six months 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.

We have recognized $21 million of restructuring charges on a cumulative basis through June 30, 2018, 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.

We have recognized $36 million of restructuring charges on a cumulative basis through June 30, 2018, 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** | | **4** |
| **Non-cash items (a)** | | **(1)** |
| **Payments** | | **(3)** |
| **Balance, June 30, 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 first six months of 2018 and 2017. 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 |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **Statement of Income Lines** |
| Net actuarial losses of defined benefit plans: | | | | | |
| Recognized net actuarial loss and Settlement losses (a) | **$ 11** | $ 16 | **$ 23** | $ 34 | Decrease to OI&E |
| Tax effect | **(2)** | (5) | **(5)** | (11) | Decrease to Provision for income taxes |
| Recognized within Net income, net of taxes | **$ 9** | $ 11 | **$ 18** | $ 23 | Decrease to Net income |
| | | | | | |
| Prior service credit of defined benefit plans: | | | | | |
| Amortization of prior service credit (a) | **$ (1)** | $ (2) | **$ (2)** | $ (3) | Increase to OI&E |
| Tax effect | **—** | 1 | **—** | 1 | Increase to Provision for income taxes |
| Recognized within Net income, net of taxes | **$ (1)** | $ (1) | **$ (2)** | $ (2) | Increase to Net income |

(a) Detailed in Note 6.

*Stock compensation*

Total shares of 2,135,405 and 9,028,819 were issued from treasury shares during the second quarter and first six months of 2018, 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. 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:
  - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
  - 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.

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

**Performance summary**

Our second-quarter revenue was $4.02 billion, net income was $1.41 billion and earnings per share (EPS) were $1.40. EPS included a 3 cent discrete tax benefit not in our original guidance.

Revenue increased 9 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 $6.6 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the trailing 12 months was $5.7 billion, or 36.6 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 $5.6 billion to owners in the past 12 months through stock repurchases and dividends, and our strategy to return to owners all of our free cash flow remains consistent. Over the last 12 months, our dividends represented 41 percent of free cash flow, emphasizing their sustainability.

We continue to expect our ongoing annual operating tax rate to be about 20 percent in 2018 and 16 percent starting in 2019.

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

**Results of operations – second-quarter 2018 compared with second-quarter 2017**

Revenue of $4.02 billion increased $324 million, or 9 percent, due to higher revenue from Analog and Embedded Processing.

Gross profit of $2.62 billion was up $245 million, or 10 percent, primarily due to higher revenue. As a percentage of revenue, gross profit increased to 65.2 percent from 64.3 percent.

Operating expenses (R&D and SG&A) were $825 million compared with $812 million.

Acquisition charges of $79 million were non-cash. See Note 9 to the financial statements.

Operating profit was $1.71 billion, or 42.6 percent of revenue, compared with $1.48 billion, or 40.1 percent of revenue.

OI&E was $24 million of income compared with $26 million of income.

Our Provision for income taxes was $301 million compared with $430 million, which includes discrete tax benefits of $43 million and $28 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.

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 $1.41 billion compared with $1.06 billion. EPS was $1.40 compared with $1.03.

Second-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)*

| | 2Q18 | 2Q17 | Change |
|---|---|---|---|
| Revenue | **$ 2,690** | $ 2,411 | 12% |
| Operating profit | **1,263** | 1,077 | 17% |
| Operating profit % of revenue | **47.0%** | 44.7% | |

Analog revenue increased due to Power and, to a lesser extent, Signal Chain. High Volume revenue decreased due to the mix of products shipped. Operating profit increased due to higher revenue and associated gross profit.

*Embedded Processing (includes Connected Microcontrollers and Processors product lines)*

| | 2Q18 | 2Q17 | Change |
|---|---|---|---|
| Revenue | **$ 943** | $ 868 | 9% |
| Operating profit | **334** | 271 | 23% |
| Operating profit % of revenue | **35.4%** | 31.2% | |

Embedded Processing revenue increased in both product lines about equally. Operating profit increased primarily due to higher revenue and associated gross profit.

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

| | 2Q18 | 2Q17 | Change |
|---|---|---|---|
| Revenue | **$ 384** | $ 414 | (7)% |
| Operating profit* | **115** | 132 | (13)% |
| Operating profit % of revenue | **29.9%** | 31.9% | |

* Includes Acquisition charges and Restructuring charges/other

Other revenue decreased by $30 million, and operating profit declined by $17 million.

**Results of operations – first six months of 2018 compared with first six months of 2017**

Revenue of $7.81 billion increased $711 million, or 10 percent, due to higher revenue from Analog and Embedded Processing.

Gross profit of $5.07 billion was up $548 million, or 12 percent, primarily due to higher revenue. As a percentage of revenue, gross profit increased to 64.9 percent from 63.7 percent.

Operating expenses were $1.64 billion compared with $1.62 billion.

Acquisition charges of $159 million were non-cash. See Note 9 to the financial statements.

Operating profit was $3.26 billion, or 41.8 percent of revenue, compared with $2.73 billion, or 38.5 percent of revenue.

OI&E was $52 million of income compared with $47 million of income.

Our Provision for income taxes was $488 million compared with $688 million, which includes discrete tax benefits of $172 million and $152 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 Tax Act, partially offset by higher income before income taxes.

Net income was $2.77 billion compared with $2.05 billion. EPS was $2.75 compared with $2.00.

