# 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, 2019**

☐ **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**

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

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

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

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

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

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

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

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

933,619,937
Number of shares of Registrant's common stock outstanding as of
July 24, 2019

## PART I - FINANCIAL INFORMATION

### ITEM 1. Financial statements

| Consolidated Statements of Income<br>(Millions of dollars, except share and per-share amounts) | For Three Months Ended June 30, 2019 | For Three Months Ended June 30, 2018 | For Six Months Ended June 30, 2019 | For Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Revenue | **$ 3,668** | $ 4,017 | **$ 7,262** | $ 7,806 |
| Cost of revenue (COR) | **1,308** | 1,398 | **2,641** | 2,740 |
| Gross profit | **2,360** | 2,619 | **4,621** | 5,066 |
| Research and development (R&D) | **390** | 384 | **779** | 769 |
| Selling, general and administrative (SG&A) | **420** | 441 | **834** | 874 |
| Acquisition charges | **80** | 79 | **159** | 159 |
| Restructuring charges/other | **(36)** | 3 | **(36)** | 4 |
| Operating profit | **1,506** | 1,712 | **2,885** | 3,260 |
| Other income (expense), net (OI&E) | **52** | 24 | **88** | 52 |
| Interest and debt expense | **44** | 30 | **82** | 53 |
| Income before income taxes | **1,514** | 1,706 | **2,891** | 3,259 |
| Provision for income taxes | **209** | 301 | **369** | 488 |
| Net income | **$ 1,305** | $ 1,405 | **$ 2,522** | $ 2,771 |
| | | | | |
| Earnings per common share (EPS): | | | | |
| Basic | **$ 1.38** | $ 1.43 | **$ 2.67** | $ 2.80 |
| Diluted | **$ 1.36** | $ 1.40 | **$ 2.63** | $ 2.75 |
| | | | | |
| Average shares outstanding (millions): | | | | |
| Basic | **937** | 977 | **938** | 980 |
| Diluted | **953** | 997 | **954** | 1,001 |

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 | **$ 1,305** | $ 1,405 | **$ 2,522** | $ 2,771 |
| Income allocated to RSUs | **(8)** | (11) | **(16)** | (22) |
| Income allocated to common stock for diluted EPS | **$ 1,297** | $ 1,394 | **$ 2,506** | $ 2,749 |

See accompanying notes.

| Consolidated Statements of Comprehensive Income<br>(Millions of dollars) | For Three Months Ended June 30, 2019 | For Three Months Ended June 30, 2018 | For Six Months Ended June 30, 2019 | For Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Net income | **$ 1,305** | $ 1,405 | **$ 2,522** | $ 2,771 |
| Other comprehensive income (loss), net of taxes | | | | |
| Net actuarial losses of defined benefit plans: | | | | |
| Adjustments | **(3)** | 15 | **(5)** | (1) |
| Recognized within net income | **11** | 9 | **21** | 18 |
| Prior service credit of defined benefit plans: | | | | |
| Recognized within net income | **—** | (1) | **—** | (2) |
| Derivative instruments: | | | | |
| Change in fair value | **—** | (2) | **—** | (2) |
| Other comprehensive income (loss) | **8** | 21 | **16** | 13 |
| Total comprehensive income | **$ 1,313** | $ 1,426 | **$ 2,538** | $ 2,784 |

See accompanying notes.

