SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

# FORM 10-K

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

For the Fiscal Year Ended December 31, 1994
Commission File Number 1-3761

TEXAS INSTRUMENTS INCORPORATED
(Exact name of Registrant as specified in its charter)

| Delaware | 75-0289970 |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

13500 North Central Expressway, P.O. Box 655474, Dallas, Texas,75265-5474
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 214-995-3773

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $1.00 | New York Stock Exchange<br>London Stock Exchange<br>Tokyo Stock Exchange<br>The Stock Exchanges of Zurich, Basle and Geneva |
| Preferred Stock Purchase Rights | New York Stock Exchange |

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $7,195,000,000 as of February 28, 1995.

92,840,206
(Number of shares of common stock outstanding as of February 28, 1995)

Parts I, II and IV hereof incorporate information by reference to the Registrant's 1994 annual report to stockholders. Part III hereof incorporates information by reference to the Registrant's proxy statement for the 1995 annual meeting of stockholders.

## PART I

### ITEM 1. Business.

General

Texas Instruments Incorporated (hereinafter the "Registrant," including subsidiaries except where the context indicates otherwise) is engaged in the development, manufacture and sale of a variety of products in the electrical and electronics industry for industrial, government and consumer markets. These products consist of components, defense electronics and digital products. The Registrant also produces metallurgical materials. In addition, the Registrant s patent portfolio has been established as an ongoing contributor to the Registrant s revenues. The Registrant's business is based principally on its broad semiconductor technology and application of this technology to selected electronic end-equipment markets. The Registrant from time to time considers acquisitions and divestitures which may alter its business mix. The Registrant may effect one or more such transactions at such time or times as the Registrant determines to be appropriate.

The information with respect to net revenues, profit and identifiable assets of the Registrant's industry segments and operations outside the United States, which is contained in the note to the financial statements captioned "Industry Segment and Geographic Area Operations" on pages 37-38 of the Registrant's 1994 annual report to stockholders, is incorporated herein by reference to such annual report.

## Components

Components consist of semiconductor integrated circuits (such as microprocessors/microcontrollers, applications processors, memories, and digital and linear circuits), semiconductor discrete devices, semiconductor subassemblies (such as custom modules for specific applications), and electrical and electronic control devices (such as motor protectors, starting relays, circuit breakers, thermostats, sensors, and radio-frequency identification systems).

These components are used in a broad range of products for industrial end-use (such as computers, data terminals and peripheral equipment, telecommunications, instrumentation, and industrial motor controls and automation equipment), consumer end-use (such as televisions, cameras, automobiles, home appliances, and residential air conditioning and heating systems) and government end-use (such as defense and space equipment). The Registrant sells these components primarily to original equipment manufacturers principally through its own marketing organizations and to a lesser extent through distributors.

## Defense Electronics

Defense electronics consist of radar systems, navigation systems, infrared surveillance and fire control systems, defense suppression missiles, other weapon systems (including antitank and interdiction weapons), missile guidance and control systems, electronic warfare systems, and other defense electronic equipment.  Sales are made to the U.S. government (either directly or through prime contractors) and to international customers approved by the U.S. government.

Digital Products
- ----------------

Digital products include software productivity tools, notebook computers, printers, electronic calculators, and custom engineering and manufacturing services.

Digital products are used in a broad range of enterprise-wide, work group and personal information-based applications. The Registrant markets these products through various channels, including system suppliers, business equipment dealers, distributors, retailers, and direct sales to end-users and original equipment manufacturers.

Metallurgical Materials
- -----------------------

Metallurgical materials include clad metals, precision-engineered parts and electronic connectors for use in a variety of applications such as appliances, automobiles, electronic components, and industrial and telecommunications equipment. These metallurgical materials are primarily sold directly to original equipment manufacturers. This segment also includes development costs associated with solar cells; the Registrant has announced its intention to sell its solar cell technology.

Competition
- -----------

The Registrant is engaged in highly competitive businesses. Its competitors include several of the largest companies in the United States, East Asia, particularly Japan, and elsewhere abroad as well as many small, specialized companies. The Registrant is a significant competitor in each of its principal businesses. Generally, the Registrant's businesses are characterized by rapidly changing technology which has, throughout the Registrant's history, intensified the competitive factors, primarily performance and price.

Government Sales
- ----------------

Net revenues directly from federal government agencies in the United States, principally related to the defense electronics segment, accounted for approximately 10% of the Registrant's net revenues in 1994.

Contracts for government sales generally contain provisions for cancellation at the convenience of the government. In addition, companies engaged in supplying military equipment to the government are dependent on congressional appropriations and administrative allotment of funds, and may be affected by changes in government policies resulting from various military and political developments. See "ITEM 3. Legal Proceedings."

Backlog
- -------

The dollar amount of backlog of orders believed by the Registrant to be firm was $3913 million as of December 31, 1994 and $3805 million as of December 31, 1993. Approximately 24% of the 1994 backlog (involving defense electronics) is not expected to be filled within the current fiscal year. The backlog is significant in the business of the Registrant only as an indication of future revenues which may be entered on the books of account of the Registrant.

## Raw Materials

The Registrant purchases materials, parts and supplies from a number of suppliers. In addition, the Registrant produces some materials, parts and supplies, such as silicon wafers used in the manufacture of semiconductors, for its own use. The materials, parts and supplies essential to the Registrant's business are generally available at present and the Registrant believes at this time that such materials, parts and supplies will be available in the foreseeable future.

## Patents and Trademarks

The Registrant owns many patents in the United States and other countries in fields relating to its businesses. The Registrant has developed a strong, broad-based patent portfolio. The Registrant also has several agreements with other companies involving license rights and anticipates that other licenses may be negotiated in the future. The Registrant does not consider its business materially dependent upon any one patent or patent license, although taken as a whole, the rights of the Registrant and the products made and sold under patents and patent licenses are important to the Registrant's business. As noted above, the Registrant's patent portfolio has been established as an ongoing contributor to the revenues of the Registrant. See "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "ITEM 3. Legal Proceedings."

The Registrant owns trademarks that are used in the conduct of its business. These trademarks are valuable assets, the most important of which are "Texas Instruments" and the Registrant's corporate monogram.

## Research and Development

Expenditures for research and development were $1045 million in 1994 compared with $981 million in 1993 and $891 million in 1992. Of these amounts, $689 million was company funded in 1994, ($590 million in 1993 and $470 million in 1992), and $356 million in 1994 ($391 million in 1993 and $421 million in 1992) was funded by others, principally the U.S. government.

## Seasonality

The Registrant's revenues are subject to some seasonal variation.

## Employees

The information concerning the number of persons employed by the Registrant at December 31, 1994 on page 41 of the Registrant's 1994 annual report to stockholders is incorporated herein by reference to such annual report.

ITEM 2. Properties.

The Registrant's principal offices are located at 13500 North Central Expressway, Dallas, Texas. The Registrant owns and leases plants in the United States and 17 other countries for manufacturing and related purposes. The following table indicates the general location of the principal plants of the Registrant and the industry segments which make major use of them. Except as otherwise indicated, the principal plants are owned by the Registrant.

| | Components | Defense Electronics | Digital Products | Metallurgical Materials |
|---|---|---|---|---|
| Dallas, Texas | X | X | | |
| Austin, Texas | | X | X | |
| Houston, Texas | X | | | |
| Lewisville, Texas | | X | | |
| Lubbock, Texas | X | | X | |
| McKinney, Texas | | X | | |
| Plano, Texas(1) | | X | X | |
| Sherman, Texas(1) | X | X | | |
| Temple, Texas | | | X | |
| Attleboro, Massachusetts | X | | | X |
| Almelo, Netherlands | X | | | |
| Freising, Germany | X | | | |
| Avezzano, Italy(2) | X | | | |
| Baguio, Philippines(3) | X | | | |
| Hiji, Japan | X | | | |
| Kuala Lumpur, Malaysia(1) | X | | | |
| Miho, Japan | X | | | |
| Singapore(3) | X | | | |
| Taipei, Taiwan | X | | | |

____________________

(1)Leased or primarily leased.
(2)Owned, subject to mortgage.
(3)Owned on leased land.

The Registrant's facilities in the United States contained approximately 18,500,000 square feet as of December 31, 1994, of which approximately 4,400,000 square feet were leased. The Registrant's facilities outside the United States contained approximately 6,500,000 square feet as of December 31, 1994, of which approximately 1,600,000 square feet were leased.

The Registrant believes that its existing properties are in good condition and suitable for the manufacture of its products. The Registrant's facility in Denton, Texas is being marketed for sale. Otherwise, at the end of 1994, the Registrant utilized substantially all of the space in its facilities.

Leases covering the Registrant's leased facilities expire at varying dates generally within the next 15 years. The Registrant anticipates no difficulty in either retaining occupancy through lease renewals, month-to-month occupancy or purchases of leased facilities, or replacing the leased facilities with equivalent facilities.



ITEM 3. Legal Proceedings.

On July 19, 1991, the Registrant filed a lawsuit in Tokyo District Court against Fujitsu Limited ( Fujitsu ) seeking injunctive relief, alleging that Fujitsu's manufacture and sale of certain DRAMs infringe the Registrant's Japanese patent on the invention of the integrated circuit (the Kilby patent). Concurrently, Fujitsu brought a lawsuit in the same court against the Registrant, seeking a declaration that Fujitsu is not infringing the Kilby patent. On August 31, 1994, the district court ruled that Fujitsu's production of 1-megabit and 4-megabit DRAMs and 32K EPROMs does not infringe the Kilby patent. The Registrant has appealed the court's decision to the Tokyo High Court.

The Registrant is included among a number of U.S. defense contractors which are currently the subject of U.S. government investigations regarding alleged procurement irregularities. The Registrant is unable to predict the outcome of the investigations at this time or to estimate the kinds or amounts of claims or other actions that could be instituted against the Registrant. Under present government procurement regulations, such investigations could lead to a government contractor's being suspended or debarred from eligibility for awards of new government contracts for an initial period of up to three years. In the current environment, even matters that seem limited to disputes about contract interpretation can result in criminal prosecution. While criminal charges against contractors have resulted from such investigations, the Registrant does not believe such charges would be appropriate in its case and has not, at any time, lost its eligibility to enter into government contracts or subcontracts under these regulations.

The Registrant is involved in various investigations and proceedings conducted by the federal Environmental Protection Agency and certain state environmental agencies regarding disposal of waste materials. Although the factual situations and the progress of each of these matters differ, the Registrant believes that in each case its liability will be limited to sharing clean-up or other remedial costs with other potentially responsible parties, in amounts that will not have a material adverse effect upon its financial position or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Executive Officers of the Registrant

The following is an alphabetical list of the names and ages of the executive officers of the Registrant and the positions or offices with the Registrant presently held by each person named:

| Name | Age | Position |
|---|---|---|
| Richard J. Agnich | 51 | Senior Vice President, Secretary and General Counsel |
| William A. Aylesworth | 52 | Senior Vice President, Treasurer and Chief Financial Officer |
| Nicholas K. Brookes | 47 | Vice President (President, Materials & Controls Group) |
| Gary D. Clubb | 48 | Executive Vice President(President, Defense Systems & Electronics Group) |
| Thomas J. Engibous | 42 | Executive Vice President<br>(President, Semiconductor Group) |
| William F. Hayes | 51 | Executive Vice President |
| Jerry R. Junkins | 57 | Director; Chairman of the Board, President and Chief Executive Officer |
| Marvin M. Lane, Jr. | 60 | Vice President and Corporate Controller |
| David D. Martin | 55 | Executive Vice President |
| William B. Mitchell | 59 | Director; Vice Chairman |
| Charles F. Nielson | 57 | Vice President |
| Elwin L. Skiles, Jr. | 53 | Vice President |
| William P. Weber | 54 | Director; Vice Chairman |

The term of office of each of the above listed officers is from the date of his election until his successor shall have been elected and qualified and the most recent date of election of each of them was April 21, 1994. Messrs. Agnich, Aylesworth, Junkins, Lane, Martin, Mitchell and Weber have served as officers of the Registrant for more than five years. Messrs. Hayes, Nielson and Skiles have served as officers of the Registrant since 1991, 1990 and 1992, respectively; and they and Messrs. Brookes, Clubb and Engibous have been employees of the Registrant for more than five years.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The information which is contained under the caption "Common Stock Prices and Dividends" on page 45 of the Registrant's 1994 annual report to stockholders, and the information concerning the number of stockholders of record at December 31, 1994 on page 41 of such annual report, are incorporated herein by reference to such annual report.

ITEM 6. Selected Financial Data.

The "Summary of Selected Financial Data" for the years 1990 through 1994 which appears on page 41 of the Registrant's 1994 annual report to stockholders is incorporated herein by reference to such annual report.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Letter to the Stockholders on pages 3-5 of the Registrant's 1994 annual report to stockholders and the information contained under the caption "Management Discussion and Analysis of Financial Condition and Results of Operations" on pages 42-44 of such annual report are incorporated herein by reference to such annual report.

On March 1, 1995, the Registrant announced it expects the worldwide semiconductor market to grow 21 percent to $124 billion in 1995. The semiconductor market grew 32 percent in 1994 to $102 billion.

ITEM 8. Financial Statements and Supplementary Data.

The consolidated financial statements of the Registrant at December 31, 1994 and 1993 and for each of the three years in the period ended December 31, 1994 and the report thereon of the independent auditors, on pages 26-40 of the Registrant's 1994 annual report to stockholders, are incorporated herein by reference to such annual report.

The "Quarterly Financial Data" on page 45 of the Registrant's 1994 annual report to stockholders is also incorporated herein by reference to such annual report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

The information with respect to directors' names, ages, positions, term of office and periods of service, which is contained under the caption "Nominees for Directorship" in the Registrant's proxy statement for the 1995 annual meeting of stockholders, and the information contained in the first two paragraphs under the caption "Other Matters" in such proxy statement, are incorporated herein by reference to such proxy statement.

Information concerning executive officers is set forth in Part I hereof under the caption "Executive Officers of the Registrant."

ITEM 11. Executive Compensation.

The information which is contained under the captions "Directors Compensation" and "Executive Compensation" in the Registrant's proxy statement for the 1995 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

The information concerning (a) the only persons that have reported beneficial ownership of more than 5% of the common stock of the Registrant, and (b) the ownership of the Registrant's common stock by the Chief Executive Officer and the four other most highly compensated executive officers, and all executive officers and directors as a group, which is contained under the caption "Voting Securities" in the Registrant's proxy statement for the 1995 annual meeting of stockholders, is incorporated herein by reference to such proxy statement. The information concerning ownership of the Registrant's common stock by each of the directors, which is contained under the caption "Nominees for Directorship" in such proxy statement, is also incorporated herein by reference to such proxy statement.

The aggregate market value of voting stock held by non-affiliates of the Registrant shown on the cover page hereof excludes the shares held by the Registrant's directors, some of whom disclaim affiliate status, executive vice presidents and senior vice presidents. These holdings were considered to include shares credited to certain individuals' profit sharing accounts.

ITEM 13. Certain Relationships and Related Transactions.

Not applicable.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1 and 2. Financial Statements and Financial Statement Schedule

The financial statements and financial statement schedule are listed in the index on page 15 hereof.