Year-to-date segment results

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

*Analog*

| | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|
| Revenue | **$ 5,256** | $ 4,667 | 13% |
| Operating profit | **2,429** | 2,012 | 21% |
| Operating profit % of revenue | **46.2%** | 43.1% | |

Analog revenue increased due to Power and, to a lesser extent, Signal Chain. High Volume revenue decreased due to the mix of products shipped. Operating profit increased due to higher revenue and associated gross profit.

*Embedded Processing*

| | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|
| Revenue | **$ 1,869** | $ 1,671 | 12% |
| Operating profit | **662** | 511 | 30% |
| Operating profit % of revenue | **35.4%** | 30.6% | |

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

*Other*

| | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|
| Revenue | **$ 681** | $ 757 | (10)% |
| Operating profit* | **169** | 209 | (19)% |
| Operating profit % of revenue | **24.8%** | 27.6% | |

* Includes Acquisition charges and Restructuring charges/other.

Other revenue decreased by $76 million, and operating profit declined by $40 million.

**Financial condition**

At the end of the second quarter of 2018, total cash (Cash and cash equivalents plus Short-term investments) was $5.13 billion, an increase of $661 million from the end of 2017.

Accounts receivable were $1.55 billion, an increase of $273 million compared with the end of 2017. Days sales outstanding at the end of the second quarter of 2018 were 35 compared with 31 at the end of 2017.

Inventory was $2.09 billion, an increase of $133 million from the end of 2017. Days of inventory at the end of the second quarter of 2018 were 135 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 six months of 2018 were $2.94 billion, an increase of $1.23 billion from the year-ago period. This increase was due to higher Net income and a reduction in cash used for working capital, both of which benefited from a lower tax rate.

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 June 30, 2018, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for the first six months of 2018 provided $185 million compared with $259 million in the year-ago period. Capital expenditures were $438 million compared with $278 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 $621 million compared with $498 million in the year-ago period.

Financing activities for the first six months of 2018 used $1.86 billion compared with $1.99 billion in the year-ago period. In 2018, we received net proceeds of $1.50 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of $500 million. In the year-ago period, we received net proceeds of $605 million from the issuance of fixed-rate, long-term debt and retired maturing debt of $625 million. Dividends paid were $1.22 billion compared with $998 million in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used $1.89 billion to repurchase 17.8 million shares of our common stock compared with $1.20 billion used in the year-ago period to repurchase 15.2 million shares. Employee exercises of stock options provided cash proceeds of $280 million compared with $245 million in the year-ago period.

We had $2.92 billion of Cash and cash equivalents and $2.21 billion of Short-term investments as of June 30, 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 June 30, 2018 | For 12 Months Ended June 30, 2017 | Change |
|---|---|---|---|
| Cash flow from operations (GAAP) | **$ 6,589** | $ 4,564 | 44% |
| Capital expenditures | **(855)** | (527) | |
| Free cash flow (non-GAAP) | **$ 5,734** | $ 4,037 | 42% |
| Revenue | **$ 15,672** | $ 14,184 | |
| Cash flow from operations as a percent of revenue (GAAP) | **42.0%** | 32.2% | |
| Free cash flow as a percent of revenue (non-GAAP) | **36.6%** | 28.5% | |

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. Additionally, in the first six months of 2018, we issued $1.50 billion principal amount of 4.15 percent notes maturing in 2048 and retired $500 million of maturing debt.

**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 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.

**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 (a) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a) |
|---|---|---|---|---|
| April 1, 2018 through April 30, 2018 | 4,568,941 | $ 101.79 | 4,566,831 | $ 7.89 billion |
| May 1, 2018 through May 31, 2018 | 4,417,417 | 107.98 | 4,417,417 | 7.41 billion |
| June 1, 2018 through June 30, 2018 | 503,554 | 115.48 | 503,554 | 7.35 billion |
| Total | 9,489,912 (b) | $ 105.40 (b) | 9,487,802 | $ 7.35 billion (c) |

(a) 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.

(b) In addition to open-market purchases, 2,110 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, 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) | 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 December 12, 2016). |
| 4(a) | Officer's Certificate, dated May 7, 2018 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed May 7, 2018). |
| 4(b) | Officer's Certificate, dated June 8, 2018 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed June 8, 2018). |
| 10(a) | Texas Instruments 2018 Director Compensation Plan.† |
| 31(a) | Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).† |
| 31(b) | Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).† |
| 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† |
| 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.

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 and
Chief Financial Officer

Date: August 2, 2018

# TEXAS INSTRUMENTS 2018 DIRECTOR COMPENSATION PLAN

## SECTION 1. PURPOSE.

The Texas Instruments 2018 Director Compensation Plan ("the Plan") is intended as a successor plan to the Company's 2009 Director Compensation Plan. This Plan is designed to attract and retain qualified individuals to serve as directors of the Company and to increase the proprietary and vested interest of such directors in the growth and performance of the Company. This Plan is effective for Awards granted on or after the Effective Date.

## SECTION 2. DEFINITIONS.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) *"Account"* means a Cash Account or Stock Unit Account established under Section 11 of the Plan.

(b) *"Administrator"* means the Board or a committee of directors designated by the Board to administer the Plan.

(c) *"Award"* means any Option, Restricted Stock Unit, Stock Appreciation Right or other stock-based award under the Plan.

(d) *"Award Agreement"* means any written agreement, contract or other instrument or document evidencing any Award granted under the Plan, which may, but need not, be executed or acknowledged by a Director. An Award Agreement may be in electronic form.

(e) *"Board"* means the Board of Directors of the Company, as constituted from time to time.

(f) *"Cash Account"* means the bookkeeping accounts established or maintained pursuant to Section 11(b)(i) on behalf of each Director who elects pursuant to Section 11(b) to have any of his or her Deferred Compensation credited to a cash account.