| **Consolidated Balance Sheets** | | **June 30, 2019** | | **December 31, 2018** |
|---|---|---|---|---|
| **(Millions of dollars, except share amounts)** | | | | |
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | **$** | **3,813** | $ | 2,438 |
| Short-term investments | | **405** | | 1,795 |
| Accounts receivable, net of allowances of ($15) and ($19) | | **1,419** | | 1,207 |
| Raw materials | | **176** | | 181 |
| Work in process | | **958** | | 1,070 |
| Finished goods | | **945** | | 966 |
| Inventories | | **2,079** | | 2,217 |
| Prepaid expenses and other current assets | | **240** | | 440 |
| Total current assets | | **7,956** | | 8,097 |
| Property, plant and equipment at cost | | **5,706** | | 5,425 |
| Accumulated depreciation | | **(2,341)** | | (2,242) |
| Property, plant and equipment | | **3,365** | | 3,183 |
| Long-term investments | | **300** | | 251 |
| Goodwill | | **4,362** | | 4,362 |
| Acquisition-related intangibles | | **469** | | 628 |
| Deferred tax assets | | **261** | | 295 |
| Capitalized software licenses | | **88** | | 89 |
| Overfunded retirement plans | | **104** | | 92 |
| Other long-term assets | | **479** | | 140 |
| Total assets | **$** | **17,384** | $ | 17,137 |
| | | | | |
| **Liabilities and stockholders’ equity** | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | **$** | **1,249** | $ | 749 |
| Accounts payable | | **412** | | 478 |
| Accrued compensation | | **476** | | 724 |
| Income taxes payable | | **87** | | 103 |
| Accrued expenses and other liabilities | | **422** | | 420 |
| Total current liabilities | | **2,646** | | 2,474 |
| Long-term debt | | **4,558** | | 4,319 |
| Underfunded retirement plans | | **121** | | 118 |
| Deferred tax liabilities | | **49** | | 42 |
| Other long-term liabilities | | **1,524** | | 1,190 |
| Total liabilities | | **8,898** | | 8,143 |
| Stockholders’ equity: | | | | |
| Preferred stock, $25 par value. Authorized – 10,000,000 shares | | | | |
| Participating cumulative preferred – None issued | | **—** | | — |
| Common stock, $1 par value. Authorized – 2,400,000,000 shares | | | | |
| Shares issued – 1,740,815,939 | | **1,741** | | 1,741 |
| Paid-in capital | | **2,003** | | 1,950 |
| Retained earnings | | **38,974** | | 37,906 |
| Treasury common stock at cost | | | | |
| Shares: June 30, 2019 – 806,251,136; December 31, 2018 – 795,665,646 | | **(33,775)** | | (32,130) |
| Accumulated other comprehensive income (loss), net of taxes (AOCI) | | **(457)** | | (473) |
| Total stockholders’ equity | | **8,486** | | 8,994 |
| Total liabilities and stockholders’ equity | **$** | **17,384** | $ | 17,137 |

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

| Consolidated Statements of Cash Flows (Millions of dollars) | For Six Months Ended June 30, 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | **$ 2,522** | $ 2,771 |
| Adjustments to net income: | | |
| Depreciation | **339** | 281 |
| Amortization of acquisition-related intangibles | **159** | 159 |
| Amortization of capitalized software | **27** | 22 |
| Stock compensation | **128** | 144 |
| Gains on sales of assets | **(23)** | — |
| Deferred taxes | **35** | (30) |
| Increase (decrease) from changes in: | | |
| Accounts receivable | **(212)** | (273) |
| Inventories | **138** | (155) |
| Prepaid expenses and other current assets | **241** | 417 |
| Accounts payable and accrued expenses | **(93)** | (45) |
| Accrued compensation | **(244)** | (249) |
| Income taxes payable | **(107)** | (11) |
| Changes in funded status of retirement plans | **9** | 14 |
| Other | **(16)** | (107) |
| Cash flows from operating activities | **2,903** | 2,938 |
| | | |
| **Cash flows from investing activities** | | |
| Capital expenditures | **(535)** | (438) |
| Proceeds from asset sales | **30** | — |
| Purchases of short-term investments | **(388)** | (2,209) |
| Proceeds from short-term investments | **1,784** | 2,830 |
| Other | **24** | 2 |
| Cash flows from investing activities | **915** | 185 |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of long-term debt | **743** | 1,500 |
| Repayment of debt | **—** | (500) |
| Dividends paid | **(1,446)** | (1,217) |
| Stock repurchases | **(2,015)** | (1,891) |
| Proceeds from common stock transactions | **297** | 280 |
| Other | **(22)** | (32) |
| Cash flows from financing activities | **(2,443)** | (1,860) |
| | | |
| Net change in cash and cash equivalents | **1,375** | 1,263 |
| Cash and cash equivalents at beginning of period | **2,438** | 1,656 |
| Cash and cash equivalents at end of period | **$ 3,813** | $ 2,919 |

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, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Revenue:** | | | | |
| Analog | **$ 2,534** | $ 2,690 | **$ 5,052** | $ 5,256 |
| Embedded Processing | **790** | 943 | **1,586** | 1,869 |
| Other | **344** | 384 | **624** | 681 |
| Total revenue | **$ 3,668** | $ 4,017 | **$ 7,262** | $ 7,806 |
| **Operating profit:** | | | | |
| Analog | **$ 1,108** | $ 1,263 | **$ 2,196** | $ 2,429 |
| Embedded Processing | **265** | 334 | **514** | 662 |
| Other | **133** | 115 | **175** | 169 |
| Total operating profit | **$ 1,506** | $ 1,712 | **$ 2,885** | $ 3,260 |

*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, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Revenue:** | | | | |
| United States | **$ 487** | $ 614 | **$ 964** | $ 1,118 |
| Asia (a) | **2,157** | 2,340 | **4,249** | 4,555 |
| Europe, Middle East and Africa | **709** | 764 | **1,452** | 1,535 |
| Japan | **218** | 218 | **409** | 438 |
| Rest of world | **97** | 81 | **188** | 160 |
| Total revenue | **$ 3,668** | $ 4,017 | **$ 7,262** | $ 7,806 |

(a) Revenue from products shipped into China was $1.8 billion and $1.7 billion in the second quarters of 2019 and 2018, respectively, and $3.5 billion and $3.3 billion in the first six months of 2019 and 2018, 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, 2018, except for the effects of adopting Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended June 30, 2019 and 2018, and the Consolidated Balance Sheet as of June 30, 2019, 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, 2018. The results for the three- and six-month periods are not necessarily indicative of a full year's results.