3. Exhibits

| Designation of Exhibit in this Report | Description of Exhibit |
|---|---|
| 3(a) | Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(a)to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 3(b) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(b)to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 3(c) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(c) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 3(d) | Certificate of Designations relating to the Registrant's Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 3(d) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 3(e) | Certificate of Ownership Merging Texas Instruments Automation Controls, Inc. into the Registrant (incorporated by reference to Exhibit 3(e)to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 3(f) | Certificate of Elimination of Designations of Preferred Stock of the Registrant (incorporated by reference to Exhibit 3(f) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 3(g) | By-Laws of the Registrant (incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993). |
| 4(a)(i) | Rights Agreement dated as of June 17, 1988 between the Registrant and First Chicago Trust Company of New York, formerly Morgan Shareholder Services Trust Company, as Rights Agent, which includes as Exhibit B the form of Rights Certificate (incorporated by reference to Exhibit 4(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 4(a)(ii) | Assignment and Assumption Agreement dated |



| | |
|---|---|
| | as of September 24, 1992 among the Registrant, First Chicago Trust Company of New York, formerly Morgan Shareholder Services Trust Company, and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4(a)(i) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992). |
| 4(b) | The Registrant agrees to provide the Commission, upon request, copies of instruments defining the rights of |

holders of long-term debt of the Registrant and its subsidiaries.

| | |
|---|---|
| 10(a)(i) | Texas Instruments Annual Incentive Plan (incorporated by reference to Exhibit 10(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1993).* |
| 10(a)(ii) | TI Deferred Compensation Plan.* |
| 10(a)(iii) | Amendment No. 1 to TI Deferred Compensation Plan.* |
| 10(b) | Texas Instruments Long-Term Incentive Plan (incorporated by reference to Exhibit 10(a)(ii) to the Registrant's Annual Report on Form 10-K for the year 1993).* |
| 10c(i) | TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(i) to the Registrant's Annual Report on Form 10-K for the year 1991). |
| 10c(ii) | Amendment No. 1 to TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(ii) to the Registrant's Annual Report on Form 10-K for the year 1991). |
| 10(c)(iii) | Amendment No. 2 to TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(iii) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 10(c)(iv) | Amendment No. 3 to TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(iv) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 10(c)(v) | Amendment No. 4 to TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(v) to the Registrant's Annual Report on Form 10-K for the year 1993). |
| 10(d) | Statement of Policy of Registrant s Board of Directors on Top Officer and Board Member Retirement Practices (incorporated by reference to Exhibit 10(b)(vi) to the Registrant's Annual Report on Form 10-K for the year 1993).* |
| 11 | Computation of earnings per common and |



| | |
|---|---|
| | common equivalent share. |
| 12 | Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends. |
| 13 | Registrant's 1994 Annual Report to Stockholders. (With the exception of the items listed in the index to financial statements and financial statement schedules herein, and the items referred to in ITEMS 1, 5, 6, 7 and 8 hereof, the 1994 Annual Report to Stockholders is not to be deemed filed as part of this report.) |
| 21 | List of subsidiaries of the Registrant. |
| 23 | Consent of Ernst & Young LLP. |
| 27 | Financial Data Schedule |

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*Executive Compensation Plans and Arrangements:

Texas Instruments Annual Incentive Plan (incorporated by reference to

Exhibit 10(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1993).

Texas Instruments Long-Term Incentive Plan (incorporated by reference to Exhibit 10(a)(ii)to the Registrant's Annual Report on Form 10-K for the year 1993).

Statements of Policy of Registrant's Board of Directors on Top Officer and Board Member Retirement Practices (incorporated by reference to Exhibit 10(b)(vi) to the Registrant's Annual Report on Form 10-K for the year 1993).

TI Deferred Compensation Plan - Exhibit 10(a)(ii) to this Report

Amendment No. 1 to TI Deferred Commpensation Plan - Exhibit 10(a)(iii) to this Report.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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: JERRY R. JUNKINS
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Jerry R. Junkins
Chairman of the Board,
President and
Chief Executive Officer

Date: March 16, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 16th day of March, 1995.

| | |
|---|---|
| JAMES R. ADAMS | DAVID M. RODERICK |
| James R. Adams<br>Director | David M. Roderick<br>Director |
| DAVID L. BOREN | GLORIA M. SHATTO |
| David L. Boren<br>Director | Gloria M. Shatto<br>Director |
| | WILLIAM P. WEBER |
| James B. Busey IV<br>Director | William P. Weber<br>Vice Chairman; Director |
| GERALD W. FRONTERHOUSE | CLAYTON K. YEUTTER |
| Gerald W. Fronterhouse<br>Director | Clayton K. Yeutter<br>Director |
| JERRY R. JUNKINS | WILLIAM A. AYLESWORTH |
| Jerry R. Junkins<br>Chairman of the Board; President;<br>Chief Executive Officer; Director | William A. Aylesworth<br>Senior Vice President; Treasurer;<br>Chief Financial Officer |
| WILLIAM S. LEE | MARVIN M. LANE, JR. |
| William S. Lee<br>Director | Marvin M. Lane, Jr.<br>Vice President; Corporate Controller |
| WILLIAM B. MITCHELL | |
| William B. Mitchell<br>Vice Chairman; Director | |



TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
(Item 14(a))

| | Page Reference | |
|---|---|---|
| | Form 10-K | Annual Report to Stockholders |
| Information incorporated by reference to the Registrant's 1994 Annual Report to Stockholders: | | |
| Consolidated Financial Statements: | | |

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

SCHEDULE II

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
ALLOWANCE FOR LOSSES
(In Millions of Dollars)
Years Ended December 31, 1994, 1993, and 1992

| | Balance at Beginning of Year | Additions Charged to Costs and Expenses | Deductions | Balance at End of Year |
|---|---|---|---|---|
| 1994 | $42 | $80 | $85 | $37 |
| 1993 | $34 | $87 | $79 | $42 |
| 1992 | $45 | $75 | $86 | $34 |

Allowances for losses from uncollectible accounts, returns, etc., are deducted from accounts receivable in the balance sheet.

EXHIBIT INDEX

| Designation of Exhibit in this Report | Description of Exhibit | Paper(P) or Electronic(E) |
|---|---|---|
| 3(a) | Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
| 3(b) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
| 3(c) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(c) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
| 3(d) | Certificate of Designations relating to the Registrant's Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 3(d) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
| 3(e) | Certificate of Ownership Merging Texas Instruments Automation Controls, Inc. into the Registrant (incorporated by reference to Exhibit 3(e) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
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| 3(g) | By-Laws of the Registrant (incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993). | |
| 4(a)(i) | Rights Agreement dated as of June 17, 1988 between the Registrant and First Chicago Trust Company of New York, formerly Morgan Shareholder Services Trust Company, as Rights Agent, which includes as Exhibit B the form of Rights Certificate (incorporated by reference to Exhibit 4(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1993). | |





| Designation of Exhibit in this Report | Description of Exhibit | Paper(P) or Electronic(E) |
|---|---|---|
| 4(a)(ii) | Assignment and Assumption Agreement dated as of September 24, 1992 among the Registrant, First Chicago Trust Company of New York, formerly Morgan Shareholder Services Trust Company, and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4(a)(i) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992). | |

| | | |
|---|---|---|
| 4(b) | The Registrant agrees to provide the Commission, upon request, copies of instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries. | |
| 10(a)(i) | Texas Instruments Annual Incentive Plan (incorporated by reference to Exhibit 10(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1993).* | |
| 10(a)(ii) | TI Deferred Compensation Plan.* | E |
| 10(a)(iii) | Amendment No. 1 to TI Deferred Compensation Plan.* | E |
| 10(b) | Texas Instruments Long-Term Incentive Plan (incorporated by reference to Exhibit 10(a)(ii) to the Registrant's Annual Report on Form 10-K for the year 1993).* | |
| 10c(i) | TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(i) to the Registrant's Annual Report on Form 10-K for the year 1991). | |
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| 10(c)(iv) | Amendment No. 3 to TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(iv) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
| 10(c)(v) | Amendment No. 4 to TI Directors Retirement Benefit Plan (incorporated by reference to Exhibit 10(b)(v) to the Registrant's Annual Report on Form 10-K for the year 1993). | |



EXHIBIT INDEX

| Designation of Exhibit in this Report | Description of Exhibit | Paper(P) or Electronic(E) |
|---|---|---|
| 10(d) | Statement of Policy of Registrant's Board of Directors on Top Officer and Board Member Retirement Practices (incorporated by reference to Exhibit 10(b)(vi) to the Registrant's Annual Report on Form 10-K for the year 1993). | |
| 11 | Computation of earnings per common and common equivalent share. | E |
| 12 | Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends. | E |
| 13 | Registrant's 1994 Annual Report to Stockholders. (With the exception of the items listed in the index to financial statements and financial statement schedules herein, and the items referred to in ITEMS 1, 5, 6, 7 and 8 hereof, the 1994 Annual Report to Stockholders is not to be deemed filed as part of this report.) | E |
| 21 | List of subsidiaries of the Registrant. | E |
| 23 | Consent of Ernst & Young LLP. | E |

27 Financial Data Schedule E

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*Executive Compensation Plans and Arrangements:

Texas Instruments Annual Incentive Plan (incorporated by reference to Exhibit 10(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1993).

Texas Instruments Long-Term Incentive Plan (incorporated by reference to Exhibit 10(a)(ii)to the Registrant's Annual Report on Form 10-K for the year 1993).

Statements of Policy of Registrant's Board of Directors on Top Officer and Board Member Retirement Practices (incorporated by reference to Exhibit 10(b)(vi) to the Registrant's Annual Report on Form 10-K for the year 1993).

TI Deferred Compensation Plan - Exhibit 10(a)(ii) to this report.

Amendment No. 1 to TI Deferred Commpensation Plan - Exhibit 10(a)(iii) to this Report.

EXHIBIT 10(a)(ii)

# TI DEFERRED COMPENSATION PLAN

TEXAS INSTRUMENTS INCORPORATED, a Delaware corporation with its principal offices in Dallas, Texas, (hereafter "TI") hereby establishes, effective as of January 1, 1995, an employee benefit plan, to be known as the TI DEFERRED COMPENSATION PLAN (the "Plan"). The purpose of the Plan is to provide to a select group of management and highly compensated employees (as defined in section 201(2) of the Employee Retirement Income Security Act of 1974 ("ERISA"), the opportunity to defer to a later date certain compensation to which they are entitled.

## ARTICLE I
## DEFINITIONS AND CONSTRUCTION

Whenever used in the Plan, the following words and phrases shall have the meanings set forth below unless a different meaning is plainly required by the context. Unless otherwise indicated by the context, any masculine terminology when used in the Plan shall also include the feminine gender, and the definition of any term in the singular shall also include the plural.

Sec. 1-1. Administrator. "Administrator" or "Plan Administrator" means the person or persons from time to time acting under the provisions of Article V hereof.

Sec. 1-2. Board of Directors. "Board of Directors" means the Board of Directors of TI.

Sec. 1-3. Change in Control. "Change in Control" means the occurrence of either of the following events:

(i) any Person, alone or together with its Affiliates and Associates or otherwise, becomes an Acquiring Person otherwise than pursuant to a transaction or agreement approved by the Board of Directors prior to the time the Acquiring Person became such; or

(ii) a majority of the Board of Directors changes within a 24 month period unless the election or the nomination for election by TI's stockholders of each new director has been approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period.

For the purposes of this Section 1-3, the terms "Person", "Affiliates", "Associates" and "Acquiring Person" shall have the meanings given to such terms in the Rights Agreement dated as of June 17, 1988 between TI and Harris Trust and Savings Bank, successor in interest to First Chicago Trust Company of New York (formerly Morgan Shareholder Services Trust Company), as in effect on the date hereof; provided, however, that if the percentage employed in the definition of Acquiring Person is reduced hereafter from 20% in such Rights Agreement, then such reduction shall also be applicable for the purposes hereof.

Sec. 1-4. Compensation. "Compensation" means, with respect to a Plan Year, a Participant's annual cash incentive award under the Texas Instruments Annual Incentive Plan.

Sec 1-5. Compensation Committee. "Compensation Committee" means the Compensation Committee of the Board of Directors.

Sec. 1-6. Deferred Compensation Agreement. "Deferred Compensation Agreement" means an agreement described in Section 2-3 hereof.

Sec. 1-7. Election Period. "Election Period" means the period specified by the Plan Administrator at least once during a calendar year during which Participants may enter into Deferred Compensation Agreements for the next following Plan Year. All elections made during the Election Period shall be subject to the provisions of this Plan.

Sec. 1-8. Executive. "Executive" means an employee of TI or a subsidiary of TI who is classified by TI or the subsidiary of TI who employs such Executive in a job grade or other position, and in a location, determined by the Compensation Committee from time to time as eligible to participate in this Plan.

Sec. 1-9. Participant. "Participant" means both an Active Participant and an Inactive Participant as such terms are defined in this Section 1-9.

(a) "Active Participant" means an Executive who is eligible to participate in the Plan and who has executed a Deferred Compensation Agreement for the current Plan year agreeing to participate in accordance with Article II hereof.

(b) "Inactive Participant " means an Executive who has an account balance but who did not execute a Deferred Compensation Agreement for the current Plan Year in accordance with Article II hereof, and any other person who has an account balance, including a former Executive who is no longer an Executive within the meaning of Section 1-8 hereof and a former Executive whose Termination of Employment or Retirement has occurred.

Sec. 1-10. Plan Year. "Plan Year" means a calendar year.

Sec. 1-11. Retirement. "Retirement" means the Termination of Employment of a Participant because of the Participant's retirement pursuant to the terms of any pension or retirement plan maintained by TI or a subsidiary of TI, or the Participant's Termination of Employment with TI and all subsidiaries of TI due to the Participant's disability as determined by the Plan Administrator in its sole discretion.

Sec. 1-12. Termination of Employment. "Termination of Employment" means the complete cessation of the employer-employee relationship between a Participant and TI and all subsidiaries of TI, including a leave of absence from which the Plan Administrator, in its sole discretion, determines that the Participant is not expected to return.

ARTICLE II
ELIGIBILITY AND PARTICIPATION

Sec. 2-1. Eligibility. Eligibility for participation in the Plan in any Plan Year is limited to employees of TI or TI subsidiaries who were Executives as of the beginning of the Election Period immediately preceding that Plan Year.

Sec. 2-2. Participation. Any Executive shall become an Active Participant for a Plan Year by completing and filing a Deferred Compensation Agreement in accordance with the provisions of Sections 2-3 and 2-4 hereof with the Plan Administrator or its designee during the Election Period for such Plan Year. A Participant shall continue as an Active Participant hereunder until the earliest of:

(i) the first day of the Plan Year following the Plan Year in which he or she ceases to be an Executive;

(ii) the date the Plan is terminated pursuant to Section 6-1 hereof;

(iii) the date of the Participant's Retirement or Termination of Employment; or

(iv) the first day of a Plan Year for which the Participant did not execute a Deferred Compensation Agreement.

Sec. 2-3. Deferred Compensation Agreement. Each Executive who elects to participate in this Plan shall sign and file with the Plan Administrator or its designee a Deferred Compensation Agreement in the form approved by the Plan Administrator. Participant's Deferred Compensation Agreement shall be irrevocable and shall be effective only for the Plan Year immediately following the Election Period in which such Agreement is filed. No Participant or any person or entity claiming through a Participant shall have any rights whatsoever under the Plan other than the rights and benefits granted under this Plan. Each such Deferred Compensation Agreement shall, among other provisions approved by the Plan Administrator, specify:

(i) that the Participant agrees to participate in the Plan in accordance with its provisions; and

(ii) that the Plan is incorporated by reference and that the Deferred Compensation Agreement shall be subject to the provisions of the Plan in all respects.

Sec. 2-4. Elections by Participants. (a) Each Participant by his or her Deferred Compensation Agreement shall elect to defer a portion of his or her Compensation for the Plan Year during which such Deferred Compensation Agreement is effective in accordance with the provisions of this Article II.