(g) "*Change in Control*" shall mean an event that will be deemed to have occurred:

(i) On the date any Person, other than (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding stock under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding stock pursuant to an offering of such stock, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, acquires ownership of stock of the Company that, together with stock held by such Person, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if any Person is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same Person is not considered to be a Change in Control;

(ii) On the date a majority of members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of the appointment or election; or

(iii) On the date any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person) assets from the Company that have a total gross fair market value equal to or more than 80 percent of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. However, there is no Change in Control when there is such a sale or transfer to (i) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's then outstanding stock; (ii) an entity, at least 50 percent of the total value or voting power of the stock of which is owned, directly or indirectly, by the Company; (iii) a Person that owns, directly or indirectly, at least 50 percent of the total value or voting power of the outstanding stock of the Company; or (iv) an entity, at least 50 percent of the total value or voting power of the stock of which is owned, directly or indirectly, by a Person that owns, directly or indirectly, at least 50 percent of the total value or voting power of the outstanding stock of the Company.

(iv) For purposes of (i), (ii) and (iii) of this Section 2(g):

(A) "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended;

(B) "Person" shall have the meaning given in Section 7701(a)(1) of the Code. Person shall include more than one Person acting as a group as defined by the Final Treasury Regulations issued under Section 409A of the Code; and

(C) "Subsidiary" means any entity whose assets and net income are included in the consolidated financial statements of the Company audited by the Company's independent auditors and reported to stockholders in the annual report to stockholders.

(v) Notwithstanding the foregoing, in no case will an event in (i), (ii) or (iii) of this Section 2(g) be treated as a Change in Control unless such event also constitutes a "change in control event" with respect to the Company within the meaning of Treas. Reg. § 1.409A-3(i)(5) or any successor provision.

(h) *"Code"* means the Internal Revenue Code of 1986, as amended.

(i) *"Company"* means Texas Instruments Incorporated, together with any successor thereto.

(j) *"Deferred Cash Compensation"* means that portion of any Director's Eligible Compensation that is payable in cash and that he or she elects pursuant to Section 11(a) to be deferred in accordance with this Plan.

(k) *"Deferred Compensation"* means that portion of any Director's Eligible Compensation that he or she elects pursuant to Section 11(a) to be deferred in accordance with this Plan.

(l) *"Deferred Compensation Account"* means a Cash Account or Stock Unit Account containing amounts earned and deferred under this Plan and Restricted Stock Units, the receipt of which a Director has elected to defer.

(m) *"Director"* means a member of the Board who is not an employee of the Company or any subsidiary thereof.

(n) "*Effective Date*" means the date this Plan is approved by stockholders of the Company.

(o) "*Eligible Compensation*" means (i) the cash portion of any compensation payable by the Company to a Director for his or her services as a Director but shall not include any reimbursement by the Company of expenses incurred by a Director incidental to attendance at a meeting of the Company's stockholders, the Board, or any committee of the Board, or of any other expense incurred on behalf of the Company, (ii) any Restricted Stock Units granted by the Company to a Director for his or her services as a Director, and (iii) any dividend equivalents paid on Restricted Stock Units pursuant to Section 9(d).

(p) *"Fair Market Value"* means the closing price of the Shares on the date specified (or, if there is no trading on The NASDAQ Stock Market on such date, then on the first previous date on which there is such trading) as reported by WSJ.com or Bloomberg L.P., or if unavailable, then by reference to any other source as may be deemed appropriate by the GSR Committee.

(q) *"GSR Committee"* means the Governance and Stockholder Relations Committee of the Board or any successor committee.

(r) *"Option"* means an option granted under this Plan to purchase Shares on the terms and conditions set forth in the Plan and the applicable Award Agreement.

(s) *"Participant"* means an individual who has received an Award or established an Account under the Plan.

(t) *"Plan"* means this Texas Instruments 2018 Director Compensation Plan.

(u) *"Restricted Stock Unit"* means a contractual right granted under this Plan that is denominated in Shares, each of which represents a right to receive a Share on the terms and conditions set forth in the Plan and the applicable Award Agreement.

(v) *"Secretary"* means the Secretary of the Company.

(w) "*Separation from Service"* means a termination of services provided by a Participant as a member of the Board or of the board of directors of any other member of the controlled group of corporations (as defined in Section 414(b) of the Code) which includes the Company (for purposes of this Section 2(x), the controlled group members other than the Company are referred to collectively as "ERISA Affiliates"), whether such termination is voluntary or involuntary, as determined by the Administrator in accordance with Treas. Reg. §1.409A-1(h). In determining whether a Participant has experienced a Separation from Service as a member of the Board or of a board of directors of an ERISA Affiliate, the following provisions shall apply:

(i) If a Director also provides services to the Company or any ERISA Affiliate as an employee at the time of his Separation from Service as a member of the Board, the services such Participant provides as an employee shall not be taken into account in determining whether the Participant has a Separation from Service as a Director for purposes of this Plan (provided that this Plan is not, at the time of such determination, aggregated under Treas. Reg. §1.409A-1(c)(2)(ii) with any plan in which the Participant participates as an employee).

(ii) A Participant shall be considered to have experienced a termination of services when the facts and circumstances indicate that the Participant, the Company and each ERISA Affiliate reasonably anticipate that the Participant will perform no further services for the Company or any ERISA Affiliate as a member of the Board (or the board of directors of any ERISA Affiliate), and the Participant's term as a member of the Board has expired.