*Significant accounting policies and practices*

*Leases*
We determine if an arrangement is a lease at inception. Leases are included in other long-term assets, accrued expenses and other liabilities, and other long-term liabilities on our Consolidated Balance Sheets.

Lease assets represent our right to use underlying assets for the lease term, and lease liabilities represent our obligations to make lease payments over the lease term. On the commencement date, leases are evaluated for classification, and assets and liabilities are recognized based on the present value of lease payments over the lease term. We use our incremental borrowing rate based on the information available at commencement in determining the present value of lease payments. Operating lease expense is generally recognized on a straight-line basis over the lease term. Our lease values include options to extend or not to terminate the lease when it is reasonably certain that we will exercise such options.

We have agreements with lease and non-lease components, which are accounted for as a single lease component. Leases with a lease term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

*Earnings per share (EPS)*
We use the two-class method for calculating EPS because the restricted stock units (RSUs) we grant are participating securities containing non-forfeitable rights to receive dividend equivalents. Under the two-class method, a portion of net income is allocated to RSUs and excluded from the calculation of income allocated to common stock, 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Net Income | Shares | EPS | Net Income | Shares | EPS |
| **Basic EPS:** | | | | | | |
| Net income | **$ 1,305** | | | $ 1,405 | | |
| Income allocated to RSUs | **(9)** | | | (11) | | |
| Income allocated to common stock | **$ 1,296** | **937** | **$ 1.38** | $ 1,394 | 977 | $ 1.43 |
| Dilutive effect of stock compensation plans | | **16** | | | 20 | |
| **Diluted EPS:** | | | | | | |
| Net income | **$ 1,305** | | | $ 1,405 | | |
| Income allocated to RSUs | **(8)** | | | (11) | | |
| Income allocated to common stock | **$ 1,297** | **953** | **$ 1.36** | $ 1,394 | 997 | $ 1.40 |

| | For Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Net Income | Shares | EPS | Net Income | Shares | EPS |
| **Basic EPS:** | | | | | | |
| Net income | **$ 2,522** | | | $ 2,771 | | |
| Income allocated to RSUs | **(17)** | | | (23) | | |
| Income allocated to common stock | **$ 2,505** | **938** | **$ 2.67** | $ 2,748 | 980 | $ 2.80 |
| Dilutive effect of stock compensation plans | | **16** | | | 21 | |
| **Diluted EPS:** | | | | | | |
| Net income | **$ 2,522** | | | $ 2,771 | | |
| Income allocated to RSUs | **(16)** | | | (22) | | |
| Income allocated to common stock | **$ 2,506** | **954** | **$ 2.63** | $ 2,749 | 1,001 | $ 2.75 |

Potentially dilutive securities representing 7 million and 5 million shares of common stock that were outstanding during the second quarters of 2019 and 2018, and 9 million and 5 million shares outstanding during the first six months of 2019 and 2018, respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

*Derivatives and hedging*

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

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, 2019. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. As of June 30, 2019, the carrying value of long-term debt, including the current portion, was $5.81 billion, and the estimated fair value was $6.14 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 4 for a description of fair value and the definition of Level 2 inputs.

*Changes in accounting standards – adopted standards for current period*

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

We adopted ASU No. 2016-02, *Leases* (ASC 842) effective January 1, 2019, using the modified retrospective transition method applied to leases existing at, or entered into after, the adoption date. The reported results for 2019 reflect the application of the new accounting guidance, while the reported results for prior periods are not adjusted and continue to be reported in accordance with our historical accounting under ASC 840, *Leases.* In addition, we elected the package of practical expedients permitted under the transition guidance that allowed us to apply prior conclusions related to lease definition, classification and initial direct costs.

The adoption of the new standard resulted in the recognition of $229 million of lease liabilities with corresponding lease assets as of January 1, 2019. The standard did not materially impact our results of operations and had no impact on cash flows.

*Other standards*

The following standards were also adopted:

| ASU | Description | Adopted Date |
|---|---|---|
| ASU No. 2017-12 | *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* | January 1, 2019 |
| ASU No. 2018-14 | *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* | January 1, 2019 |

*Changes in accounting standards – standards not yet adopted*

*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 being incurred. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a reduction to the amortized cost basis of the securities. We plan to adopt this standard when effective, beginning January 1, 2020, applying the guidance on a modified retrospective basis. 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 or results of operations.