(b) A Participant may elect to defer no more than 90% of his or her Compensation for the Plan Year for which the Deferred Compensation Agreement is effective;

(c) At the time each Participant files his or her initial Deferred Compensation Agreement, the Participant must elect the form of payment to be made at distribution of the deferred amounts. Such election shall cover the form of payment of all deferrals made during the ten (10) year period beginning with the first deferral hereunder, and shall be irrevocable. During any Election Period occurring during or after the Participant's tenth (10th) year of participation, such Participant may make one (1) additional irrevocable election to change the form of payment to be made at distribution for deferrals elected in Plan Years following the Plan Year in which the additional election was made.

Participants may elect to receive distribution of amounts deferred hereunder in the following forms:

(i) a lump sum;

(ii) annual installments for five (5) years;

(iii)annual installments for ten (10) years; or

(iv) annual installments for fifteen (15) years.

## ARTICLE III
## COMPENSATION DEFERRALS; ACCOUNTS

Sec. 3-1. Compensation Deferrals. Payment of the portion of the Participant's Compensation elected by the Participant's Deferred Compensation Agreement will be deferred by TI or its subsidiaries until such later time as the Participant may elect in accordance with the provisions of Article II. Compensation deferral pursuant to an election by a Participant shall commence the first month of the Plan Year immediately following the Election Period in which the election was made.

Sec. 3-2. Interest on Amounts Deferred. Amounts deferred hereunder shall earn interest during each Plan Year until further action by the Compensation Committee at an annual rate of interest equal to the Moody's Corporate Aaa Bond Yield Average as of September 30 of the preceding year. Such rate of interest may be changed prospectively for any Plan Year by the Compensation Committee in its sole and absolute discretion. In lieu of establishing a specific rate of interest, the Compensation Committee may specify the manner in which interest to be earned hereunder is to be determined for each Plan Year. Such interest rate shall be applied to the balance in the Participant's account on the last day of each month and interest at such rate will be credited as of the end of each month. Deferred amounts plus accrued interest shall continue to accrue interest until fully distributed. No interest shall be paid on amounts withdrawn or distributed prior to the date on which interest is credited.

Sec. 3-3. Withdrawal of Amounts Deferred. During any Plan Year a Participant may withdraw up to 100% of his or her account balance existing as of December 31 of the immediately preceding Plan Year. A Participant who makes an election to withdraw any amount shall forfeit 10% of the amount withdrawn. Distribution of withdrawals shall be made as soon as practicable after the request for withdrawal is received by the Plan Administrator, except that amounts deferred in the immediately preceding Plan Year will not be paid before March 16. All forfeited amounts shall be removed from the Participant's account balance and shall be retained by TI.

Sec. 3-4. Maintenance and Distribution of Participant's Accounts. (a) TI shall maintain for each Participant an unfunded account of the amounts deferred hereunder together with the interest credited thereon, less any withdrawals and forfeitures, until such time following the Termination of Employment or Retirement of the Participant as all amounts have been distributed in accordance with the provisions of this Article III. TI shall maintain records of all accounts of Participants and such other records and data as may be necessary and appropriate for the proper administration of the Plan and to determine the amounts distributable to Participants and beneficiaries.

(b) Notwithstanding the other provisions of this Plan:

(i) The Compensation Committee, in its sole and absolute discretion, may require that a lump sum distribution of all deferred amounts plus accrued interest be made to any Participant promptly following such Participant's Termination of Employment or Retirement if the Participant thereafter becomes affiliated with a governmental agency or with any private company or firm which the Compensation Committee believes to be in competition with TI.

(ii) In the event of a Change in Control, distribution of the accounts of all Participants shall be made in a lump sum no later than the month following the month during which such Change in Control occurred.

(iii) In the event of the death of a Participant prior to the receipt of the full amount to be distributed to the Participant, all remaining amounts will be distributed to the beneficiary or beneficiaries designated by the Participant in such manner and form as the Plan Administrator shall specify, or, if there is no beneficiary so designated or if none of the beneficiaries survive the Participant, to the Participant's estate, as soon as practicable following the month in which the death occurred.

Sec. 3-5. Time of Distribution. (a) Distributions of amounts in a Participant's account shall commence on or before the last day of the month immediately following the month in which the Participant's Retirement or Termination of Employment occurs, provided that:

(i) distributions of amounts deferred in the Plan Year prior to the Plan Year in which the Participant's Retirement or Termination of Employment occurs shall not commence before March 16 of the Plan Year in which the Retirement or Termination of Employment occurs;

(ii) distributions of amounts deferred during the Plan Year in which a Participant's Retirement or Termination of Employment occurs shall not commence before March 16 of the Plan Year immediately following that Plan Year; and

(iii) a lump sum distribution elected by a Participant in accordance with the provisions of Section 2-4(c) hereof may, if so elected by the Participant, be paid on or after March 16 of the Plan Year following the Plan Year in which the Participant's Retirement or Termination of Employment occurred.

(b) Annual installments subsequent to the first installment of a Participant's distribution shall be paid as of March 31 of each Plan Year until the Participant's account balance is fully distributed.

(c) Notwithstanding the foregoing provisions of this Section 3-5, the amount of the distribution pursuant to paragraph (a) above during the Plan Year in which the Participant's Termination or Retirement of Employment occurs shall not, when combined with such Participant's other remuneration paid by TI and TI subsidiaries for such Plan Year, exceed the amount that is deductible for such year by TI for Federal income tax purposes pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. Any amount not distributed during a Plan Year pursuant to this paragraph (c) shall be distributed in March of the following Plan Year.

Sec. 3-6. Taxes. TI makes no guarantees and assumes no obligation or responsibility with respect to the Participant's Federal, state, or local income, estate, inheritance or gift tax obligations, if any, under this Plan or any Deferred Compensation Agreement.

Sec. 3-7. No Assignment; Nonalienation of Benefits. No Participant or beneficiary of a Participant shall have any right to assign, alienate, encumber, sell, pledge, hypothecate, anticipate, charge or in any way create a lien on any amounts payable hereunder. No amounts payable hereunder shall be subject to assignment or transfer or otherwise be alienable, either by voluntary or involuntary act, or by operation of law, or subject to attachment, execution, garnishment, sequestration or other seizure under any legal, equitable or other process, or be liable in any way for the debts, defaults, contracts, liabilities, or torts of Participants or their beneficiaries. Any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same will be void.

## ARTICLE IV
## FUNDING

Sec. 4-1. Funding. Any and all benefits under this Plan, including without limitation, the payment or distribution of amounts deferred hereunder, shall be paid solely by TI. Benefits payable under this Plan shall be paid from the general assets of TI and shall represent TI's unfunded and unsecured promise to pay. TI may create separate accounts, reserves, funds, or other facilities and may provide for amounts to be held in trust or by custodians on its behalf under such trust or custodial agreements as the Compensation Committee in its absolute and sole discretion deems appropriate, but in no event shall any Participant or beneficiary or any person claiming by, through or under any such person have any claim to any such accounts, reserves, funds or acilities or the assets of any trust or custody arrangement or to any other specific assets of TI.

Sec. 4-2. Creditor Status. A Participant and his or her beneficiary or beneficiaries shall be nothing more than general creditors of TI with respect to the payment of any benefit under this Plan.

## ARTICLE V
## ADMINISTRATION OF THE PLAN

Sec. 5.1 Administration. The Plan Administrator shall be charged with the administration of the Plan and shall have the power and authority as may be necessary and appropriate for such purposes, including but not by way of limitation, the defense of lawsuits and conduct of litigation in the name of the Plan (subject to the approval of the General Counsel of TI), the power to interpret and construe this Plan where it concerns question of eligibility, of status, and subject to the opportunity for review of denied claims pursuant to Section 5-5 hereof, rights of Participants and others hereunder. In all such cases the determination of the Plan Administrator shall be final and conclusive.

Sec. 5-2. Number and Selection. The Plan shall be administered by a Plan Administrator consisting of one or more persons appointed by the Compensation Committee. Each Plan Administrator shall serve without compensation for services in connection with the administration of this Plan and the expenses of administering the Plan shall be paid by TI.

Sec. 5-3. Action by Administrator. (a) If the Plan Administrator is one person, such person shall determine all actions of the Plan Administrator, except as otherwise provided below.

(b) If more than one person is appointed Plan Administrator, all actions of the Plan Administrator shall be by a majority of the persons so appointed, except as otherwise provided below. Such actions may be taken at a meeting of the persons then appointed Plan Administrator or without a meeting by a resolution or memorandum signed by a majority of such persons. No person appointed Plan Administrator shall be entitled to vote or decide upon any matters pertaining to himself or herself individually but such matter shall be determined by the remaining Plan Administrator or by a majority of the remaining persons appointed Plan Administrator, if any, or if the Plan Administrator is one person, by the Compensation Committee. The Plan Administrator may appoint agents, retain legal counsel and other services, and perform such acts as may be necessary for the proper administration of the Plan.

Sec. 5-4. Distributions in the Event of Legal Disability. In the event any Participant or beneficiary of a Participant who is entitled to receive any payment under the Plan is, at the time of such payment, a minor, mentally incompetent or, in the opinion of the Plan Administrator, under any other legal disability, the Plan Administrator may direct such payment to the legal guardian or parent of such person or to any person having the apparent custody and control of such beneficiary or Participant and such payment shall fully acquit and discharge all parties hereto.

Sec. 5-5. Rules and Regulations. The Plan Administrator may adopt and promulgate such rules and regulations as it may deem appropriate for the administration of the Plan. The Plan Administrator shall adopt and promulgate written rules governing claims procedures reasonably calculated to:

(i) provide adequate written notice to any Participant or other person whose claim under the Plan has been denied, setting forth the specific reasons for such denial; and

(ii) afford a reasonable opportunity to such Participant or other person for a full and fair review by the Plan Administrator of the decision denying the claim.

The determination of the Plan Administrator on review of decisions denying claims shall be final and conclusive.

Sec. 5-6. Reliance on Documents. The Plan Administrator shall be entitled to rely upon, and shall have no liability in relying upon, any representation made to it by TI or any officer of TI, or upon any paper or document believed by it to be genuine and to have been signed or sent by the proper person.

Sec. 5-7. Non-Liability. No member of the Compensation Committee, of the Plan Administrator, TI, any TI subsidiary, or any officer, director or employee of TI shall be liable for any act done or omitted by him or her with respect to the Plan.

Sec. 5-8. Resignation or Removal. Any person appointed as a Plan Administrator may resign by giving written notice to the Compensation Committee and may be removed by the Compensation Committee at any time without notice. Upon the death, resignation, removal or inability of any person appointed Plan Administrator to act as such, the Compensation Committee may appoint a successor.

## ARTICLE VI
## GENERAL PROVISIONS

Sec. 6-1. Amendment; Termination. (a) TI may change, amend, modify, alter, or terminate the Plan at any time and in any manner except that no amendment, modification or alteration shall be exercised retroactively to alter or change the rights of Participants or their Beneficiaries without the consent of the affected Participants insofar as they relate to past deferrals, nor shall any such amendment divest any Participant of any deferral made prior to the amendment without the consent of the affected Participant.

(b) TI reserves the right, in it sole discretion, to discontinue deferrals under a Deferred Compensation Agreement at any time. In the event of such discontinuance TI reserves the right to distribute to each Participant all deferred amounts plus accrued interest at any time or times.

Sec. 6-2. Plan Not an Employment Contract. Neither this Plan nor any Deferred Compensation Agreement nor any other agreement hereunder constitutes a contract foremployment or continued employment. This Plan does not give to any person the right to be continued in employment, and all Participants remain subject to changes in compensation, Compensation, transfer, change of job, discipline, layoff, discharge or any other change of employment status.

Sec. 6-3. Applicable Law. The Plan shall be governed and construed in accordance with the laws of the State of Texas, except to the extent such laws are preempted by any applicable Federal law.

IN WITNESS WHEREOF, this Plan is executed as of the 19th day of October, 1994.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ RICHARD J. AGNICH

EXHIBIT 10(a)(iii)
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AMENDMENT NO. 1

TO

TI DEFERRED COMPENSATION PLAN

TEXAS INSTRUMENTS INCORPORATED, a Delaware Corporation with its principal offices in Dallas, Texas (hereafter "TI") hereby amends the TI Deferred Compensation Plan (hereafter the "Plan") established by the Company as of October 19, 1994 in the respects set forth below:

1. Section 1-4 of the Plan hereby is amended so as to read as follows:

"Sec. 1-4. Compensation. "Compensation" means, with respect to a Plan Year, a Participant's annual cash incentive award under the Texas Instruments Annual Incentive Plan and, for the Plan Year 1996 only, payments by TI or a subsidiary for accrued unused vacation time."

2. Section 2-3 of the Plan hereby is amended so as to read as follows:

"Sec. 2-3. Deferred Compensation Agreement. Each Executive who elects to participate in this Plan shall sign and file with the Plan Administrator or its designee a Deferred Compensation Agreement in the form approved by the Plan Administrator. A Participant's Deferred Compensation Agreement shall be irrevocable and shall be effective only for the Plan Year immediately following the Election Period in which such Agreement is filed, provided that, a Deferred Compensation Agreement which elects to defer payment for accrued unused vacation time must be filed during the Election Period which occurs in Plan Year 1994 and will be effective only for Plan Year 1996. No Participant or any person or entity claiming through a Participant shall have any rights whatsoever under the Plan other than the rights and benefits granted under this Plan. Each such Deferred Compensation Agreement shall, among other provisions approved by the Plan Administrator, specify:

(i) that the Participant agrees to participate in the Plan in accordance with its provisions; and

(ii) that the Plan is incorporated by reference and that the Deferred Compensation Agreement shall be subject to the provisions of the Plan in all respects."

This amendment shall be effective as of January 1, 1995.

Executed as of this 14th day of November, 1994.