(iii) If a Director is also providing additional services to the Company as an independent contractor, he or she cannot have a Separation from Service for purposes of Section 409A of the Code until he or she has separated from service both as a Director and as an independent contractor.

(x) *"Shares"* shall mean shares of the common stock of the Company, $1.00 par value.

(y) *"Specified Employee"* means any Participant who is determined to be a "key employee" (as defined under Section 416(i) of the Code without regard to paragraph (5) thereof) for the applicable period, as determined annually by the Administrator in accordance with Treas. Reg. §1.409A-1(i). In determining whether a Participant is a Specified Employee, the following provisions shall apply:

(i) Identification of the individuals who fall within the above-referenced definition of "key employee" shall be based upon the 12-month period ending on each December 31st (referred to below as the "identification date"). In applying the applicable provisions of Code Section 416(i) to identify such individuals, "compensation" shall be determined in accordance with Treas. Reg. §1.415(c)2(a) without regard to (i) any safe harbor provided in Treas. Reg. §1.415(c)-2(d), (ii) any of the special timing rules provided in Treas. Reg. §1.415(c)-2(e), and (iii) any of the special rules provided in Treas. Reg. §1.415(c)-2(g); and

(ii) Each Participant who is among the individuals identified as a “key employee” in accordance with part (i) of this Section 2(z) shall be treated as a Specified Employee for purposes of this Plan if such Participant experiences a Separation from Service during the 12-month period that begins on the April 1st following the applicable identification date.

(z) *“Stock Appreciation Right”* or *“SAR”* means a right granted pursuant to Section 10 to receive, upon exercise by the Participant, the excess of (i) the Fair Market Value of one Share on the date of exercise or any date or dates during a specified period before the date of exercise over (ii) the grant price of the right, which grant price shall not be less than the Fair Market Value of one Share on the date of grant of the right.

(aa) *“Stock Unit Account”* means the bookkeeping accounts established, pursuant to Section 11(b)(ii), on behalf of each Director who elects, pursuant to Section 11(b), to have any of his or her Deferred Cash Compensation credited to a stock unit account.

(bb) *"Unforeseeable Emergency"* means a severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant or the Participant’s spouse, beneficiary, or dependent (as defined in Section 152 of the Code, without regard to Sections 152(b)(1), (b)(2), and (d)(1)(B) of the Code), (ii) loss of the Participant’s property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant’s control, all as determined by the Administrator based on the relevant facts and circumstances and as provided for in Treas. Reg. §1.409A-3(i)(3) or any successor provision.

(cc) *“Year”* means a calendar year.

**SECTION 3. ELIGIBILITY.**

Each Director shall be eligible to defer Eligible Compensation and to receive Awards under the Plan.

**SECTION 4. ADMINISTRATION.**

This Plan shall be administered by the Administrator. Subject to the terms of the Plan and applicable law, the Administrator shall have full power and authority to: (i) interpret, construe and administer the Plan and any instrument or agreement relating to, or Award granted or Accounts established under, the Plan; (ii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it deems appropriate for the proper administration of the Plan; and (iii) make any other determination and take any other action that it deems necessary or desirable for the administration of this Plan. All decisions of the Administrator shall be final, conclusive and binding upon all parties, including the Company, the stockholders and the Directors.

**SECTION 5. SHARES AVAILABLE FOR AWARDS.**

(a) Subject to adjustment as provided in this Section 5, the number of Shares available for issuance under the Plan shall be 2,000,000 Shares. Notwithstanding anything to the contrary set forth herein, in any given Year, the total value of Awards granted to any Director shall not exceed $500,000 in grant-date value.

(b) If, after the effective date of the Plan, (i) any Shares covered by an Award or Stock Unit Account, or to which such an Award relates, are forfeited, or (ii) if an Award or Account expires or is cancelled or is otherwise terminated without the delivery of Shares, then such Shares, to the extent of any such forfeiture, expiration, cancellation, or termination, shall again be, or shall become, available for issuance under the Plan. For purposes of this Section, awards and options granted under any previous director compensation plan of the Company shall be treated as Awards, and accounts established under any such plan shall be treated as Accounts. For the avoidance of doubt, the number of Shares available for issuance under the Plan shall not be increased by: (1) the withholding of Shares as a result of the net settlement of an outstanding Option; (2) the delivery of Shares to pay the exercise price or withholding taxes relating to an Award; or (3) the repurchase of Shares on the open market using the proceeds of an Option's exercise.

(c) Any Shares delivered pursuant to an Award or Stock Unit Account may consist, in whole or in part, of authorized and unissued Shares, of treasury Shares or of both.

(d) In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Administrator shall equitably adjust any or all of (i) the number of outstanding Restricted Stock Units, (ii) the number and type of Shares credited to Stock Unit Accounts, (iii) the number and type of Shares subject to Options and SARs, (iv) the exercise price with respect to any Option or SAR or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Option or SAR, and (v) the limits specified in Section 5(a); provided, however, that no fractional Restricted Stock Units or Shares shall be issued or outstanding hereunder. Any such adjustment with respect to a "Stock Right" outstanding under the Plan as defined in Section 409A of the Code, shall be made in a manner that is intended to avoid imposition of any additional tax or penalty under Section 409A.

**SECTION 6. EQUITY GRANT UPON INITIAL ELECTION.**

(a) *Initial Grant*. Following the effective date of this Plan, each Director shall, effective as of the date of such individual's initial election or appointment to the Board, be granted 2,000 Restricted Stock Units.

(b) *Terms and Conditions*. The terms and conditions of each Restricted Stock Unit granted under this Section 6 shall be as described in Section 9.