*Other standards*
We are evaluating the impact of the following standards, but we do not expect them to have a material impact on our financial position or results of operations. We plan to adopt these standards as of their effective dates.

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

3. Income taxes

Our estimated annual effective tax rate is about 16%, which does not include discrete tax items. This differs from the 21% statutory corporate tax rate due to the effect of U.S. tax benefits.

Provision for income taxes is based on the following:

| | For Three Months Ended June 30, | | For Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Taxes calculated using the estimated annual effective tax rate | **$ 238** | $ 344 | **$ 458** | $ 660 |
| Discrete tax items | **(29)** | (43) | **(89)** | (172) |
| Provision for income taxes | **$ 209** | $ 301 | **$ 369** | $ 488 |
| | | | | |
| Actual effective tax rate | **14%** | 18% | **13%** | 15% |

4. Valuation of debt and equity investments and certain liabilities

*Debt and equity investments measured at fair value*

Available-for-sale debt investments and trading securities are stated at fair value, which is generally based on market prices or broker quotes. See *Fair-value considerations* below. Unrealized gains and losses from available-for-sale debt securities are recorded as an increase or decrease, net of taxes, in AOCI on our Consolidated Balance Sheets. Other-than-temporary impairments on available-for-sale debt securities are recorded 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.

*Other equity investments*

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

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

Details of our investments are as follows:

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **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 | **$ 709** | **$ —** | **$ —** | $ 747 | $ — | $ — |
| Corporate obligations | **591** | **256** | **—** | 473 | 748 | — |
| U.S. government agency and Treasury securities | **2,101** | **149** | **—** | 988 | 1,047 | — |
| Trading securities: | | | | | | |
| Mutual funds | **—** | **—** | **259** | — | — | 226 |
| Total | **3,401** | **405** | **259** | 2,208 | 1,795 | 226 |
| | | | | | | |
| **Other measurement basis:** | | | | | | |
| Equity-method investments | **—** | **—** | **37** | — | — | 21 |
| Non-marketable equity investments | **—** | **—** | **4** | — | — | 4 |
| Cash on hand | **412** | **—** | **—** | 230 | — | — |
| Total | **$ 3,813** | **$ 405** | **$ 300** | $ 2,438 | $ 1,795 | $ 251 |

As of June 30, 2019 and December 31, 2018, 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 2019 and 2018.

Proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $200 million and $1.38 billion for the second quarters of 2019 and 2018, respectively, and $1.78 billion and $2.83 billion for the first six months of 2019 and 2018, respectively. Gross realized gains and losses from these sales were not material.

The following table presents the aggregate maturities of our available-for-sale debt investments as of June 30, 2019:

| | **Fair Value** |
|---|---|
| One year or less | $ 3,695 |
| One to two years | 111 |

There were no other-than-temporary declines and impairments in the values of our debt investments in the first six months of 2019 or 2018.

*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, 2019 and December 31, 2018, we had no Level 3 assets or liabilities.

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

| | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| **Assets:** | | | | | | |
| Money market funds | $ 709 | $ — | $ 709 | $ 747 | $ — | $ 747 |
| Corporate obligations | — | 847 | 847 | — | 1,221 | 1,221 |
| U.S. government agency and Treasury securities | 2,250 | — | 2,250 | 2,035 | — | 2,035 |
| Mutual funds | 259 | — | 259 | 226 | — | 226 |
| Total assets | $ 3,218 | $ 847 | $ 4,065 | $ 3,008 | $ 1,221 | $ 4,229 |
| | | | | | | |
| **Liabilities:** | | | | | | |
| Deferred compensation | $ 277 | $ — | $ 277 | $ 246 | $ — | $ 246 |
| Total liabilities | $ 277 | $ — | $ 277 | $ 246 | $ — | $ 246 |

5. Goodwill and acquisition-related intangibles

Goodwill was $4.36 billion as of June 30, 2019 and December 31, 2018. There was no impairment of goodwill during the first six months of 2019 or 2018.

The components of acquisition-related intangibles are as follows:

| | Amortization Period (Years) | June 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|
| | | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Developed technology | 7 - 10 | $ 2,125 | $ 1,681 | $ 444 | $ 2,125 | $ 1,573 | $ 552 |
| Customer relationships | 8 | 810 | 785 | 25 | 810 | 734 | 76 |
| Total | | $ 2,935 | $ 2,466 | $ 469 | $ 2,935 | $ 2,307 | $ 628 |