TEXAS INSTRUMENTS INCORPORATED

BY: /s/RICHARD J. AGNICH

EXHIBIT 11

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
PRIMARY AND FULLY DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE
(In thousands, except per-share amounts)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Income before cumulative effect of accounting changes | $690,902 | $476,226 | $247,001 |
| Less preferred dividends accrued: | | | |
| Market auction preferred | -- | (2,043) | (7,617) |
| Money market preferred | -- | (2,028) | (4,723) |
| Series A conversion preferred | -- | (16,097) | (25,118) |
| Add: | | | |
| Dividends on series A conversion preferred shares assumed converted | -- | 16,097 | -- |
| Interest, net of tax and profit sharing effect, on convertible debentures assumed converted | 2,413 | 2,681 | 3,945 |
| Adjusted income before cumulative effect of accounting changes | 693,315 | 474,836 | 213,488 |
| Cumulative effect of accounting changes | -- | (4,173) | -- |
| Adjusted net income | $693,315 | $470,663 | $213,488 |

Earnings per Common and Common Equivalent Share:

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Weighted average common shares outstanding | 92,062 | 85,950 | 82,324 |
| Weighted average common equivalent shares: | | | |
| Stock option and compensation plans | 1,189 | 1,323 | 373 |
| Convertible debentures | 2,176 | 2,413 | 2,614 |
| Series A conversion preferred | -- | 3,920 | -- |
| Weighted average common and common equivalent shares | 95,427 | 93,606 | 85,311 |
| Earnings per Common and Common Equivalent Share: | | | |
| Income before cumulative effect of accounting changes | $ 7.27 | $ 5.07 | $ 2.50 |
| Cumulative effect of accounting changes | -- | (0.04) | -- |
| Net income | $ 7.27 | $ 5.03 | $ 2.50 |

Earnings per Common Share Assuming Full Dilution:

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Weighted average common shares outstanding | 92,062 | 85,950 | 82,324 |
| Weighted average common equivalent shares: | | | |
| Stock option and compensation plans | 1,199 | 1,394 | 859 |
| Convertible debentures | 2,176 | 2,413 | 2,614 |
| Series A conversion preferred | -- | 3,920 | -- |
| Weighted average common and common equivalent shares | 95,437 | 93,677 | 85,797 |
| Earnings per Common Share Assuming Full Dilution: | | | |
| Income before cumulative effect of accounting changes | $ 7.26 | $ 5.07 | $ 2.49 |
| Cumulative effect of accounting changes | -- | (0.05) | -- |
| Net income | $ 7.26 | $ 5.02 | $ 2.49 |

EXHIBIT 12

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Income (loss) before income taxes and fixed charges: | | | | | |
| Income (loss) before cumulative effect of accounting changes, interest expense on loans, capitalized interest amortized, and provision for income taxes ..... | $ 14 | $ (250) | $ 433 | $ 755 | $1,098 |
| Add interest attributable to rental and lease expense ........... | 50 | 43 | 42 | 38 | 40 |
| | $ 64 | $ (207) | $ 475 | $ 793 | $1,138 |
| Fixed charges: | | | | | |
| Total interest on loans (expensed and capitalized) ................... | $ 47 | $ 59 | $ 57 | $ 55 | $ 58 |
| Interest attributable to rental and lease expense .................. | 50 | 43 | 42 | 38 | 40 |
| Fixed charges ........................... | $ 97 | $ 102 | $ 99 | $ 93 | $ 98 |
| Combined fixed charges and preferred stock dividends: | | | | | |
| Fixed charges ........................ | $ 97 | $ 102 | $ 99 | $ 93 | $ 98 |
| Preferred stock dividends (adjusted as appropriate to a pretax equivalent basis) ........... | 36 | 34 | 55 | 29 | -- |
| Combined fixed charges and preferred stock dividends .......... | $ 133 | $ 136 | $ 154 | $ 122 | $ 98 |
| Ratio of earnings to fixed charges ....... | * | * | 4.8 | 8.5 | 11.6 |
| Ratio of earnings to combined fixed charges and preferred stock dividends ........................ | ** | ** | 3.1 | 6.5 | 11.6 |

* Not meaningful. The coverage deficiency was $33 million in 1990 and $309 million in 1991.

** Not meaningful. The coverage deficiency was $69 million in 1990 and $343 million in 1991.

To the Stockholders of Texas Instruments

Strong performance in TI's semiconductor business in 1994 produced the best financial results in the company's history. TI reached record levels in earnings per share, profits and revenues. Other contributors to TI's improvement were higher royalties, and increased profits in personal productivity products and materials and controls. For the first time, annual revenues surpassed $10 billion, and profit from operations surpassed $1 billion.

Financial Summary. TI's net revenues for 1994 were $10.3 billion, up 21 percent from $8.5 billion in 1993, with most of the increase in semiconductors. Profit from operations was $1083 million in 1994, up 49 percent from $728 million in 1993. Higher semiconductor operating profits and higher royalties accounted for much of the increase.

[Graphic text: "...the best financial results in the company's history."]

Results for 1994 include a profit-sharing accrual of $175 million, the highest in the company's history, versus $83 million in 1993. Productivity, as measured in revenues per person, increased 26 percent in 1994, contributing to TI's record amount of profit sharing.

Changes are being made in TI's worldwide profit-sharing program beginning in 1995. While the formula that generates the amount of profit sharing is unchanged, each country will have the flexibility to decide how payments from the program will be made. The company believes these changes will make the profit-sharing program more responsive and competitive, benefiting shareholders and TIers.

Net income for the year was $691 million, compared with $472 million for 1993, an increase of 46 percent. Earnings per share increased 45 percent to $7.27, compared with $5.03 in 1993.

The company made progress in building shareholder value, as measured by return on invested capital. TI's return on invested capital was 19.5 percent in 1994, up from 14.7 percent in 1993.

Leadership Strategies for the Networked Society. TI's second consecutive year of record financial performance was the result of good execution of strategies put in place in the late 1980s. Based on that success, we are now developing the strategies that will take TI into the next century. As highlighted later in this report, the new strategies will focus on developing the products and services that make it easy for people to be interconnected via digital technology. We believe the most significant added value in electronic equipment is the ability for people to form networks that enable them to share information more effectively. We made substantial progress in 1994 on products and technologies critical to the networked society.

[Picture of William P. Weber, vice chairman; William B. Mitchell, vice chairman; and Jerry R. Junkins, chairman, president and chief executive officer]



Semiconductors. TI's semiconductor revenues grew faster than the industry for the third consecutive year, strengthening our position as a leader in the $100-billion world semiconductor market. Semiconductor revenues were at record levels for the fourth quarter of 1994 and for the year. Profits, up substantially in 1994 over 1993, also reached record levels for the year. Semiconductor operating margins improved in 1994, primarily because of increased manufacturing productivity.

Much of TI's strategic emphasis in semiconductors is focused on digital signal processing, one of the fastest growing opportunities in the semiconductor market. Digital signal processing is at the heart of many of the multimedia technologies, such as communications and full-motion video, that are critical to the digital

[Graphic text: "In 1995, we will increase our focus on...accelerating TI's long-term profitable growth."]

revolution. TI's digital signal processor (DSP) revenues grew substantially faster than the DSP market in 1994, with new applications in cellular telephones, high-density disk drives and consumer electronic equipment. We introduced more than 40 new DSP products in 1994, including a Multimedia Video Processor that is being designed into applications ranging from teleconferencing to document processing.

TI remains the acknowledged leader in the rapidly growing digital signal processor market, and has a strong position in the market for mixed-signal devices that connect digital signals to the analog world. This strength is the basis for our leadership in digital signal processing solutions (DSPS), integrating digital signal processors, mixed-signal devices, and embedded software to provide higher value to our customers.

Progress continued in 1994 on programs designed to sustain semiconductor financial performance. Improvements in manufacturing yield and cycle time generated additional wafer output from existing facilities equivalent to the capacity of more than one major wafer-fabrication facility.

Construction of TI's most advanced semiconductor manufacturing facility, in Dallas, was completed ahead of schedule in December 1994, with initial production planned for the first half of 1995. This facility is designed for rapid prototyping and production of 0.35-micron advanced logic products.

Demand for memory remains strong, with personal computers driving much of the demand. TI's memory revenues grew substantially in 1994, outpacing the growth of the memory market. During 1994, TI and Hitachi announced plans for a new joint-venture wafer-fabrication facility for dynamic random-access memories to be built in Richardson, Texas, near Dallas. This facility will begin initial production in 1996. TI also announced the expansion of capacity at its facility in Avezzano, Italy. Capacity at the existing joint-venture facilities is also being expanded to meet the longer term demand for memory products. TI's shared investment strategy continues to support the growth of memory revenues by providing timely and cost-effective capacity additions, while reducing the effect on TI of the volatility of the memory business.

Defense Electronics.  TI's defense electronics business continues to meet the challenges of a smaller defense market. This business generated good cash flow and maintained stable margins in 1994 on lower revenues, while continuing to win key contracts.

During the year, TI won several new programs in next-generation night-vision systems. Key wins included advanced electro-optic systems for the U.S. Navy's Lamps helicopter and the U.S. Army's Bradley Fighting Vehicle.



Additionally, TI's Paveway III was selected for the United Kingdom's interdiction weapons program, and the joint venture team of TI and Martin Marietta received the initial low-rate production contract for the Javelin antitank missile developed for the U.S. Army and Marine Corps.

Software.  In 1994, TI's software business made progress strategically and financially. Actions initiated in early 1994 to divest non-strategic product areas were essentially completed by the end of the year, putting this business in a better position to focus on strategic opportunities. During the year, TI formed an alliance with Microsoft to define and market an innovative framework that will allow broader use of our application development tools.

Personal Productivity Products.  TI's notebook computer, calculator and printer business, benefiting from the consolidation of these operations that began in late 1993, made substantial profit improvement in 1994. We are moving to take advantage of new market opportunities created by our customers' need for mobility and connectivity in the emerging networked society. We plan to step up product development and marketing in 1995 to strengthen TI's position in these emerging markets.

Materials and Controls.  Growth in new products, combined with a recovery in international economies, led TI's materials and controls business to record revenues in 1994. Research and development spending has been increased for this business over the past few years to accelerate the shift to faster growing electronic opportunities, such as sensors and radio-frequency identification systems.

Summary.  TI's achievements over the last few years, and particularly in 1994, have put the company in the best product, technology and financial position in recent history.

The global semiconductor industry continues its trend of sustainable double-digit growth with improved long-term stability. This is attributable to improved inventory control, reasonable additions to capacity relative to revenues, increased semiconductor content in electronic end equipment, and enhanced geographic diversification of the semiconductor market.

In this environment, TI plans to increase capital expenditures in 1995 by 20 percent, to about $1.3 billion. TI-funded R&D increased $99 million in 1994, to $689 million, and it will be increased again in 1995, to about $800 million, to support targeted opportunities in advanced memory and microprocessors, digital signal processing solutions, and digital imaging technology for display and hardcopy applications.

Over the next few years, TI expects to make a major contribution to the critical technologies driving the digital revolution, across a broad base of capabilities in semiconductors, software and systems. By integrating our capabilities in sensing, processing, transmission, and display, we can provide value-added solutions that will help make our customers more competitive in global markets. In 1995, we will increase our focus on those opportunities that provide the greatest leverage across TI's businesses and technologies. This will lay the foundation for accelerating TI's long-term profitable growth.

Jerry R. Junkins
Chairman, President and
Chief Executive Officer

Dallas, Texas
January 27, 1995

David L. Boren, president of The University of Oklahoma, has been elected a director of Texas Instruments.



Consolidated Financial Statements
(In millions of dollars, except per-share amounts)

| | For the years ended December 31 | | |
|---|---|---|---|
| Income | 1994 | 1993 | 1992 |
| Net revenues | $10,315 | $8,523 | $7,440 |
| Operating costs and expenses: | | | |
| Cost of revenues | 7,471 | 6,274 | 5,720 |
| General, administrative and marketing | 1,393 | 1,247 | 1,170 |
| Employees' retirement and profit sharing plans | 368 | 274 | 130 |
| Total | 9,232 | 7,795 | 7,020 |
| Profit from operations | 1,083 | 728 | 420 |
| Other income (expense) net | 4 | 15 | -- |
| Interest on loans | 45 | 47 | 51 |
| Income before provision for income taxes and cumulative effect of accounting changes | 1,042 | 696 | 369 |
| Provision for income taxes | 351 | 220 | 122 |
| Income before cumulative effect of accounting changes | 691 | 476 | 247 |
| Cumulative effect of accounting changes | -- | (4) | -- |
| Net income | $ 691 | $ 472 | $ 247 |
| Earnings per common and common equivalent share: | | | |
| Income before cumulative effect of accounting changes | $ 7.27 | $ 5.07 | $ 2.50 |
| Cumulative effect of accounting changes | -- | (0.04) | -- |
| Net income | $ 7.27 | $ 5.03 | $ 2.50 |

See accompanying notes.

| Balance Sheet | December 31 1994 | 1993 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 760 | $ 404 |
| Short-term investments | 530 | 484 |
| Accounts receivable, less allowance for losses of $37 million in 1994 and $42 million in 1993 | 1,442 | 1,218 |
| Inventories (net of progress billings) | 882 | 822 |
| Prepaid expenses | 66 | 55 |
| Deferred income taxes | 337 | 331 |
| Total current assets | 4,017 | 3,314 |
| Property, plant and equipment at cost | 4,895 | 4,620 |
| Less accumulated depreciation | (2,327) | (2,417) |
| Property, plant and equipment (net) | 2,568 | 2,203 |
| Deferred income taxes | 243 | 237 |
| Other assets | 161 | 239 |
| Total assets | $6,989 | $5,993 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Loans payable and current portion long-term debt | $ 12 | $ 211 |
| Accounts payable and accrued expenses | 1,877 | 1,512 |
| Income taxes payable | 56 | 120 |
| Accrued retirement and profit sharing contributions | 254 | 158 |
| Total current liabilities | 2,199 | 2,001 |
| Long-term debt | 808 | 694 |
| Accrued retirement costs | 740 | 739 |
| Deferred credits and other liabilities | 203 | 244 |
| Stockholders' equity: | | |
| Preferred stock, $25 par value. Authorized - 10,000,000 shares. Participating cumulative preferred. None issued | -- | -- |
| Common stock, $1 par value. Authorized - 300,000,000 shares. Shares issued: 1994 - 92,786,992; 1993 - 90,919,314 | 93 | 91 |
| Paid-in capital | 1,041 | 932 |
| Retained earnings | 1,912 | 1,307 |
| Less treasury common stock at cost. Shares: 1994 - 104,170; 1993 - 102,522 | (6) | (5) |
| Other | (1) | (10) |
| Total stockholders' equity | 3,039 | 2,315 |
| Total liabilities and stockholders' equity | $6,989 | $5,993 |

See accompanying notes.

Texas Instruments Incorporated and Subsidiaries

Consolidated Financial Statements
(In millions of dollars, except per-share amounts)

| Cash Flows | 1994 | 1993 | 1992 |
|---|---|---|---|
| | For the years ended December 31 | | |
| **Cash flows from operating activities:** | | | |
| Net income before cumulative effect of accounting changes | $ 691 | $ 476 | $ 247 |
| Depreciation | 665 | 617 | 610 |
| Deferred income taxes | (12) | (59) | (93) |
| Net currency exchange losses | 3 | 4 | 3 |
| (Increase) decrease in working capital (excluding cash and cash equivalents, short-term investments, deferred income taxes, and loans payable and current portion long-term debt): | | | |
| Accounts receivable | (197) | (258) | (111) |
| Inventories | (60) | (88) | 50 |
| Prepaid expenses | (9) | (3) | 1 |
| Accounts payable and accrued expenses | 330 | 37 | (16) |
| Income taxes payable | (67) | 27 | 52 |
| Accrued retirement and profit sharing contributions | 111 | 94 | 12 |
| Increase (decrease) in noncurrent accrued retirement costs | (8) | 21 | 39 |
| Other | 85 | 66 | 7 |
| Net cash provided by operating activities | 1,532 | 934 | 801 |
| **Cash flows from investing activities:** | | | |
| Additions to property, plant and equipment | (1,076) | (730) | (429) |
| Purchases of short-term investments | (779) | (616) | (4,352) |
| Sales and maturities of short-term investments | 732 | 635 | 3,998 |
| Proceeds from sales of businesses | -- | -- | 48 |
| Net cash used in investing activities | (1,123) | (711) | (735) |
| **Cash flows from financing activities:** | | | |
| Additions to loans payable | 40 | 35 | 92 |
| Payments on loans payable | (41) | (72) | (61) |
| Additions to long-term debt | 1 | 14 | 150 |
| Payments on long-term debt | (88) | (15) | (117) |
| Redemptions of auction-rate preferred stock | -- | (150) | (146) |
| Dividends paid on common and preferred stock | (79) | (86) | (98) |
| Sales and other common stock transactions | 110 | 100 | 25 |
| Other | (2) | 6 | (2) |
| Net cash used in financing activities | (59) | (168) | (157) |
| Effect of exchange rate changes on cash | 6 | (7) | (5) |
| Net increase (decrease) in cash and cash equivalents | 356 | 48 | (96) |
| Cash and cash equivalents at beginning of year | 404 | 356 | 452 |
| Cash and cash equivalents at end of year | $ 760 | $ 404 | $ 356 |