**SECTION 7. ANNUAL EQUITY GRANTS.**

(a) *Annual Grant*. Each Director will be granted annually an Option with a grant-date value of approximately $100,000 determined using a Black-Scholes option-pricing model and a Restricted Stock Unit Award with a grant-date value of approximately $100,000, in each case rounded down to the nearest whole share. The Restricted Stock Units granted under this Section 7(a) shall be in addition to any RSUs granted to any Director pursuant to Section 6.

(b) *Effective Date of Annual Grant*. In each year the effective date for the annual grant of equity to the Company's executive officers by the Compensation Committee of the Board (or any successor committee) shall be the date the Options and Restricted Stock Units are granted; provided that in any year in which the Compensation Committee does not grant equity to any of the Company's executive officers in connection with the annual compensation review process, then the third trading day after the release of the Company's financial results for the first quarter of such year shall be the date the Options and Restricted Stock Units are granted.

(c) *Terms and Conditions*. The terms and conditions of each Option and Restricted Stock Unit granted under this Section 6 shall be as described in Sections 8 and 9, respectively.

(d) *Reductions in Awards*. Prior to the effective date of any annual grant as described in this Section 7, the Board shall have the right to make reductions in the Awards to be granted under this Section 7. In determining whether to reduce any Award and the amount of any reduction, the Board shall take into consideration such factors as the Board shall determine.

**SECTION 8. OPTIONS.**

The Options granted under this Plan will be nonstatutory stock options not intended to qualify under Section 422 of the Code and shall have the terms and conditions described in this Section 8:

(a) *Price and Term of Options*. The purchase price per share of Shares deliverable upon the exercise of each Option shall be 100% of the Fair Market Value per share of the Shares on the effective date of the grant as determined in Section 7(b).

(b) *Payment*. The Secretary shall determine the method or methods by which, and the form or forms, including, without limitation, cash, Shares, or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price, in which payment of the exercise price with respect to an Option may be made or deemed to have been made.

(c) *Exercisability.* Subject to Section 8(d), Options shall become exercisable in four equal annual installments commencing on the first anniversary date of the grant.

(d) *Termination of Service as a Director.* The effect of a Participant's termination of service as a member of the Board shall be as follows:

(i) Termination for cause: All outstanding Options held by the Participant shall be canceled immediately upon termination.

(ii) Death: All outstanding Options held by the Participant shall continue to full term, becoming exercisable in accordance with Section 8(c), and shall be exercisable by such Participant's heirs or legal representatives.

(iii) Permanent disability, termination after 8 years of service, or termination for reason of ineligibility to stand for reelection under the Company's By-Laws: All outstanding Options held by the Participant shall continue to full term, becoming exercisable in accordance with Section 8(c).

(iv) Change in Control: If a Participant experiences a Separation From Service (other than for cause) within 24 months after a Change in Control, the provisions of Section 8(c) shall not apply and Options held by the Participant shall be immediately exercisable and shall continue to full term.

(v) Other: For any termination other than those specified above, all outstanding Options held by the Participant shall be exercisable for 30 days after the date of termination, only to the extent that such Options were exercisable on the date of termination, except that if the Participant dies within 30 days after his or her termination, then such Participant's heirs may exercise the Options for a period of up to one year after the Participant's death, but only to the extent any unexercised portion was exercisable on the date of termination.

(e) *Option Agreement*. Each Option granted under this Plan shall be evidenced by an Award Agreement with the Company, which shall contain the terms and provisions set forth herein and shall otherwise be consistent with the provisions of the Plan.

**SECTION 9. RESTRICTED STOCK UNITS.**

Each Restricted Stock Unit granted under this Plan shall be paid or settled by the issuance of one Share and shall have the terms and conditions described in this Section 9:

(a) *Vesting and Settlement*. Subject to Section 9(b) and subject to a Director's election to defer the settlement of Restricted Stock Units pursuant to Section 11, the shares covered by the Restricted Stock Units shall be paid or settled as soon as practicable after the fourth anniversary of the date of grant.

(b) *Termination of Service as a Director*. The effect of a Participant's termination of service as a member of the Board shall be as follows:

(i) Death: All outstanding Restricted Stock Units held by the Participant shall continue to full term subject to the other terms and conditions of this Plan, and shares shall be issued to such Participant's heirs at such times and in such manner as if the Participant were still a member of the Board.

(ii) Permanent disability, termination after 8 years of service, or termination for reason of ineligibility to stand for reelection under the Company's By-Laws: All outstanding Restricted Stock Units held by the Participant shall continue to full term subject to the other terms and conditions of this Plan, and shares shall be issued to such Participant at such times and in such manner as if the Participant were still a member of the Board.

(iii) Separation From Service after a Change in Control: If a Participant experiences a Separation From Service (other than for cause) within 24 months after a Change in Control, the provisions of Section 9(a) shall not apply and:

(A) To the extent permitted without additional tax or penalty by Section 409A of the Code, all shares underlying such Restricted Stock Units held by the Participant (including any such Restricted Stock Units subject to an election to defer settlement under Section 11) will be issued on, or as soon as practicable (but no later than 60 days) after, the Participant's Separation From Service; provided, however, that if the participant is a Specified Employee upon such Separation From Service, the shares will be issued on, or as soon as practicable (but no more than 10 days) after, the first day of the seventh month following the Separation From Service and any such Restricted Stock Units outstanding under this Plan shall vest and be paid immediately.

(B) To the extent that the issuance of shares is not permitted without additional tax or penalty by Section 409A, the Award will continue to full term and the shares will be issued at the issuance date specified in the Award Agreement as if the Participant were still a Director on such date or (for any such Restricted Stock Units subject to an election to defer settlement pursuant to Section 11) in accordance with Section 11(h)(i).