*Acquisition charges*

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

Amortization of acquisition-related intangibles was $80 million and $79 million for the second quarters of 2019 and 2018, respectively, and $159 million for the first six months of both 2019 and 2018. 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,** | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Service cost | $ 5 | $ 5 | $ — | $ 1 | $ 8 | $ 9 |
| Interest cost | 10 | 9 | 4 | 3 | 11 | 11 |
| Expected return on plan assets | (12) | (10) | (3) | (3) | (23) | (17) |
| Recognized net actuarial loss | 3 | 4 | — | — | 8 | 6 |
| Amortization of prior service credit | — | — | — | — | — | (1) |
| Net periodic benefit costs | 6 | 8 | 1 | 1 | 4 | 8 |
| Settlement losses | 3 | — | — | — | 1 | 1 |
| Total, including other postretirement losses | $ 9 | $ 8 | $ 1 | $ 1 | $ 5 | $ 9 |

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|---|---|---|---|---|---|---|
| **For Six Months Ended June 30,** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Service cost | **$ 9** | $ 10 | **$ 1** | $ 2 | **$ 16** | $ 18 |
| Interest cost | **19** | 18 | **7** | 7 | **22** | 23 |
| Expected return on plan assets | **(21)** | (21) | **(7)** | (7) | **(44)** | (34) |
| Recognized net actuarial loss | **5** | 8 | **—** | 1 | **15** | 11 |
| Amortization of prior service credit | **—** | — | **—** | (1) | **—** | (1) |
| Net periodic benefit costs | **12** | 15 | **1** | 2 | **9** | 17 |
| Settlement losses | **6** | 2 | **—** | — | **2** | 1 |
| Total, including other postretirement losses | **$ 18** | $ 17 | **$ 1** | $ 2 | **$ 11** | $ 18 |

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, 2019, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to $2 billion until March 2024. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of June 30, 2019, our credit facility was undrawn, and we had no commercial paper outstanding.

*Long-term debt*

In the first quarter of 2019, we issued an aggregate principal amount of $750 million of fixed-rate, long-term debt due in 2039. We incurred $7 million of issuance and other related costs. We received $743 million in proceeds, net of the original issuance discount, to be used for general corporate purposes.

Long-term debt outstanding is as follows:

| | **June 30, 2019** | **December 31, 2018** |
|---|---|---|
| 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 2039 at 3.875% | **750** | — |
| Notes due 2048 at 4.15% | **1,500** | 1,500 |
| Total debt | **5,850** | 5,100 |
| Net unamortized discounts, premiums and issuance costs | **(43)** | (32) |
| Total debt, including net unamortized discounts, premiums and issuance costs | **5,807** | 5,068 |
| Current portion of long-term debt | **(1,249)** | (749) |
| Long-term debt | **$ 4,558** | $ 4,319 |

Interest and debt expense was $44 million and $30 million for the second quarters of 2019 and 2018, respectively, and $82 million and $53 million for the first six months of 2019 and 2018, respectively. This was net of the amortized discounts, premiums and issuance costs. Capitalized interest was not material.

8. Stockholders' equity

Changes in equity for the three and six months ended June 30, 2019 and 2018, respectively, are as follows:

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

| | Common Stock | Paid-in Capital | Retained Earnings | Treasury Common Stock | AOCI |
|---|---|---|---|---|---|
| Balance, December 31, 2017 | $ 1,741 | $ 1,776 | $ 34,662 | $ (27,458) | $ (384) |
| 2018 | | | | | |
| Net income | — | — | 1,366 | — | — |
| Dividends declared and paid ($0.62 per share) | — | — | (611) | — | — |
| Common stock issued for stock-based awards | — | (75) | — | 253 | — |
| Stock repurchases | — | — | — | (891) | — |
| Stock compensation | — | 70 | — | — | — |
| Other comprehensive income (loss), net of taxes | — | — | — | — | (8) |
| Dividend equivalents on RSUs | — | — | (4) | — | — |
| Cumulative effect of accounting changes | — | — | 206 | — | — |
| Other | — | (1) | — | — | — |
| Balance, March 31, 2018 | 1,741 | 1,770 | 35,619 | (28,096) | (392) |
| Net income | — | — | 1,405 | — | — |
| Dividends declared and paid ($0.62 per share) | — | — | (606) | — | — |
| Common stock issued for stock-based awards | — | 22 | — | 80 | — |
| Stock repurchases | — | — | — | (1,000) | — |
| Stock compensation | — | 74 | — | — | — |
| Other comprehensive income (loss), net of taxes | — | — | — | — | 21 |
| Dividend equivalents on RSUs | — | — | (5) | — | — |
| Other | — | 1 | — | — | — |
| Balance, June 30, 2018 | $ 1,741 | $ 1,867 | $ 36,413 | $ (29,016) | $ (371) |

9. Leases

We conduct certain operations in leased facilities and also lease a portion of our data processing and other equipment. In addition, certain long-term supply agreements to purchase industrial gases are accounted for as operating leases. Lease agreements frequently include renewal provisions and require us to pay real estate taxes, insurance and maintenance costs.