See accompanying notes.
Texas Instruments Incorporated and Subsidiaries



| Stockholders' Equity | Market Auction/ Money Market Preferred Stock | Series A Conversion Preferred Stock | Common Stock | Paid-In Capital | Retained Earnings | Treasury Common Stock | Other |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 1991 | $ 296 | $ 69 | $ 82 | $ 746 | $ 766 | $ (4) | $ -- |
| **1992** | | | | | | | |
| Net income | | | | | 247 | | |
| Dividends declared on: | | | | | | | |
| Market auction preferred stock | | | | | (8) | | |
| Money market preferred stock | | | | | (4) | | |
| Series A conversion preferred | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| stock ($9.04 per share) ........ | | | | | (25) | | |
| Common stock ($.72 per share) .... | | | | | (60) | | |
| Redemptions of auction-rate preferred stock .................. | (146) | | | | | | |
| Common stock issued on exercise of stock options ................. | | | 1 | 15 | | 3 | |
| Other stock transactions, net ...... | | | | 9 | | (3) | |
| Pension liability adjustment ....... | | | | | | | (37) |
| | ------ | ------ | ------ | ------ | ------ | ------ | ------ |
| Balance, December 31, 1992 ........... | 150 | 69 | 83 | 770 | 916 | (4) | (37) |
| **1993** | | | | | | | |
| Net income ......................... | | | | | 472 | | |
| Dividends declared on: | | | | | | | |
| Market auction preferred stock ... | | | | | (2) | | |
| Money market preferred stock ..... | | | | | (2) | | |
| Series A conversion preferred stock ($5.45 per share) ........ | | | | | (14) | | |
| Common stock ($.72 per share) .... | | | | | (63) | | |
| Redemptions of auction-rate preferred stock .................. | (150) | | | | | | |
| Redemptions of Series A conversion preferred stock .................. | | (69) | 6 | 63 | | | |
| Common stock issued: | | | | | | | |
| To profit sharing trusts ......... | | | | 13 | | | |
| On exercise of stock options ..... | | | 2 | 67 | | 2 | |
| Other stock transactions, net ...... | | | | 19 | | (3) | |
| Pension liability adjustment ....... | | | | | | | 27 |
| | ------ | ------ | ------ | ------ | ------ | ------ | ------ |
| Balance, December 31, 1993 ........... | -- | -- | 91 | 932 | 1,307 | (5) | (10) |
| **1994** | | | | | | | |
| Net income ......................... | | | | | 691 | | |
| Dividends declared on common stock ($.93 per share) ........... | | | | | (86) | | |
| Common stock issued: | | | | | | | |
| To profit sharing trusts.......... | | | | 31 | | | |
| On exercise of stock options ..... | | | 2 | 60 | | 3 | |
| Other stock transactions, net ...... | | | | 18 | | (4) | |
| Pension liability adjustment ....... | | | | | | | 10 |
| Cash investments adjustment......... | | | | | | | (1) |
| | ------ | ------ | ------ | ------ | ------ | ------ | ------ |
| Balance, December 31, 1994 ........... | $ -- | $ -- | $ 93 | $1,041 | $1,912 | $ (6) | $ (1) |
| | ====== | ====== | ====== | ====== | ====== | ====== | ====== |

See accompanying notes.



## Notes to Financial Statements

### Accounting Policies and Practices

Effective January 1, 1994, the company adopted a new accounting standard, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires that cash equivalent and short-term investment debt securities be stated at fair value, instead of the lower of cost or fair value. This adoption had no material effect on the company's financial statements. Effective January 1, 1993, the company adopted SFAS No. 106, which required the accrual of expected retiree health care benefit costs during the employees' working careers, and SFAS No. 109, which required increased recording of deferred income tax assets. This resulted in a 1993 charge of $294 million ($3.14 per share) for SFAS No. 106 and a credit of $290 million ($3.10 per share) for SFAS No. 109, for the cumulative effect of the accounting changes.

The consolidated financial statements include the accounts of all subsidiaries. Intercompany balances and transactions have been eliminated. The U.S. dollar is the functional currency for financial reporting. With regard to accounts recorded in currencies other than U.S. dollars, current assets (except inventories), deferred income taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at year end. Inventories, property, plant and equipment and depreciation thereon are remeasured at historic exchange rates. Revenue and expense accounts other than depreciation for each month are remeasured at the appropriate month-end rate of exchange. Net currency exchange gains and losses from remeasurement and forward currency exchange contracts to hedge net balance sheet exposures are charged or credited on a current basis to other income (expense) net. Gains and losses from forward currency exchange contracts and interest rate swaps to hedge specific transactions are included in the measurement of the related transactions.

Inventories are stated at the lower of cost, current replacement cost or estimated realizable value. Cost is generally computed on a currently adjusted standard (which approximates current average costs) or average basis.

Revenues from semiconductor and other commercial products and services are generally recognized as products are shipped or services are rendered. Revenues under long-term fixed price and fixed-price incentive contracts are recognized as deliveries are made or as performance targets are achieved. Revenues under long-term cost reimbursement contracts are recorded as costs are incurred and include estimated earned fees. Royalty revenue is recognized by the company upon fulfillment of its contractual obligations and determination of a fixed royalty amount, or, in the case of ongoing royalties, upon sale by the licensee of royalty-bearing products, as estimated by the company.

Substantially all depreciation is computed by either the declining-balance method (primarily 150 percent declining method) or the sum-of-the-years-digits method. Fully depreciated assets are written off against accumulated depreciation.

Earnings per common and common equivalent share are based on average common and common equivalent shares outstanding (95,427,322 shares, 93,605,749 shares and 85,310,690 shares for 1994, 1993 and 1992). Shares issuable upon exercise of dilutive stock options and upon conversion of dilutive convertible debentures and, for 1993 and 1992, conversion preferred stock are included in average common and common equivalent shares outstanding. In computing per-share earnings, net income is reduced by $20 million and $37 million in 1993 and 1992 for dividends accrued on preferred stock, and increased by $2 million, $19 million and $4 million in 1994, 1993 and 1992 for interest (net of tax and profit sharing effect) and dividends on the convertible debentures and conversion preferred stock considered dilutive common stock equivalents.

Cash Equivalents and Short-Term Investments
- ----------------------------------------------------------------------------
Debt securities with original maturities within three months are considered cash equivalents. Debt securities with original maturities beyond three months have remaining maturities within 13 months and are considered short-term investments. These cash equivalent and short-term investment debt securities are available for sale and, beginning in 1994, stated at fair value, which approximates their specific amortized cost. Adjustments to fair value are recorded as an increase or decrease in stockholders' equity. At year-end 1994, this adjustment was a $1 million decrease. As of December 31, 1994, these debt securities consisted primarily of the following types: U.S. government ($217 million), U.S. state and municipalities ($187 million), corporate ($434 million), and asset-backed commercial paper ($154 million). Gross realized and unrealized gains and losses for each of these security types were immaterial in 1994. Proceeds from sales of these cash equivalent and short-term investment debt securities in 1994 were $75 million.



Inventories
- -------------------------------------------------------------------------

| | Millions of Dollars | |
| --- | --- | --- |
| | 1994 | 1993 |
| Raw materials and purchased parts .................... | $ 237 | $ 244 |
| Work in process ...................................... | 553 | 557 |
| Finished goods ....................................... | 318 | 250 |
| Inventories before progress billings ................. | 1,108 | 1,051 |
| Less progress billings ............................... | (226) | (229) |
| Inventories (net of progress billings) ............... | $ 882 | $ 822 |

Approximately 31% and 34% of the December 31, 1994 and 1993 inventories before progress billings related to long-term contracts.

Inventories related to long-term contracts are stated at actual production costs, including manufacturing overhead and special tooling and engineering costs, reduced by amounts identified with revenues recognized on units delivered or with progress completed. Such inventories are reduced by charging any amounts in excess of estimated realizable value to cost of revenues. The costs attributed to units delivered under long-term contracts are based on the estimated average cost of all units to be produced under existing contracts and are determined under the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. Production costs included in inventories in excess of the estimated cost of in-process inventories (on the basis of estimated average cost of all units to be produced) were not material.

To secure access to additional semiconductor plant capacity, TI entered into four joint ventures formed to construct and operate semiconductor manufacturing facilities. Upon formation of the ventures TI contributed technology and cash to acquire minority interests and entered into long-term inventory purchase commitments with each joint venture. Under the agreements, TI purchases the output of the ventures at prices based upon percentage discounts from TI's average selling prices. Certain co-venturers have the right to buy a portion of the output from TI. Under certain circumstances, TI may increase its ownership and potentially acquire a majority interest in the ventures. Under the ventures' financing arrangements, the venturers have provided certain debt and other guarantees. At December 31, 1994 and 1993, TI was contingently liable for an aggregate of $46 million and $43 million of such guarantees. Inventory purchases from the ventures aggregated $908 million in 1994, $356 million in 1993 and $66 million in 1992. Receivables from and payables to the ventures were $1 million and $94 million at December 31, 1994, and $6 million and $45 million at December 31, 1993.

The primary purpose of the joint ventures is to provide semiconductor output for TI and other co-venturers. As a result, TI expects to recover its cost of the ventures through sale of the semiconductor output, and is amortizing its cost of the ventures over the expected initial output period of 3 to 5 years, and recognizing its share of any cumulative venture net losses in excess of amortization using the equity method of accounting. TI recognized operating expense of $15 million in 1994, $27 million in 1993, and $3 million in 1992. Due to the fact that dividend distributions are not expected to be significant in the foreseeable future, the probability of realization of TI's share of any venture net income is indeterminate and such income is not recognized. Instead, dividends, if and when received, will first be credited against TI's cost of the ventures, thereafter to income. Compared to this amortization method, TI's net income would have been approximately $35 million ($.37 per share) higher in 1994, and essentially unchanged in 1993 and 1992, had TI recorded its simple arithmetic share of the ventures' net income or loss.

## Property, Plant and Equipment at Cost

| | Depreciable Lives | Millions of Dollars 1994 | 1993 |
|---|---|---|---|
| Land | | $ 82 | $ 70 |
| Buildings and improvements | 5-40 years | 1,777 | 1,691 |
| Machinery and equipment | 3-10 years | 3,036 | 2,859 |
| Total | | $4,895 | $4,620 |

Authorizations for property, plant and equipment expenditures in future years were approximately $816 million at December 31, 1994 and $603 million at December 31, 1993.

## Accounts Payable and Accrued Expenses

| | Millions of Dollars 1994 | 1993 |
|---|---|---|
| Accounts payable | $ 678 | $ 543 |
| Advance payments from commercial and defense contract customers | 205 | 130 |
| Accrued salaries, wages, severance and vacation pay | 367 | 291 |
| Other accrued expenses and liabilities | 627 | 548 |
| Total | $1,877 | $1,512 |

Notes to Financial Statements
(continued)

## Long-Term Debt and Lines of Credit

| | Millions of Dollars | |
|---|---|---|
| | 1994 | 1993 |
| 2.75% convertible subordinated debentures due 2002 | $ 124 | $ 200 |
| 9.0% notes due 1999 | 150 | 150 |
| 9.0% notes due 2001 | 150 | 150 |
| 9.25% notes due 2003 | 150 | 150 |
| 8.75% notes due 2007 | 150 | 150 |
| 5.56% to 6.10% Italian lira mortgage notes (51% swapped for 1.60% U.S. dollar obligation) | 87 | 95 |
| Other | 9 | 10 |
| | 820 | 905 |
| Less current portion long-term debt | 12 | 211 |
| Long-term debt | $ 808 | $ 694 |

The convertible subordinated debentures may be redeemed at the company's option at specified prices. On September 29, 1994, $76 million of the debentures were redeemed at the option of the holders. The remaining debentures are convertible at the holder's option into an aggregate 1,492,730 shares of TI common stock at a common stock conversion price of $82.875 per share.

A portion of the coupon rates for the notes due 1999, 2001, 2003 and, beginning in 1994, the notes due 2007 have been swapped for commercial paper-based or LIBOR-based variable rates through April 1997, resulting in a combination of fixed plus short-term variable rates for an effective interest rate of approximately 9.6% and 6.4% as of December 31, 1994 and 1993. The notes due 1999 may be redeemed at par, at the company's option, beginning in July 1996. The Italian lira mortgage notes, and related swaps, are due in installments through 2003. The mortgage notes are collateralized by real estate and equipment.

Interest incurred on loans in 1994, 1993 and 1992 was $58 million, $55 million and $57 million. Of these amounts, $13 million in 1994, $8 million in 1993 and $6 million in 1992 were capitalized as a component of capital asset construction costs. Interest paid on loans (net of amounts capitalized) was $53 million in 1994, $54 million in 1993 and $51 million in 1992.

Aggregate maturities of long-term debt due during the four years subsequent to December 31, 1995, are as follows:

| | Millions of Dollars |
|---|---|
| 1996 | $ 13 |
| 1997 | 13 |
| 1998 | 14 |
| 1999 | 165 |

Unused lines of credit for short-term financing were approximately $547 million at December 31, 1994 and $569 million at December 31, 1993. Of these amounts, $440 million and $470 million were available to support commercial paper borrowings.

## Financial Instruments and Risk Concentration

Financial instruments: In addition to the swaps discussed in the preceding note, as of December 31, 1994, the company has forward currency exchange contracts outstanding of $314 million to hedge net balance sheet exposures (including $64 million to buy yen, $47 million to buy deutsche mark, and $39 million to buy Singapore dollars) and $116 million to hedge specific firm commitments for multi-year product sale transactions denominated in pound sterling. At December 31, 1993, the company had forward currency exchange contracts outstanding of $219 million to hedge net balance sheet exposures (including $53 million to buy deutsche mark, $34 million to buy Singapore dollars, and $22 million to sell pound sterling) and $20 million to hedge specific firm commitments for near-term product purchase transactions denominated in yen. As of December 31, 1994 and 1993, the carrying amounts and current market settlement values of these swaps and forward contracts were not significant, except for the interest rate swaps for the notes due 1999, 2001, 2003 and 2007 for which the year-end 1994 carrying amounts are a liability of $2 million and the settlement values are a liability of approximately $34 million.

The forward currency exchange contracts, including the currency interest rate swaps for the Italian lira mortgage notes, are used to minimize the adverse impacts from the effect of exchange rate fluctuations on the company's non-U.S. net balance sheet exposures (predominantly receivables, payables and accrued expenses) and specific commitments to purchase or sell products. The interest rate swaps for the company's notes due 1999, 2001, 2003 and 2007 are used to change the characteristics of the interest rate stream on the debt from fixed rates to a combination of fixed plus short-term variable rates in order to achieve a mix of interest rates which, over time, is expected to moderate financing costs. The effect of these interest rate swaps was to reduce interest expense by $8 million, $12 million and $9 million in 1994, 1993 and 1992. These interest rate swaps are sensitive to interest rate changes. If short-term interest rates increase (decrease) by one percentage point from year-end 1994 rates, annual interest expense would increase (decrease) by $6 million.

In order to minimize its exposure to credit risk, the company limits its counterparties on the forward currency exchange contracts and interest rate swaps to investment-grade rated financial institutions.

As of December 31, 1994 and 1993, the fair value of long-term debt, based on current interest rates, was approximately $830 million and $998 million, compared with the carrying amount of $820 million and $905 million.



The company has an agreement to sell, on a revolving basis, up to $175 million of an undivided percentage ownership interest in a designated pool of accounts receivable, with limited recourse. Accounts receivable are shown net of $125 million at December 31, 1994 and $175 million at December 31, 1993, representing receivables sold. The comparable amount for December 31, 1992 is $175 million. The related discount expense, which varies with commercial paper rates, is included in other income (expense) net. In January 1995, the company reduced the outstanding balance to zero, and the agreement will be terminated effective January 30, 1995.