(iv) Other: For any termination other than those specified above, all outstanding Restricted Stock Units held by the Participant shall terminate and become void without any shares being issued.

(c) *Restricted Stock Unit Agreement*. Each Restricted Stock Unit Award granted under this Plan shall be evidenced by an Award Agreement with the Company, which shall contain the terms and conditions set forth herein and shall otherwise be consistent with the provisions of this Plan.

(d) *Right to Dividend Equivalents.* Each recipient of Restricted Stock Units under this Plan shall have the right, during the period when such Restricted Stock Units are outstanding and prior to the termination, forfeiture or payment or settlement thereof, to receive dividend equivalents equal to the amount or value of any cash or other distributions or dividends payable on the same number of Shares. The Company shall accumulate dividend equivalents on each dividend payment date and, unless a Director has elected to defer receipt of such dividend equivalents pursuant to Section 11, pay such accumulated amounts without interest in December of each fiscal year, but no later than March 15 of the calendar year following the calendar year in which the related dividend is declared.

(e) *Issuance of Shares*. A stock certificate or certificates shall be registered and issued or other indicia of ownership of shares shall be issued, in the name or for the benefit of the holder of Restricted Stock Units and delivered to such holder as soon as practicable after such Restricted Stock Units have become payable or settleable in accordance with the terms of the Plan.

**SECTION 10. STOCK APPRECIATION RIGHTS (SARs).**

(a) SARs may be granted to Directors with such terms and conditions as the Administrator shall determine not inconsistent with the provisions of the Plan.

(b) The term of each SAR shall be fixed by the Administrator but shall not exceed 10 years.

**SECTION 11. DEFERRED COMPENSATION.**

(a) *Deferral Election*. Each Director may elect, with respect to any Year, that all or any percentage of his or her Eligible Compensation be deferred in accordance with the terms of this Plan.

(b) *Cash Compensation Investment Alternatives*. Each Director may elect that his or her Deferred Cash Compensation for any Year be credited to a Cash Account or a Stock Unit Account or to any combination thereof.

(i) *Cash Accounts*.

(A) The Company shall establish and maintain, as appropriate, separate unfunded Cash Accounts for each Director who has elected that any portion of his or her Deferred Cash Compensation be credited to a Cash Account.

(B) As of the date on which any amount of a Director’s Deferred Cash Compensation becomes payable, his or her Cash Account shall be credited with an amount equal to that portion of such Deferred Cash Compensation as such Director has elected be credited to his or her Cash Account.

(C) As of the last day of each month, interest on each Cash Account shall be credited on the average of the balances on the first and last day of such month. Interest shall be credited at a rate equivalent to the average yield on corporate bonds rated Aaa by Moody’s Investors Service on September 30 of the preceding Year (or if there is no such yield reported for such date, then on the next preceding date for which such a yield is reported) as published in Federal Reserve Statistical Release H.15, or at such other rate that would qualify as a "reasonable rate of interest" as defined by Section 409A of the Code, as may be determined by the GSR Committee for each Year.

(ii) *Stock Unit Accounts*.

(A) The Company shall establish and maintain, as appropriate, separate unfunded Stock Unit Accounts for each Director who has elected that any portion of his or her Deferred Cash Compensation be credited to a Stock Unit Account.

(B) As of each date on which any amount of a Director’s Deferred Cash Compensation becomes payable, his or her Stock Unit Account shall be credited with that number of units as are equal to the number of full or fractional Shares as could be purchased at the Fair Market Value on the first trading day preceding such date with the portion of such Deferred Cash Compensation as such Director has elected be credited to his or her Stock Unit Account.

(C) As of the payment date for each dividend on Shares declared by the Board, there shall be credited to each Stock Unit Account that number of units as are equal to the number of full or fractional Shares as could be purchased at the Fair Market Value on the first trading day preceding the payment date for such dividend with an amount equal to the product of: (i) the dividend per share, and (ii) the number of units in such Stock Unit Account immediately prior to the record date for such dividend.

(c) *Restricted Stock Units*. Each Director may elect to defer all or a portion of any Restricted Stock Unit Award.

(d) *Dividend Equivalents.* Each Director may elect to defer all or a portion of any dividend equivalents paid on Restricted Stock Units.

(e) *Time of Election.* An election to defer all or any portion of Eligible Compensation for any Year shall be made in writing in the form ("Election Form") prescribed by the Secretary.

(i) Except as hereinafter provided, to be effective, an Election Form relating to payments for a Year, or to Restricted Stock Units that may be granted in such Year, must be received by the Secretary on or before December 31 of the preceding Year. In the case of a Director's initial election to the Board, the initial Election Form must be received not more than 30 days following his or her election to the Board and, if received within such 30-day period, the Election Form shall be effective only for Eligible Compensation earned after the election becomes irrevocable pursuant to Section 11(f). The time of election and the time of distribution shall comply in all respects with the applicable requirements of Section 409A of the Code.

(f) *Irrevocability of Election.* A Director's election to defer all or any portion of his or her Eligible Compensation for any Year shall be irrevocable upon receipt by the Secretary of a completed Election Form from the Director.

(g) *Form of Distributions*.

(i) Distributions of amounts credited to each Participant's Cash Account shall be made in cash.

(ii) Distributions of units credited to each Participant's Stock Unit Account shall be made by issuing to such Participant an equivalent number of Shares.