Our leases are included as a component of the following balance sheet lines:

| | June 30, 2019 |
|---|---|
| Other long-term assets | $ 352 |
| | |
| Accrued expenses and other liabilities | $ 73 |
| Other long-term liabilities | 279 |

Details of our operating leases are as follows:

| | For Three Months Ended June 30, 2019 | For Six Months Ended June 30, 2019 |
|---|---|---|
| Lease cost | $ 16 | $ 34 |
| Variable lease cost | 10 | 23 |
| | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows for leases | $ 15 | $ 31 |
| | | |
| Lease assets obtained in exchange for new lease liabilities | $ 23 | $ 152 |
| | | |
| Weighted average remaining lease term | 8.5 years | |
| Weighted average discount rate | 3.40% | |

The following table presents the maturities of lease liabilities as of June 30, 2019:

| | Operating Leases |
|---|---|
| 2019 | $ 38 |
| 2020 | 70 |
| 2021 | 58 |
| 2022 | 48 |
| 2023 | 37 |
| Thereafter | 157 |
| Total lease payments | 408 |
| Imputed lease interest | (56) |
| Total lease liabilities | $ 352 |

10. 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.

11. Supplemental financial information

*Restructuring charges/other*

Restructuring charges/other are included in Other for segment reporting purposes. Changes in accrued restructuring balances are as follows:

| | |
|---|---|
| Balance, December 31, 2018 | $ 28 |
| **Restructuring charges** | **(15)** |
| **Payments** | **(12)** |
| **Balance, June 30, 2019** | **$ 1** |

The restructuring accrual balances are 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.

In April 2019, we sold our manufacturing facility in Greenock, Scotland.

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within net income during the second quarters and first six months of 2019 and 2018. The table below details where these transactions are recorded in our Consolidated Statements of Income.

| | **For Three Months Ended June 30,** | | **For Six Months Ended June 30,** | | **Impact to Related Statement of Income Lines** |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | |
| Net actuarial losses of defined benefit plans: | | | | | |
| Recognized net actuarial loss and settlement losses (a) | **$ 15** | $ 11 | **$ 28** | $ 23 | Decrease to OI&E |
| Tax effect | **(4)** | (2) | **(7)** | (5) | Decrease to provision for income taxes |
| Recognized within net income, net of taxes | **$ 11** | $ 9 | **$ 21** | $ 18 | Decrease to net income |
| | | | | | |
| Prior service credit of defined benefit plans: | | | | | |
| Amortization of prior service credit (a) | **$ —** | $ (1) | **$ —** | $ (2) | Increase to OI&E |
| Tax effect | **—** | — | **—** | — | Increase to provision for income taxes |
| Recognized within net income, net of taxes | **$ —** | $ (1) | **$ —** | $ (2) | Increase to net income |

(a) Detailed in Note 6.

*Stock compensation*

Total shares of 3,264,965 and 8,976,983 were issued from treasury shares during the second quarter and first six months of 2019, 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 investing in our advanced analog 300-millimeter capacity, which has about a 40% cost advantage per unpackaged chip over 200-millimeter. To strengthen this advantage, we are planning our next phase of 300-millimeter capacity expansion as 300-millimeter wafers will continue to support the majority of our Analog growth.
- *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 meet more of these needs than our competitors can, which gives us access to more customers and the opportunity to sell more products and generate more revenue per customer system. We invest more than $1 billion each year to develop new products for our portfolio, which includes tens of thousands of products.
- *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' websites. 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, customer, technology or market. Some of our products generate revenue for decades, which strengthens the return on our investments.

Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets, 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.
- 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.

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

**Performance summary**

Our second quarter revenue was $3.67 billion, net income was $1.31 billion and earnings per share (EPS) were $1.36.

Revenue decreased 9% from the same quarter a year ago due to broad-based weakness.

In our core businesses, Analog revenue declined 6% and Embedded Processing declined 16% from the same quarter a year ago.

Our cash flow from operations of $7.2 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the trailing 12 months was $5.9 billion and 39% 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 $8.0 billion to shareholders in the past 12 months through stock repurchases and dividends. Our strategy is to return all our free cash flow to shareholders. Over the last 12 months, our dividends represented 47% of free cash flow, underscoring their sustainability.

We continue to expect our annual operating tax rate to be about 16% 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 2019 compared with second quarter 2018**

Revenue of $3.67 billion decreased $349 million, or 9%, primarily due to lower revenue from Analog and Embedded Processing.

Gross profit of $2.36 billion was down $259 million, or 10%, due to lower revenue. As a percentage of revenue, gross profit decreased to 64.3% from 65.2%.

Operating expenses (R&D and SG&A) were $810 million compared with $825 million.

Acquisition charges of $80 million were non-cash. See Note 5 to the financial statements.

Restructuring charges/other was a credit of $36 million due to the sale of our manufacturing facility in Greenock, Scotland.