Risk concentration: Financial instruments which potentially subject the company to concentrations of credit risk are primarily cash investments and accounts receivable. The company places its cash investments in investment-grade, short-term debt securities and limits the amount of credit exposure to any one commercial issuer. Concentrations of credit risk with respect to the receivables are limited due to the large number of customers in the company's customer base, and their dispersion across different industries and geographic areas. The company maintains an allowance for losses based upon the expected collectibility of all accounts receivable, including receivables sold.

## Stockholders' Equity

The company is authorized to issue 10,000,000 shares of preferred stock. Prior to 1994, the company had three series of preferred stock outstanding: market auction preferred stock (average dividends declared per share: 1993 - $2,564; 1992 - $5,239); money market preferred stock (average dividends declared per share: 1993 - $2,729; 1992 - $5,138); and Series A conversion preferred stock. By the end of 1993 all preferred shares had been redeemed by the company and none are currently outstanding.

Each outstanding share of the company's common stock carries a stock purchase right. Under certain circumstances, each right may be exercised to purchase one one-hundredth of a share of the company's participating cumulative preferred stock for $200. Under certain circumstances following the acquisition of 20% or more of the company's outstanding common stock by an acquiring person (as defined in the rights agreement), each right (other than rights held by an acquiring person) may be exercised to purchase common stock of the company or a successor company with a market value of twice the $200 exercise price. The rights, which are redeemable by the company at 1 cent per right, expire in June 1998.

## Research and Development Expense

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Research and development expense .......... | $ 689 | $ 590 | $ 470 |

## Other Income (Expense) Net

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Interest income .......................... | $ 51 | $ 31 | $ 30 |
| Other income (expense) net ............... | (47) | (16) | (30) |
| Total .................................... | $ 4 | $ 15 | $ -- |

## Stock Options

The company has stock options outstanding to participants under the Texas Instruments Long-Term Incentive Plan, approved by stockholders on April 15, 1993. Options are also outstanding under the 1984 and 1988 Stock Option Plans; however, no further options may be granted under these plans. Under all these stockholder-approved plans, the exercise price per share may not be less than 100 percent of the fair market value on the date of the grant. Options granted become exercisable in such amounts, at such intervals and subject to such terms and conditions as determined by the compensation committee of the board of directors.

Under the Long-Term Incentive Plan, the company may grant stock options, including incentive stock options; restricted stock and restricted stock units; performance units; and other stock-based awards, including stock appreciation rights. The plan provides for the issuance of 4,000,000 shares of the company's common stock; in addition, if any option under the 1984 or 1988 Stock Option Plans terminates, then any unissued shares subject to the terminated option become available for granting awards under the plan. No more than 1,000,000 shares of common stock may be awarded as restricted stock, restricted stock units or other stock-based awards under the plan.

The company also has stock options outstanding under an Employees Stock Option Purchase Plan approved by stockholders in 1988. The plan provides for options to be offered to all eligible employees in amounts based on a percentage of the employee's prior year's compensation. If the optionee authorizes and does not cancel payroll deductions which, with interest, will be equal to or greater than the purchase price, options granted become exercisable 14 months, and expire not more than 27 months, from date of grant.





Stock option transactions during 1994, 1993 and 1992 were as follows:

| | Long-Term Incentive and Stock Option Plans | Employees Stock Option Purchase Plan | Option Price Range Per Share |
|---|---|---|---|
| Balance, Dec. 31, 1991 ............ | 4,322,295 | 833,791 | $25.34 - $60.57 |
| Granted .......................... | 834,450 | 591,300* | |
| Terminated ....................... | 93,859 | 404,427* | |
| Exercised** ...................... | 255,409 | 218,441 | $25.34 - $44.75 |
| Balance, Dec. 31, 1992 ............ | 4,807,477 | 802,223 | $30.73 - $60.57 |
| Granted .......................... | 860,000 | 438,803* | |
| Terminated ....................... | 159,150 | 85,734* | |
| Exercised** ...................... | 1,056,079 | 636,986 | $32.82 - $54.61 |

| | | | |
|---|---|---|---|
| Balance, Dec. 31, 1993 | 4,452,248 | 518,306 | $30.73 - $65.69 |
| Granted | 859,750 | 342,562* | |
| Terminated | 49,601 | 70,979* | |
| Exercised** | 1,182,620 | 315,498 | $30.73 - $65.69 |
| Balance, Dec. 31, 1994 | 4,079,777 | 474,391 | $30.84 - $82.13 |
| Exercisable at Dec. 31, 1993 | 751,920 | 106,105 | |
| Exercisable at Dec. 31, 1994 | 2,265,703 | 155,812 | |

* Excludes options offered but not accepted.
** Includes previously unissued shares and treasury shares of 1,440,568 and 57,550; 1,636,199 and 56,866; and 398,288 and 75,562 for 1994, 1993 and 1992.

At year-end 1994, 2,651,076 shares were available for future grants under the Long-Term Incentive Plan and 1,779,479 shares under the Employees Stock Option Purchase Plan approved in 1988. As of year-end 1994, 6,953,762 shares were reserved for issuance under the company's stock option and incentive plans and 2,253,870 shares were reserved for issuance under the Employees Stock Option Purchase Plan approved in 1988.

The company acquires its common stock from time to time for use in connection with exercise of stock options and other stock transactions. Treasury shares acquired in 1994, 1993 and 1992 were 59,198 shares, 55,525 shares and 77,339 shares. Previously unissued common shares issued under the Annual Incentive Plan in 1994, 1993 and 1992 were 23,165 shares, 103,926 shares and 68,860 shares.

## Profit Sharing and Retirement Plans

The company provides various incentive plans for employees, including general profit sharing and savings programs as well as an annual incentive plan for key employees. The company also provides pension and retiree health care benefit plans in the U.S. and pension plans in certain non-U.S. locations.

Profit sharing: Profit sharing expense was $175 million in 1994 and $83 million in 1993. There was no profit sharing expense in 1992. Under the plans, unless otherwise provided by local law, the company and certain of its subsidiaries contribute a portion of their net profits according to certain formulas, but not to exceed the lesser of 25% of consolidated income (as defined) before profit sharing and income taxes or 15% of the compensation of eligible participants. Unless otherwise provided by local law, contributions are invested as follows. For worldwide profit sharing earned by eligible participants prior to 1994, the contributions have been invested in TI common stock. For profit sharing earned by U.S. employees in 1994, the contributions will initially be invested in TI common stock but several other investment options will be made available in the future for this contribution. For 1995 and thereafter, 50% of profit sharing earned by U.S. employees under the current formula will be contributed to the profit sharing plan and invested at the participants' option in one or more of several available investment funds including TI common stock; the remaining 50% will not be contributed to the profit sharing plan but will be paid as cash to the eligible participants. Similar changes are being considered for non-U.S. employees.

Except in the event of company contributions in stock, investments in TI common stock are made by the trustees through purchases of outstanding shares or through purchases of shares offered from time to time by the company. The board of directors has authorized the issuance of previously unissued shares for purposes of the plans; 2,308,459 of such shares were available for future issuance at December 31, 1994.

The trustees of the profit sharing plans purchased 1,881,815 outstanding shares of TI common stock in 1994 (626,670 shares in 1993 and 105,688 shares in 1992) and 403,945 previously unissued shares in 1994 (209,464 shares in 1993 and none in 1992) for use in the profit sharing plans and savings program. As of December 31, 1994, 6,176,127 shares of TI common stock were allocated to profit sharing plan stock accounts of the company's employees.

Savings program: The company provides a matched savings program whereby U.S. employees' contributions of up to 4% of their salary are matched by the company at the rate of 50 cents per dollar. Contributions are subject to statutory limitations. The contributions may be invested in several investment funds including TI common stock. The company's expense under this program was $21 million in 1994, $21 million in 1993 and $20 million in 1992.



U.S. pension plan: The company has a defined benefit plan covering most U.S. employees with benefits based on years of service and employee's compensation. The plan is a career-average-pay plan which has been amended periodically in the past to produce approximately the same results as a final-pay type plan. The board of directors of the company has expressed an intent to make such amendments in the future, circumstances permitting, and the expected effects of such amendments have been considered in calculating U.S. pension expense. The company's funding policy is to contribute to the plan at least the minimum amount required by ERISA. Plan assets consist primarily of common stock, U.S. government obligations, commercial paper and real estate.

Pension expense of the U.S. plan includes the following components:

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Service cost - benefits earned during the period | $ 54 | $ 59 | $ 58 |
| Interest cost on projected benefit obligation | 69 | 72 | 70 |
| Return on plan assets: | | | |
| Actual return | 16 | (99) | (45) |
| Deferral | (74) | 44 | (10) |
| Net amortization | (4) | (2) | (5) |
| U.S. pension expense | $ 61 | $ 74 | $ 68 |

The funded status of the U.S. plan was as follows:

| | Millions of Dollars | |
|---|---|---|
| | 1994 | 1993 |
| Actuarial present value at Dec. 31 of: | | |
| Vested benefit obligation | $ (523) | $ (655) |
| Accumulated benefit obligation | $ (575) | $ (717) |
| Projected benefit obligation | $ (818) | $(1,026) |
| Plan assets at fair value | 724 | 783 |
| Projected benefit obligation in excess of plan assets | (94) | (243) |
| Unrecognized net asset from initial application of SFAS 87 | (78) | (90) |
| Unrecognized net (gain) loss | (121) | 43 |
| Unrecognized prior service cost | 41 | 46 |
| Accrued pension at Dec. 31 | (252) | (244) |
| Less current portion | 54 | 40 |
| Accrued U.S. pension costs | $ (198) | $ (204) |

The projected benefit obligations for 1994 and 1993 were determined using assumed discount rates of 8.5% and 7.0% and an assumed average long-term pay progression rate of 4.25%. The assumed long-term rate of return on plan assets was 9.0%.

Non-U.S. pension plans: Retirement coverage for non-U.S. employees of the company is provided, to the extent deemed appropriate, through separate plans. Retirement benefits are based on years of service and employee's compensation, generally during a fixed number of years immediately prior to retirement. Funding policies are based on local statutes. Plan assets consist primarily of common stock, government obligations and corporate bonds.

Pension expense of the non-U.S. plans includes the following components:

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Service cost - benefits earned during the period ...................... | $ 56 | $ 44 | $ 38 |
| Interest cost on projected benefit obligations ........................... | 32 | 28 | 23 |
| Return on plan assets: | | | |
| Actual return .......................... | (15) | (50) | 1 |
| Deferral ............................... | (15) | 25 | (24) |
| Net amortization ....................... | 11 | 8 | 4 |
| Non-U.S. pension expense ............... | $ 69 | $ 55 | $ 42 |

The funded status of the non-U.S. plans was as follows:

| | Millions of Dollars | |
|---|---|---|
| | 1994 | 1993 |
| Actuarial present value at Sept. 30 of: | | |
| Vested benefit obligations .................. | $ (424) | $ (365) |
| Accumulated benefit obligations ............ | $ (493) | $ (429) |
| Projected benefit obligations ............... | $ (693) | $ (621) |
| Plan assets at fair value .................... | 398 | 342 |
| Projected benefit obligations in excess of plan assets ................................ | (295) | (279) |
| Unrecognized net liabilities from initial application of SFAS 87 ...................... | 24 | 25 |
| Unrecognized net loss ........................ | 148 | 157 |
| Unrecognized prior service cost ............. | 6 | 10 |
| Accrued non-U.S. pension at Sept. 30 ......... | (117) | (87) |
| Additional minimum liability ................. | (9) | (24) |
| Adjustments from Sept. 30 to Dec. 31 ......... | -- | 2 |
| Less prepaid pension costs at Dec. 31 ........ | 12 | 18 |
| Accrued pension at Dec. 31 ................... | (138) | (127) |
| Less current portion ......................... | 10 | 7 |
| Accrued non-U.S. pension costs ............... | $ (128) | $ (120) |

The range of assumptions used for the non-U.S. plans reflects the different economic environments within the various countries. The projected benefit obligations were determined using a range of assumed discount rates of 4.75% to 8.0% in 1994 and 4.75% to 9.0% in 1993 and a range of assumed average long-term pay progression rates of 4.0% to 6.0% in 1994 and 4.0% to 7.0% in 1993. The range of assumed long-term rates of return on plan assets was 8.0% to 9.0%. Accrued pension at December 31 includes approximately $83 million in 1994





and $79 million in 1993 for two non-U.S. plans that are not funded. Pension accounting rules require recognition in the balance sheet of an additional minimum pension liability equal to the excess of the accumulated benefit obligation over the fair value of the plan assets. A corresponding amount is recognized as an intangible asset, not to exceed the amount of unrecognized prior service cost, with the balance recorded as a reduction of stockholders' equity. As of December 31, 1994 and 1993, the company has recorded an additional non-U.S. minimum pension liability of $9 million and $24 million and, for 1993, an equity reduction of $10 million.

Retiree health care benefit plan: The company's U.S. employees are currently eligible to receive, during retirement, specified company-paid medical benefits. The plan is contributory and premiums are adjusted annually. For employees retiring on or after January 5, 1993, the company has specified a maximum annual amount per retiree, based on years of service, that it will pay toward retiree medical premiums. For employees who retired prior to that date, the company maintains a consistent level of cost sharing between the company and the retiree. The company is pre-funding the plan obligation in amounts determined at the discretion of management. Plan assets consist primarily of common stock, U.S. government obligations, commercial paper, and obligations of U.S. states and municipalities.

Effective January 1, 1993, the company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which required the accrual of expected retiree health care benefit costs during the employees' working careers, instead of when the claims are incurred. The company recorded an accumulated postretirement benefit obligation of $454 million and a related deferred income tax asset of $160 million, which resulted in a 1993 charge of $294 million ($3.14 per share) for the cumulative effect of the accounting change. Retiree health care benefit expense in 1992 was computed on a claims-incurred basis.

Expense of the retiree health care benefit plan includes the following components:

| | Millions of Dollars | |
|---|---|---|
| | 1994 | 1993 |
| Service cost - benefits earned during the period | $ 6 | $ 6 |
| Interest cost on accumulated postretirement benefit obligation | 36 | 35 |
| Return on plan assets: | | |
| Actual return | (3) | (1) |
| Deferral | 3 | 1 |
| Retiree health care benefit expense | $ 42 | $ 41 |

The funded status of the plan was as follows:

| | Millions of Dollars | |
|---|---|---|
| | 1994 | 1993 |
| Actuarial present value at Dec. 31 of accumulated postretirement benefit obligation: | | |
| Retirees | $ (337) | $ (396) |
| Fully eligible employees | (12) | (14) |
| Other employees | (104) | (117) |
| | (453) | (527) |
| Plan assets at fair value | 23 | 8 |
| Accumulated postretirement benefit obligation in excess of plan assets | (430) | (519) |
| Unrecognized net (gain) loss | (16) | 63 |
| Unrecognized prior service cost | (12) | -- |
| Accrued at Dec. 31 | (458) | (456) |
| Less current portion | 44 | 41 |
| Accrued retiree health care benefit costs | $ (414) | $ (415) |

Retiree health care benefit amounts were determined using health care cost trend rates of 8.8% for 1995 decreasing to 6.0% by 1999, and assumed discount rates of 8.5% for 1994 and 7.0% for 1993. Increasing the health care cost trend rates by 1% would have increased the accumulated postretirement benefit obligation at December 31, 1994 by $27 million and 1994 plan expense by $2 million. A trust holding a portion of the plan assets is subject to federal income taxes at a 39.6% rate. The assumed long-term rate of return on plan assets, after taxes, was 7.3%. Retiree health care benefit expense was $24 million in 1992.