(iii) Distribution of Shares relating to vested Restricted Stock Units the Participant has elected to defer shall be made by issuing to such Participant the whole number of Shares attributable to such vested Restricted Stock Units. Notwithstanding the foregoing, no fractional shares will be issued and any fractional unit will be distributed by payment of cash in the amount represented by such fractional unit based on the Fair Market Value on the date preceding the date of payment.

(h) *Time of Distributions.*

(i) Normal Distributions. Except as otherwise hereinafter provided, distributions from a Participant's Deferred Compensation Account shall be made on the first day of the month following such Participant's Separation from Service on the Board for any reason other than death.

Notwithstanding the foregoing, no distribution may be made to a Specified Employee before the date that is six months after the date of Separation from Service or, if earlier, the date of death.

(ii) Change in Control. In the event a Participant experiences a Separation From Service (other than for cause) within 24 months after a Change in Control, then, to the extent permitted without additional tax or penalty by Section 409A of the Code, such Participant shall receive a distribution of the balances credited to the Participant's Account which are attributable to amounts credited to the account. See Section 9(b)(iii) for the effect of such Separation From Service on deferred Restricted Stock Units.

The amounts to be distributed pursuant to this Section 11(h)(ii) shall be paid on, or as soon as practicable (but no later than 60 days) after, the Participant's Separation from Service, provided, however, that if the Participant is a Specified Employee upon such Separation From Service, the balances credited to the Participant's Account will be distributed on, or as soon as practicable (but no more than 10 days) after, the first day of the seventh month following such Separation From Service.

To the extent that distributions of amounts pursuant to this Section 11(h)(ii) are not permitted without additional tax or penalty by Section 409A of the Code, the affected Participant shall receive distribution of the amounts referred to in this Section 11(h)(ii) in accordance with Section 11(h)(i).

(iii) Unforeseeable Emergency. An earlier distribution may be made upon a finding that the Participant is suffering from an Unforeseeable Emergency. A withdrawal on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be relieved (A) through reimbursement or compensation from insurance or otherwise, (B) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or (C) by cessation of deferrals under the Plan.

Withdrawal because of an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution), as determined by the Administrator, in its sole discretion. The Participant must apply in writing for a payment upon an "Unforeseeable Emergency," using the form prescribed by the Administrator. The Administrator retains the sole and absolute discretion to grant or deny a payment upon an Unforeseeable Emergency. In the event of approval of a payment upon an Unforeseeable Emergency, the Participant's outstanding deferral elections under the Plan shall be cancelled.

(i) *Death of Participant*. Notwithstanding the foregoing, in the event of the death of a Participant prior to receipt by such Participant of the full amount of cash and number of shares to be distributed from his or her Deferred Compensation Account, all such cash and/or shares will be distributed to the beneficiary or beneficiaries designated by the Participant, or if no beneficiary has been designated, to the Participant's estate as soon as practicable following the month in which the death occurred. Shares to be distributed to the Participant in connection with deferred Restricted Stock Units shall also be distributed as described in the preceding sentence but in no event earlier than the fourth anniversary of the date of grant.

(j) *Certain Rights Reserved by the Company*. In the event that, pursuant to Section 13, the Company suspends, modifies or terminates this Plan, the Company shall have the right to distribute to each Participant all amounts in such Participant's Cash Account or Shares equivalent to units in such Participant's Stock Unit Account, including, in the case of Stock Unit Accounts, the right to distribute cash equivalent to the units in such Accounts and all Shares attributable to vested Restricted Stock Units that a Participant has elected to defer, provided that any such suspension, modification or termination may be effected without penalty under Section 409A of the Code.

(k) *Certain Affiliations*. In the event that a Participant terminates his or her membership on the Board and becomes affiliated with a government agency, all amounts in such Participant's Cash Account, shares equivalent to units in such Participant's Stock Unit Account and Shares attributable to Restricted Stock Units that such Participant has elected to defer will be distributed to the Participant if such payment is necessary to avoid violation of any applicable federal, state, local or foreign ethics or conflict of interest law or if necessary to comply with an ethics agreement with the federal government.

**SECTION 12. OTHER STOCK-BASED AWARDS.**

The Administrator is hereby authorized to grant to Directors such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares) as are deemed by the Administrator to be consistent with the purposes of the Plan. Subject to the terms of the Plan, the Administrator shall determine the terms and conditions of such Awards. Shares or other securities delivered pursuant to a purchase right granted under this Section 12 shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms, including, without limitation, cash, Shares, other securities, other Awards, or other property, or any combination thereof, as the Administrator shall determine, the value of which consideration, as established by the Administrator, shall not be less than the Fair Market Value of such Shares or other securities as of the date such purchase right is granted. The Company intends that such other Awards granted pursuant to this Section shall comply with Section 409A of the Code if applicable.