Operating profit was $1.51 billion, or 41.1% of revenue, compared with $1.71 billion, or 42.6% of revenue.

OI&E was $52 million of income compared with $24 million of income, which increased primarily due to investment gains and tax-related items.

Interest and debt expense of $44 million increased $14 million due to the issuance of additional long-term debt.

Our provision for income taxes was $209 million compared with $301 million. The decrease was due to a lower annual operating tax rate and lower income before income taxes. Our annual operating tax rate, which does not include discrete tax items, is about 16% compared with 20% in 2018. We use “annual operating tax rate” to describe the estimated annual effective tax rate. The 2019 rate differs from the 21% U.S. statutory corporate tax rate due to the effect of U.S. tax benefits.

Net income was $1.31 billion compared with $1.41 billion. EPS was $1.36 compared with $1.40.

Second quarter 2019 segment results

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

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

| | 2Q19 | 2Q18 | Change |
|---|---|---|---|
| Revenue | **$ 2,534** | $ 2,690 | (6)% |
| Operating profit | **1,108** | 1,263 | (12)% |
| Operating profit % of revenue | **43.7%** | 47.0% | |

Analog revenue decreased due to High Volume, Power and, to a lesser extent, Signal Chain. Operating profit decreased primarily due to lower revenue and associated gross profit.

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

| | 2Q19 | 2Q18 | Change |
|---|---|---|---|
| Revenue | **$ 790** | $ 943 | (16)% |
| Operating profit | **265** | 334 | (21)% |
| Operating profit % of revenue | **33.5%** | 35.4% | |

Embedded Processing revenue decreased in Processors and Connected Microcontrollers. Operating profit decreased due to lower revenue and associated gross profit.

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

| | 2Q19 | 2Q18 | Change |
|---|---|---|---|
| Revenue | **$ 344** | $ 384 | (10)% |
| Operating profit* | **133** | 115 | 16% |
| Operating profit % of revenue | **38.7%** | 29.9% | |

* Includes acquisition charges and restructuring charges/other

Other revenue decreased by $40 million. Operating profit increased by $18 million.

**Results of operations – first six months of 2019 compared with first six months of 2018**

Revenue of $7.26 billion decreased $544 million, or 7%, due to lower revenue from Embedded Processing and, to a lesser extent, Analog.

Gross profit of $4.62 billion was down $445 million, or 9%, primarily due to lower revenue. As a percentage of revenue, gross profit decreased to 63.6% from 64.9%.

Operating expenses were $1.61 billion compared with $1.64 billion.

Acquisition charges of $159 million were non-cash. See Note 5 to the financial statements.

Restructuring charges/other was a credit of $36 million due to the sale of our manufacturing facility in Greenock, Scotland.

Operating profit was $2.89 billion, or 39.7% of revenue, compared with $3.26 billion, or 41.8% of revenue.

OI&E was $88 million of income compared with $52 million of income.

Interest and debt expense of $82 million increased $29 million due to the issuance of additional long-term debt.

Our provision for income taxes was $369 million compared with $488 million. The decrease was due to a lower annual operating tax rate and lower income before income taxes, partially offset by a reduction of discrete tax benefits.

Net income was $2.52 billion compared with $2.77 billion. EPS was $2.63 compared with $2.75.

Year-to-date segment results

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

*Analog*

| | YTD 2019 | YTD 2018 | Change |
|---|---|---|---|
| Revenue | **$ 5,052** | $ 5,256 | (4)% |
| Operating profit | **2,196** | 2,429 | (10)% |
| Operating profit % of revenue | **43.5%** | 46.2% | |

Analog revenue decreased due to High Volume and, to a lesser extent, Power. Signal Chain revenue was about even, despite a change in the mix of products shipped. Operating profit decreased primarily due to lower revenue and associated gross profit.

*Embedded Processing*

| | YTD 2019 | YTD 2018 | Change |
|---|---|---|---|
| Revenue | **$ 1,586** | $ 1,869 | (15)% |
| Operating profit | **514** | 662 | (22)% |
| Operating profit % of revenue | **32.4%** | 35.4% | |

Embedded Processing revenue decreased in Processors and Connected Microcontrollers. Operating profit decreased due to lower revenue and associated gross profit.

*Other*

| | YTD 2019 | YTD 2018 | Change |
|---|---|---|---|
| Revenue | **$ 624** | $ 681 | (8)% |
| Operating profit* | **175** | 169 | 4% |
| Operating profit % of revenue | **28.0%** | 24.8% | |

* Includes acquisition charges and restructuring charges/other

Other revenue decreased by $57 million. Operating profit increased by $6 million.

**Financial condition**

At the end of the second quarter of 2019, total cash (cash and cash equivalents plus short-term investments) was $4.22 billion, a decrease of $15 million from the end of 2018.