Special actions: In the first quarter of 1994, the company took a pretax charge of $83 million for restructuring of its European operations from the traditional country-by-country approach to business centers with pan-European responsibilities. This action primarily affected semiconductor activities and is expected to result in annual savings of approximately $54 million when fully implemented. Also taken in the first quarter was a pretax charge of $49 million for costs related to the divestiture of nonstrategic product lines, primarily in digital products. The total charges of $132 million included non-cash asset write-downs of $31 million with the balance for expected cash outlays, including $62 million for severance. The divestitures were essentially completed by the end of 1994. Completion of the restructuring action, which has been delayed due to extended negotiations with certain European works councils, is expected by the fourth quarter of 1995. Of the total expected cash outlays, $41 million was expended during 1994 with the balance expected to be expended in 1995. Of the approximately 1,000 employees, primarily in Europe, affected by the severance actions, 383 left the company during 1994 with the balance expected to leave in 1995.



## Industry Segment and Geographic Area Operations

The company is engaged in the development, manufacture and sale of a variety of products in the electrical and electronics industry for industrial, government and consumer markets. These products consist of components (semiconductors, such as integrated circuits, discrete devices and subassemblies, and electrical and electronic control devices); defense electronics (such as radar systems, navigation systems, infrared surveillance and fire control systems, defense suppression missiles, missile guidance and control systems, and electronic warfare systems); and digital products (such as software productivity tools, notebook computers, printers, electronic calculators, and custom manufacturing services). In fourth quarter 1992, the company sold its commercial multiuser minicomputer systems and service operations, which were part of the digital products segment. The company also produces metallurgical materials (including clad metals, precision-engineered parts and electronic connectors).

The company's business is based principally on its broad semiconductor technology and application of this technology to selected electronic end-equipment markets.

Industry segment and geographic area profit (loss) is not equivalent to income before provision for income taxes and cumulative effect of accounting changes due to exclusion of general corporate expenses, net interest, currency exchange gains and losses, and other items along with elimination of unrealized profit in assets. Profit sharing expense is allocated to segment results based on payroll costs. Prior to 1994, for geographic area purposes research and development expense was allocated based on revenues. In 1994, research and development expense is generally reported in the geographic area where incurred. The effect of this change on 1994 geographic area results was to decrease U.S. profits by $144 million, decrease Europe losses by $28 million, increase East Asia profits by $113 million and increase other areas profit by $3 million. Royalty revenue from patent license agreements is included in the U.S. geographic net revenues and (except for royalty revenue from microcomputer system patent license agreements, which is included in the digital products segment) is principally included in the components segment.

Identifiable assets are those associated with segment or geographic area operations, excluding unallocated cash and short-term investments, internal company receivables and deferred income taxes. Generally, revenues between industry segments and between geographic areas are based on prevailing market prices or an approximation thereof.

## Industry Segment Net Revenues

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Components | | | |
| Trade ................................ | $ 6,787 | $5,091 | $3,982 |
| Intersegment ......................... | 56 | 66 | 47 |
| | 6,843 | 5,157 | 4,029 |
| Defense Electronics | | | |
| Trade ................................ | 1,710 | 1,842 | 1,990 |
| Intersegment ......................... | 17 | 14 | 14 |
| | 1,727 | 1,856 | 2,004 |
| Digital Products | | | |
| Trade ................................ | 1,661 | 1,454 | 1,345 |
| Intersegment ......................... | 1 | 4 | 5 |

| | | | |
|---|---|---|---|
| | 1,662 | 1,458 | 1,350 |
| Metallurgical Materials | | | |
| Trade | 152 | 126 | 116 |
| Intersegment | 25 | 19 | 22 |
| | 177 | 145 | 138 |
| Eliminations and other | (94) | (93) | (81) |
| Total | $10,315 | $8,523 | $7,440 |

Net revenues directly from federal government agencies in the United States, principally related to the defense electronics segment, were $1,009 million in 1994, $1,031 million in 1993 and $1,172 million in 1992.

## Industry Segment Profit (Loss)

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Components | $1,101 | $ 689 | $ 340 |
| Defense Electronics | 172 | 188 | 194 |
| Digital Products | 62 | 34 | 27 |
| Metallurgical Materials | (8) | (4) | 3 |
| Eliminations and corporate items | (285) | (211) | (195) |
| Income before provision for income taxes and cumulative effect of accounting changes | $1,042 | $ 696 | $ 369 |

## Industry Segment Identifiable Assets

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Components | $3,655 | $3,016 | $2,695 |
| Defense Electronics | 731 | 821 | 842 |
| Digital Products | 756 | 718 | 633 |
| Metallurgical Materials | 76 | 68 | 57 |
| Eliminations and corporate items | 1,771 | 1,370 | 958 |
| Total | $6,989 | $5,993 | $5,185 |

Notes to Financial Statements
(continued)

Industry Segment Property, Plant and Equipment

| Depreciation | Millions of Dollars 1994 | 1993 | 1992 |
|---|---|---|---|
| Components | $ 514 | $ 462 | $ 457 |
| Defense Electronics | 97 | 104 | 110 |
| Digital Products | 24 | 23 | 24 |
| Metallurgical Materials | 10 | 10 | 10 |
| Eliminations and corporate items | 20 | 18 | 9 |
| Total | $ 665 | $ 617 | $ 610 |

| Additions | Millions of Dollars 1994 | 1993 | 1992 |
|---|---|---|---|
| Components | $ 888 | $ 545 | $ 314 |
| Defense Electronics | 96 | 92 | 74 |
| Digital Products | 42 | 37 | 13 |
| Metallurgical Materials | 9 | 16 | 8 |
| Eliminations and corporate items | 41 | 40 | 20 |
| Total | $1,076 | $ 730 | $ 429 |

The following geographic area data include revenues, costs and expenses generated by and assets employed in operations located in each area:

Geographic Area Net Revenues

| | Millions of Dollars | | |
| --- | --- | --- | --- |
| | 1994 | 1993 | 1992 |
| United States | | | |
| Trade | $ 5,943 | $5,314 | $4,829 |
| Interarea | 457 | 449 | 407 |
| | 6,400 | 5,763 | 5,236 |
| Europe | | | |
| Trade | 1,574 | 1,281 | 1,249 |
| Interarea | 253 | 238 | 186 |
| | 1,827 | 1,519 | 1,435 |
| East Asia | | | |
| Trade | 2,729 | 1,860 | 1,307 |
| Interarea | 1,525 | 1,223 | 1,058 |
| | 4,254 | 3,083 | 2,365 |
| Other Areas | | | |
| Trade | 69 | 68 | 62 |
| Interarea | 50 | 51 | 32 |
| | 119 | 119 | 94 |
| Eliminations | (2,285) | (1,961) | (1,690) |
| Total | $10,315 | $8,523 | $7,440 |

Geographic Area Profit (Loss)

| | Millions of Dollars | | |
| --- | --- | --- | --- |
| | 1994 | 1993 | 1992 |
| United States | $ 1,018 | $ 743 | $ 581 |
| Europe | (12) | 33 | (24) |
| East Asia | 219 | 63 | (28) |
| Other Areas | 5 | -- | (5) |
| Eliminations and corporate items | (188) | (143) | (155) |
| Income before provision for income taxes and cumulative effect of accounting changes | $ 1,042 | $ 696 | $ 369 |

Geographic Area Identifiable Assets

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| United States | $2,965 | $2,589 | $2,378 |
| Europe | 889 | 897 | 887 |
| East Asia | 1,616 | 1,310 | 1,105 |
| Other Areas | 43 | 42 | 40 |
| Eliminations and corporate items | 1,476 | 1,155 | 775 |
| Total | $6,989 | $5,993 | $5,185 |

Income Taxes

Effective January 1, 1993, the company adopted SFAS No. 109, "Accounting for Income Taxes," which required increased recording of deferred income tax assets. As a result, the company recorded additional deferred income tax assets of $203 million, after a valuation allowance of $404 million, and reduced deferred income tax liabilities by $87 million, which resulted in a 1993 credit of $290 million ($3.10 per share) for the cumulative effect of the accounting change.

Income (Loss) before Provision for Income Taxes and Cumulative Effect of Accounting Changes

| | Millions of Dollars | | | |
|---|---|---|---|---|
| | Geographic area profit (loss) | | | |
| | U.S. | Non-U.S. | Elims. & corp. items | Total |
| 1994 | $1,018 | $ 212 | $ (188) | $1,042 |
| 1993 | 743 | 96 | (143) | 696 |
| 1992 | 581 | (57) | (155) | 369 |

With the exception of interarea elimination of unrealized profit in assets, which increased $18 million in 1994, increased $1 million in 1993, and decreased $20 million in 1992, the remaining corporate items consist primarily of general corporate expenses which are applicable to both U.S. and non-U.S. operations. These expenses are generally deductible for tax purposes in the U.S.

Provision (Credit) for Income Taxes

Income tax amounts for 1994 and 1993 were computed based on SFAS No. 109; amounts for 1992 were computed based on the prior accounting standard, SFAS No. 96.

| | Millions of Dollars | | | |
|---|---|---|---|---|
| | U.S. Federal | Non-U.S. | U.S. State | Total |
| **1994** | | | | |
| Current | $ 249 | $ 95 | $ 19 | $ 363 |
| Deferred | 4 | (18) | 2 | (12) |
| Total | $ 253 | $ 77 | $ 21 | $ 351 |
| **1993** | | | | |
| Current | $ 168 | $ 96 | $ 15 | $ 279 |
| Deferred | (39) | (17) | (3) | (59) |
| Total | $ 129 | $ 79 | $ 12 | $ 220 |
| **1992** | | | | |
| Current | $ 139 | $ 63 | $ 13 | $ 215 |
| Deferred | (97) | 4 | -- | (93) |
| Total | $ 42 | $ 67 | $ 13 | $ 122 |

Principal reconciling items from income tax computed at the statutory federal rate follow.

| | Millions of Dollars | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Computed tax at statutory rate | $ 365 | $ 244 | $ 125 |
| Effect of increase in tax rate on net deferred tax assets | -- | (17) | -- |
| Effect of change in valuation allowance | -- | (2) | -- |
| Effect of non-U.S. rates | (42) | (3) | 33 |
| Increase (decrease) in unrecognized deferred tax benefits | -- | -- | (34) |
| Research and experimentation tax credits | (3) | (8) | (2) |
| Effect of U.S. state income taxes | 14 | 10 | 9 |
| Other | 17 | (4) | (9) |
| Total provision for income taxes | $ 351 | $ 220 | $ 122 |

Included in the effect of non-U.S. rates for 1994 is a $69 million benefit from tax loss carryforward utilization reduced by certain non-U.S. taxes and losses for which no benefit was recognized. Provision has been made for deferred taxes on undistributed earnings of non-U.S. subsidiaries to the extent that dividend payments from such companies are expected to result in additional tax liability. The remaining undistributed earnings (approximately $595 million at December 31, 1994) have been indefinitely reinvested; therefore, no provision has been made for taxes due upon remittance of these earnings. Determination of the amount of unrecognized deferred tax liability on these unremitted earnings is not practicable.

The primary components of deferred income tax assets and liabilities at December 31 were as follows:

| | Millions of Dollars | |
|---|---|---|
| | 1994 | 1993 |
| Deferred income tax assets: | | |
| Accrued retirement costs (pension and | | |

| | | |
|---|---|---|
| retiree health care) | $ 264 | $ 262 |
| Inventories and related reserves | 227 | 183 |
| Accrued expenses | 155 | 168 |
| Long-term contracts | 50 | 63 |
| Non-U.S. loss carryforwards | 138 | 181 |
| Other | 165 | 168 |
| | 999 | 1,025 |
| Less valuation allowance | (330) | (350) |
| | 669 | 675 |
| Deferred income tax liabilities: | | |
| Property, plant and equipment | (95) | (81) |
| Other | (32) | (66) |
| | (127) | (147) |
| Net deferred income tax asset | $ 542 | $ 528 |

As of December 31, 1994 and 1993, the net deferred income tax asset of $542 million and $528 million was presented in the balance sheet, based on tax jurisdiction, as deferred income tax assets of $580 million and $568 million and deferred income tax liabilities of $38 million and $40 million.

The company has aggregate non-U.S. tax loss carryforwards of approximately $314 million. Of this amount, $270 million expires through the year 2004 and $44 million has no expiration.

Income taxes paid were $399 million, $231 million and $108 million for 1994, 1993 and 1992.

## Rental Expense and Lease Commitments

Rental and lease expense was $145 million in 1994, $132 million in 1993 and $143 million in 1992. The company conducts certain operations in leased facilities and also leases a portion of its data processing and other equipment. The lease agreements frequently include purchase and renewal provisions and require the company to pay taxes, insurance and maintenance costs.

At December 31, 1994, the company was committed under non-cancelable leases with minimum rentals in succeeding years as follows:

## Non-cancelable Leases

| | Millions of Dollars |
|---|---|
| 1995 | $ 102 |
| 1996 | 82 |
| 1997 | 55 |
| 1998 | 41 |
| 1999 | 37 |
| Later years | 207 |

## Report of Ernst & Young LLP, Independent Auditors

The Board of Directors
Texas Instruments Incorporated

We have audited the accompanying consolidated balance sheet of Texas Instruments Incorporated and subsidiaries (the Company) at December 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Instruments Incorporated and subsidiaries at December 31, 1994 and 1993, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in the "Profit Sharing and Retirement Plans" and "Income Taxes" notes to the financial statements, in 1993 the Company changed its method of accounting for retiree health care benefits and income taxes.

Ernst & Young LLP

Dallas, Texas
January 26, 1995

## Summary of Selected Financial Data

| Years ended December 31 | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| Millions of Dollars | | | | | |
| Net revenues | $10,315 | $8,523 | $7,440 | $6,784 | $6,567 |
| Operating costs and expenses | 9,232 | 7,795 | 7,020 | 7,033 | 6,593 |
| Profit (loss) from operations | 1,083 | 728 | 420 | (249) | (26) |
| Other income (expense) net | 4 | 15 | -- | (14) | 29 |
| Interest on loans | 45 | 47 | 51 | 41 | 24 |
| Income (loss) before provision for income taxes and cumulative effect of accounting changes | 1,042 | 696 | 369 | (304) | (21) |
| Provision for income taxes | 351 | 220 | 122 | 105 | 18 |
| Income (loss) before cumulative effect of accounting changes | 691 | 476 | 247 | (409) | (39) |
| Cumulative effect of accounting changes | -- | (4) | -- | -- | -- |
| Net income (loss) | $ 691 | $ 472 | $ 247 | $ (409) | $ (39) |
| Earnings (loss) per common and common equivalent share: | | | | | |
| Income (loss) before cumulative effect of accounting changes | $ 7.27 | $ 5.07 | $ 2.50 | $(5.40) | $ (.92) |
| Cumulative effect of accounting changes | -- | (0.04) | -- | -- | -- |
| Net income (loss) | $ 7.27 | $ 5.03 | $ 2.50 | $(5.40) | $ (.92) |
| Dividends declared per common share | $ .93 | $ .72 | $ .72 | $ .72 | $ .72 |
| Average common and common equivalent shares outstanding during year, in thousands | 95,427 | 93,606 | 85,311 | 81,970 | 81,614 |

| As of December 31 | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| Millions of Dollars | | | | | |
| Working capital | $ 1,818 | $1,313 | $ 961 | $ 813 | $ 826 |
| Property, plant and equipment (net) | 2,568 | 2,203 | 2,133 | 2,354 | 2,480 |
| Total assets | 6,989 | 5,993 | 5,185 | 5,009 | 5,048 |
| Long-term debt | 808 | 694 | 909 | 896 | 715 |
| Stockholders' equity | 3,039 | 2,315 | 1,947 | 1,955 | 2,358 |
| Employees | 56,333 | 59,048 | 60,577 | 62,939 | 70,318 |
| Stockholders of record | 28,740 | 29,129 | 31,479 | 35,162 | 36,268 |

See Notes to Financial Statements and Management Discussion and Analysis of Financial Condition and Results of Operations.