**SECTION 13.  AMENDMENT AND TERMINATION.**

Except to the extent prohibited by or inconsistent with applicable law:

(a) *Amendments*.  The Board may amend, alter, suspend, discontinue or terminate the Plan, including, without limitation, the number of shares subject to Awards granted pursuant to Sections 6, 7 and 10, without the consent of any stockholder, Participant, other holder or beneficiary of any Award, or other person; *provided*, *however*, that no such amendment, alteration, suspension, discontinuation or termination shall be made without (i) stockholder approval if such approval is necessary to comply with the listing requirements of The NASDAQ Stock Market or (ii) the consent of the affected Participants, if such action would adversely affect the rights of such Participants under any outstanding Award; and *provided further*, that no such amendment or alteration shall increase the aggregate number of shares that may be issued under the Plan or increase the total value of Awards that may be granted in any given Year, in each case except as provided in Section 5(d).  In addition, any such amendment shall be in compliance with Section 409A of the Code.  The Administrator may modify any outstanding Awards to comply with Section 409A without consent from Participants.  Notwithstanding any other provision of the Plan or any Award Agreement, no amendment, alteration, suspension, discontinuation or termination of the Plan or any Award Agreement shall be made that would (1) permit Options or SARs to be granted with a per Share exercise price of less than the Fair Market Value of a Share on the date of grant thereof or (2) except as provided in Section 5(d), (w) reduce the exercise price of any Option or SAR established at the time of grant thereof, (x) be treated as a repricing under U.S. generally accepted accounting principles ("GAAP"), (y) cancel an Option or SAR  in exchange for another Option, SAR, restricted stock unit or any other Award, or (z) terminate an Option or SAR in exchange for a cash amount equal to or greater than the excess, if any, of the Fair Market Value of the underlying Shares on the date of cancellation over the exercise price times the number of Shares outstanding under the Award.  A cancellation and exchange described in clause (y) of the immediately preceding sentence is prohibited regardless of whether the option, SAR, restricted stock unit or other equity is delivered simultaneously with the cancellation and regardless of whether the cancellation and exchange are treated as a repricing under GAAP or are voluntary on the part of the Participant.

(b) *Correction of Defects, Omissions and Inconsistencies*.  The Administrator may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

**SECTION 14.  GENERAL PROVISIONS.**

(a) *No Rights of Stockholders*.  Neither a Participant nor a Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company in respect of any Shares issuable under the Plan in connection with any Award or Account, in whole or in part, unless and until certificates or other indicia of ownership of such shares shall have been issued.

(b) *Limits of Transfer of Awards.* No Award and no right under any such Award, shall be assignable, alienable, saleable or transferable by a Participant otherwise than by will or by the laws of descent and distribution. During the Participant's lifetime, rights under an Award shall be exercisable only by the Participant, or if permissible under applicable law, by the Participant's guardian or legal representative.

(c) *No Limit on Other Compensation Arrangements*. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) *Governing Law*. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

(e) *Severability*. If any provision of the Plan or any Award Agreement is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any person, Award or Account, or would disqualify the Plan or any Award under any law deemed applicable by the Administrator, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Administrator, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

(f) *No Trust or Fund Created*. Neither the Plan nor any Award or Account shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive an Award or Account, or Shares pursuant to an Award or Account, from the Company pursuant to this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

(g) *Accounts Unsecured*. Until distributed, all amounts credited to any Cash Accounts or represented by units credited to any Stock Unit Account shall be property of the Company, available for the Company's use, and subject to the claims of general creditors of the Company. The rights of any Participant or beneficiary to distributions under this Plan are not subject to anticipation, alienation, sale, transfer, assignment, or encumbrance, and shall not be subject to the debts or liabilities of any Participant or beneficiary.

(h) *Withholding*. The Company shall be authorized to withhold from any Awards granted or any transfer made under any Award or under the Plan or from any dividend equivalents to be paid on Restricted Stock Units the amount (in cash, Shares, other securities, or other property) of any taxes required to be withheld in respect of a grant, exercise, payment or settlement of an Award or any payment of dividend equivalents under Restricted Stock Units or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations of the Company for the payment of any such taxes.

(i) *No Right to Continued Board Membership*. The grant of an Award or establishment of an Account shall not be construed as giving a Participant the right to be retained as a director of the Company. The Board may at any time fail or refuse to nominate a Participant for election to the Board, and the stockholders of the Company may at any election fail or refuse to elect any Participant to the Board free from any liability or claim under this Plan or any Award or Account.

(j) *409A Compliance*. The Company makes no representations or covenants that any Award granted or Deferred Compensation arrangement maintained under the Plan will comply with Section 409A of the Code.

**SECTION 15. EFFECTIVE DATE OF THE PLAN.**

The Plan shall be effective as of the date of its approval by the stockholders of the Company.

**SECTION 16. TERM OF THE PLAN.**

No Award shall be granted or compensation deferred under the Plan after the tenth anniversary of the Effective Date of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted or Account established prior to the termination of the Plan may extend beyond such date, and the authority of the Committee and the Board under Section 12 to amend, alter, adjust, suspend, discontinue, or terminate any such Award or Account, or to waive any conditions or rights thereunder, shall extend beyond such date.

**Exhibit 31(a)**

CERTIFICATIONS

I, Richard K. Templeton, certify that:

1. I have reviewed this report on Form 10-Q of Texas Instruments Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Richard K. Templeton

Richard K. Templeton
Chairman, President
and Chief Executive Officer

**Exhibit 31(b)**

CERTIFICATIONS

I, Rafael R. Lizardi, certify that:

1. I have reviewed this report on Form 10-Q of Texas Instruments Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Rafael R. Lizardi

Rafael R. Lizardi
Senior Vice President and
Chief Financial Officer

**Exhibit 32(a)**

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Richard K. Templeton, the Chairman, President and Chief Executive Officer of Texas Instruments Incorporated (the “Company”), hereby certifies that, to his knowledge:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 2, 2018

/s/ Richard K. Templeton
Richard K. Templeton
Chairman, President
and Chief Executive Officer

**Exhibit 32(b)**

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Rafael R. Lizardi, Senior Vice President and Chief Financial Officer of Texas Instruments Incorporated (the “Company”), hereby certifies that, to his knowledge:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 2, 2018

/s/ Rafael R. Lizardi

Rafael R. Lizardi
Senior Vice President and
Chief Financial Officer