Accounts receivable were $1.42 billion, an increase of $212 million compared with the end of 2018. Days sales outstanding at the end of the second quarter of 2019 were 35 compared with 29 at the end of 2018.

Inventory was $2.08 billion, a decrease of $138 million from the end of 2018. Days of inventory at the end of the second quarter of 2019 were 143 compared with 152 at the end of 2018.

**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 2019 were $2.90 billion, a decrease of $35 million.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to $2 billion until March 2024. This credit facility also serves as support for the issuance of commercial paper. As of June 30, 2019, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for the first six months of 2019 provided $915 million compared with $185 million in the year-ago period. Capital expenditures were $535 million compared with $438 million in the year-ago period and were primarily for semiconductor manufacturing equipment in both periods. We had sales of short-term investments, net of purchases, that provided cash proceeds of $1.40 billion compared with $621 million in the year-ago period.

Financing activities for the first six months of 2019 used $2.44 billion compared with $1.86 billion in the year-ago period. In 2019, we received net proceeds of $743 million from the issuance of fixed-rate, long-term debt. In the year-ago period, we received net proceeds of $1.50 billion from the issuance of fixed-rate, long-term debt, and we retired maturing debt of $500 million. Dividends paid were $1.45 billion compared with $1.22 billion in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used $2.02 billion to repurchase 19.6 million shares of our common stock compared with $1.89 billion used in the year-ago period to repurchase 17.8 million shares. Employee exercises of stock options provided cash proceeds of $297 million compared with $280 million in the year-ago period.

We had $3.81 billion of cash and cash equivalents and $405 million of short-term investments as of June 30, 2019. 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, 2019 | For 12 Months Ended June 30, 2018 | Change |
|---|---|---|---|
| Cash flow from operations (GAAP) | **$ 7,154** | $ 6,589 | 9% |
| Capital expenditures | **(1,228)** | (855) | |
| Free cash flow (non-GAAP) | **$ 5,926** | $ 5,734 | 3% |
| | | | |
| Revenue | **$ 15,240** | $ 15,672 | |
| | | | |
| Cash flow from operations as a percent of revenue (GAAP) | **46.9%** | 42.0% | |
| Free cash flow as a percent of revenue (non-GAAP) | **38.9%** | 36.6% | |

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

**Long-term contractual obligations**

Information regarding long-term 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, 2018. Additionally, in the first six months of 2019, we issued $750 million principal amount of 3.875% notes maturing in 2039.

**Changes in accounting standards**

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

**ITEM 4. Controls and procedures**

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

## PART II – OTHER INFORMATION

### ITEM 1A. Risk factors

Information concerning our risk factors is contained in Item 1A of our Form 10-K for the year ended December 31, 2018, 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, 2019 through April 30, 2019 | 2,963,212 | $ 114.54 | 2,959,680 | $ 14.62 billion |
| May 1, 2019 through May 31, 2019 | 3,506,174 | 108.35 | 3,506,174 | 14.24 billion |
| June 1, 2019 through June 30, 2019 | 1,033,579 | 107.68 | 1,033,579 | 14.13 billion |
| Total | 7,502,965 (b) | $ 110.70 (b) | 7,499,433 | $ 14.13 billion (c) |

(a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to $6.0 billion of additional shares of TI common stock announced September 21, 2017. On September 20, 2018, our board of directors authorized the purchase of an additional $12.0 billion of our common stock.

(b) In addition to open-market purchases, 3,532 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, 2019, this amount consisted of the remaining portion of the $6.0 billion authorized in September 2017 and the $12.0 billion authorized in September 2018. 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). |
| 31(a) | Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a).† |
| 31(b) | Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) or Rule 15d-14(a).† |
| 32(a) | Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.† |
| 32(b) | Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.† |
| 101.ins | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.† |
| 101.def | XBRL Taxonomy Extension Definition Linkbase Document† |
| 101.sch | XBRL Taxonomy Extension Schema Document† |
| 101.cal | XBRL Taxonomy Extension Calculation Linkbase Document† |
| 101.lab | XBRL Taxonomy Extension Label Linkbase Document† |
| 101.pre | XBRL Taxonomy Extension Presentation Linkbase Document† |

† 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;
- 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;
- 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;
- 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 significant distributors;
- Losses or curtailments of purchases from key customers or the timing and amount of distributor and other customer inventory adjustments;
- Our ability to maintain or improve profit margins, including our ability to utilize our manufacturing facilities at sufficient levels to cover our fixed operating costs, in an intensely competitive and cyclical industry and 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, and effectively manage key employee succession;
- 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: July 31, 2019

**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: July 31, 2019

/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: July 31, 2019

/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, 2019, 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: July 31, 2019

/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, 2019, 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: July 31, 2019

/s/ Rafael R. Lizardi
Rafael R. Lizardi
Senior Vice President and
Chief Financial Officer