## Supplemental Financial Information

### Management Discussion and Analysis of Financial Condition and Results of Operations

The management discussion and analysis of the company's financial condition and results of operations consists of the letter to stockholders set forth on pages 3 through 5 of this report and the following additional information:

| Segment | Change in orders, 1994 vs. 1993 | Change in net revenues, 1994 vs. 1993 |
|---|---|---|
| Components | up 27% | up 33% |
| Defense Electronics | up 11% | down 7% |
| Digital Products | up 10% | up 14% |

| | | |
|---|---|---|
| Total | up 21% | up 21% |

| Segment | Change in orders, 4Q94 vs. 4Q93 | Change in net revenues, 4Q94 vs. 4Q93 |
|---|---|---|
| Components | up 28% | up 31% |
| Defense Electronics | down 30% | down 17% |
| Digital Products | up 1% | up 12% |
| Total | up 13% | up 17% |

## 1994 Results of Operations Compared with 1993

TI's orders for 1994 were $10.4 billion, up 21 percent from $8.6 billion in 1993. Significantly higher semiconductor orders in the components segment were the primary contributor to the change. Defense electronics orders increased due primarily to the timing of orders.

TI's net revenues for 1994 were $10.3 billion, up 21 percent from $8.5 billion in 1993. The increase was due primarily to higher semiconductor revenues in the components segment, resulting from increased shipments and new products. Profit from operations was $1083 million in 1994, up 49 percent from $728 million in 1993. Higher semiconductor operating profits accounted for much of the increase; higher royalties also contributed. Results for 1994 include a profit-sharing accrual of $175 million compared with $83 million accrued in 1993.

Results for the year include one-time royalty revenues of $73 million, compared with $90 million in 1993. Results also include $132 million in pretax restructuring and divestiture charges taken in the first quarter of 1994, compared with $23 million in pretax consolidation charges taken in the fourth quarter of 1993.

The income tax provision for 1994 is for U.S. and non-U.S. taxes. Non-U.S. taxes include a benefit from tax loss carryforward utilization reduced by certain non-U.S. taxes and losses for which no benefit was recognized. TI's income tax rate for the year was 33.7 percent. For 1993, the provision was net of an increase in deferred tax assets for the effect of the increase in the U.S. statutory rate.

TI's orders for the fourth quarter of 1994 were $2534 million, compared with $2247 million for the same period in 1993. Higher semiconductor and electrical controls orders in the components segment offset a decline in defense electronics orders. TI's semiconductor orders were up over year-ago levels, led by substantial growth in memory and digital signal processing products.

Net revenues for the fourth quarter of 1994 were $2782 million, compared with $2374 million in the fourth quarter of 1993. The increase was due primarily to higher semiconductor revenues in the components segment, attributable to increased shipments and new products. The decline in defense revenues was due to ramping down of mature production programs. The increase in digital segment revenue in the fourth quarter of 1994 was primarily in custom manufacturing services and software.

Profit from operations for the fourth quarter increased 47 percent to $291 million, from $198 million in the same period of 1993. The largest increase was in semiconductor operations. Improvement in personal productivity products, resulting from consolidation actions taken in the fourth quarter of 1993, and higher royalties also contributed to the increase.

Fourth-quarter 1994 results include an accrual of $48 million for profit sharing, as well as one-time charges for previously announced employment-reduction actions in international operations, including Japan, and start-up costs for new semiconductor capacity in Dallas. Fourth-quarter 1993 results included an accrual of $31 million for profit sharing and a pretax charge of $23 million related to the consolidation of TI's consumer and peripheral products businesses. Net income in the fourth quarter of 1994 was $188 million, and earnings per share were $1.98, compared with net income of $134 million and earnings per share of $1.42 in the fourth quarter of 1993.

Manufacturing operations have resumed at KTI Semiconductor in Nishiwaki, Japan, after being suspended following the earthquake in Kobe. KTI is a joint-venture manufacturing facility of TI and Kobe Steel.

TI's backlog of unfilled orders as of December 31, 1994, was $3913 million, up $108 million from the end of 1993, due to increases in semiconductor backlog. Backlog was down $249 million from the end of the third quarter of 1994, primarily because of a decline in defense electronics backlog.



TI-funded R&D was $689 million for 1994 and $190 million for the fourth quarter, compared with $590 million and $170 million for the same periods of 1993. Customer-funded R&D was $356 million in 1994, compared with $391 million in 1993.

Capital expenditures were $1076 million in 1994 and $320 million in the fourth quarter, compared with $730 million and $218 million in the same periods of 1993.

Depreciation for 1994 was $665 million, compared with $617 million in 1993, and $179 million in the fourth quarter of 1994, compared with $167 million in the same period of 1993. Depreciation in 1995 is expected to be about $800 million.

Components Segment: Orders in the components segment were up 27 percent for the year, and revenues up 33 percent, from 1993. Components segment profit increased substantially, primarily because of improved semiconductor manufacturing productivity and higher royalties.

For the fourth quarter of 1994, orders in the components segment were up 28 percent over the same period of 1993, with strong increases in semiconductor orders. Segment revenues were up 31 percent from the same period of a year ago, reflecting higher semiconductor revenues. Segment profit increased substantially over the fourth quarter of 1993 because of improved semiconductor operating performance and higher royalties.

Defense Electronics Segment: In TI's defense electronics segment, 1994 orders were up 11 percent from 1993 due to timing of orders. Revenues were down 7 percent from 1993, primarily because of reduced shipments of mature production programs. Margins for the year were essentially flat with 1993.

Fourth-quarter 1994 orders in defense electronics were down 30 percent from the fourth quarter of 1993 because of reduced procurement levels on mature production programs. Revenues were down 17 percent from the high level of the fourth quarter of 1993, which included shipments that were delayed from the third quarter of 1993. Margins remained essentially flat with fourth quarter of 1993.

Digital Products Segment: Orders in TI's digital products segment were up 10 percent in 1994, and revenues up 14 percent, compared with 1993. The segment operated at a profit for the year, with royalty revenues and profits from the personal productivity products business more than offsetting the divestiture charges taken in the first quarter of 1994.

For the fourth quarter of 1994, orders in the digital segment were essentially flat with the same period of 1993. Revenues were up 12 percent and the segment operated at a profit.

Intellectual Property: During 1994, TI reached new semiconductor patent-license agreements with Micron Technology Inc. and GoldStar Electron Co., Ltd.

As previously reported, on August 31, 1994, the district court in Tokyo ruled that Fujitsu's production of 1-megabit and 4-megabit DRAMs and 32K EPROMs does not infringe the company's Kilby patent. The company has appealed the court's decision to the Tokyo High Court. The decision should not have any significant effect on existing patent-license agreements.

Most of the existing semiconductor patent-license agreements expire at the end of 1995 or early in 1996, and preparations have begun for the upcoming round of negotiations regarding their renewal. The agreements with GoldStar, Hyundai Electronics Industries Co., Ltd., Micron, Mitsubishi Electric Corporation, Toshiba Corporation and Yamaha Corporation have expiration dates ranging from 1998 to 2001. Also, the company will continue negotiations with computer manufacturers in an effort to reach additional computer system patent-license agreements.

As in prior years, TI's negotiations are dependent on the strength of the company's entire patent portfolio and not on a single patent. Although these negotiations by their nature are not predictable as to outcome or timing, TI continues to expect a significant ongoing stream of royalty revenue throughout the remainder of the decade.

## Financial Condition

TI's financial condition remained strong in 1994 as cash flow from operating activities net of additions to property, plant and equipment was a positive $456 million.

During the year, cash and cash equivalents plus short-term investments increased by $402 million to $1290 million, primarily because of the cash flow mentioned above. On September 29, 1994, $76 million





of TI's 2.75% convertible subordinated debentures due 2002 were redeemed at the option of the holders. The $124 million remaining balance was classified as a long-term liability at the end of the third quarter because the holders' redemption period had lapsed. In early April, the company amended its asset securitization agreement for accounts receivable and reduced the outstanding balance from $175 million to $125 million. In January 1995, the company reduced the outstanding balance to zero, and the agreement will be terminated effective January 30, 1995. On June 17, 1994, the company announced an increase in the annual common dividend rate per share from $.72 to $1.00, resulting in approximately $7 million of increased dividend payments per quarter (at current common share balances). TI's debt-to-total-capital ratio was .21 at the end of 1994, down from .23 at the end of the third quarter and .28 at year-end 1993.

Unexpended authorizations for future capital expenditures were approximately $816 million at December 31, 1994. In view of increased semiconductor demand, we plan to raise capital expenditures in 1995 to about $1.3 billion, from $1076 million in 1994. The funds will be supplied by cash from operations and existing cash balances.

At December 31, 1994, the company had deferred income tax assets of $580 million, after a valuation allowance of $330 million, and deferred income tax liabilities of $38 million. The valuation allowance reflects the company's assessment regarding the realizability of certain non-U.S. deferred income tax assets. The balance of the deferred income tax assets is considered realizable based on carryback potential, existing taxable temporary differences, and expectation of future income levels comparable to recent results. Such future income levels are not assured because of the nature of the company's businesses, which are generally characterized by rapidly changing technology and intense competition. The company evaluates realizability of the deferred income tax assets quarterly.

The company maintains unused lines of credit to support commercial paper borrowing and to provide additional liquidity. Unused lines of credit were approximately $547 million at December 31, 1994. Of this amount, $440 million was available to support commercial paper borrowing.

The company believes that its financial condition provides the foundation for continued support of the programs essential to TI's future.

## 1993 Results of Operations Compared with 1992

TI's orders for 1993 were $8595 million, up 12 percent from $7645 million in 1992. Significantly higher semiconductor orders in the components segment were the primary contributor to the change.

TI's net revenues for 1993 were $8523 million, compared with $7440 million in 1992. Essentially all of the increase was in semiconductor revenues in the components segment, resulting primarily from new products and increased shipments. Royalty revenues for the year were $521 million, up 33 percent from 1992. The increase was primarily the result of new agreements with personal computer manufacturers covering TI's computer systems patents and higher shipments by licensees under TI's semiconductor patents. Profit from operations was $728 million in 1993, up 73 percent from $420 million in 1992. Higher semiconductor operating profits and higher royalties accounted for virtually all of the increase. Results for 1993 included a profit-sharing accrual of $83 million. There was no accrual for profit sharing in 1992.

Net income for the year was $472 million, compared with $247 million in 1992.

The income tax provision for 1993 was for U.S. and non-U.S. taxes, net of a third-quarter increase in deferred tax assets for the effect of the increase in the U.S. statutory rate. TI's income tax rate for the year was 31.6 percent.

TI's backlog of unfilled orders as of December 31, 1993, was $3805 million, up $72 million from the end of 1992, as increases in semiconductor backlog more than offset a decline in defense electronics.

TI-funded R&D was $590 million for 1993, compared with $470 million for 1992. Customer-funded R&D was $391 million in 1993, compared with $421 million in 1992.

Capital expenditures were $730 million in 1993, compared with $429 million in 1992.

Depreciation for 1993 was $617 million, compared with $610 million in 1992.

Components Segment: Orders in the components segment were up 32 percent for the year, and revenues up 28 percent, from 1992. Components segment profit doubled from 1992, with semiconductor operating improvement accounting for virtually all of the increase.

Defense Electronics Segment: In TI's defense electronics segment, 1993 orders were down 26 percent from 1992 because Operation Desert Storm replenishment orders



were not repeated in 1993. Revenues were down 7 percent from 1992, primarily because of reduced shipments of the High-Speed Antiradiation Missile. Margins for the year were essentially flat with 1992.

Digital Products Segment: Orders in TI's digital products segment were up 11 percent in 1993, and revenues up 8 percent, compared with 1992. Excluding the effect of the 1992 sale of TI's multiuser minicomputer systems and service operations to Hewlett-Packard, 1993 orders were up 25 percent, and revenues up 24 percent, over 1992. The segment operated at a profit for the year 1993, as royalty revenues more than offset operating losses.

Metallurgical Materials Segment: In the metallurgical materials segment, orders were up 12 percent, and revenues were up 5 percent, from 1992. The segment operated at a small loss for the year, primarily because of increased investments in new technologies, including solar energy.

Intellectual Property: During 1993, TI reached new semiconductor patent-license agreements with Hyundai Electronics Industries Co., Ltd. and Nippon Steel Semiconductor Corporation. We also reached computer systems patent-license agreements with personal computer manufacturers including Compaq Computer Corporation, Daewoo Electronics Company, Ltd., Daewoo Telecom Co., Ltd., Dell Computer Corporation, Gateway 2000, Inc., Hyundai, Packard Bell Electronics, Inc., Toshiba Corporation, and Zenith Data Systems.

## Common Stock Prices and Dividends

TI common stock is listed on the New York Stock Exchange and traded principally in that market. In addition, TI common stock is listed on the London and Tokyo stock exchanges and in Switzerland on the Zurich, Geneva and Basel stock exchanges. The table below shows the high and low prices of TI common stock on the composite tape as reported by The Wall Street Journal and the dividends paid per common share for each quarter during the past two years.

| | Quarter | | | |
|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th |
| Stock prices: | | | | |
| 1994 High | $89.50 | $85.75 | $87.50 | $80.63 |
| Low | 61.00 | 63.25 | 65.75 | 63.38 |
| 1993 High | 63.38 | 72.38 | 84.25 | 76.50 |
| Low | 45.75 | 51.63 | 65.88 | 55.75 |
| Dividends paid: | | | | |
| 1994 | $ .18 | $ .18 | $ .25 | $ .25 |
| 1993 | .18 | .18 | .18 | .18 |

Quarterly Financial Data

| 1994 | Millions of Dollars, Except Per-Share Amounts | | | |
|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th |
| Net revenues | $2,449 | $2,510 | $2,574 | $2,782 |
| Gross profit | 662 | 708 | 722 | 752 |
| Profit from operations | 209 | 292 | 291 | 291 |
| Income before provision for income taxes | 204 | 277 | 281 | 280 |
| Net income | 134 | 184 | 186 | 188 |
| Earnings per common and common equivalent share | $ 1.41 | $ 1.93 | $ 1.94 | $ 1.98 |

| 1993 | Millions of Dollars, Except Per-Share Amounts | | | |
|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th |
| Net revenues | $1,884 | $2,105 | $2,161 | $2,374 |
| Gross profit | 477 | 548 | 609 | 615 |
| Profit from operations | 140 | 173 | 218 | 198 |
| Income before provision for income taxes and cumulative effect of accounting changes | 129 | 169 | 196 | 202 |
| Income before cumulative effect of accounting changes | 85 | 112 | 146 | 134 |
| Net income | 81 | 112 | 146 | 134 |
| Earnings per common and common equivalent share: | | | | |
| Income before cumulative effect of accounting changes | $ .89 | $ 1.18 | $ 1.54 | $ 1.42 |
| Net income | .85 | 1.18 | 1.54 | 1.42 |

Effective January 1, 1993, the company adopted SFAS No. 106, which required accrual of expected retiree health care benefit costs during the employees' working careers, and SFAS No. 109, which required increased recording of deferred income tax assets. This resulted in a 1993 first quarter charge of $294 million ($3.12 per share) for SFAS No. 106 and a credit of $290 million ($3.08 per share) for SFAS No. 109, for the cumulative effect of the accounting changes.

Earnings per common and common equivalent share are based on average common and common equivalent shares outstanding (95,131,937 shares and 94,154,923 shares for the fourth quarters of 1994 and 1993). In computing per-share earnings, net income is increased by $1 million for the fourth quarter of 1993 for interest (net of tax and profit sharing effect) on the convertible debentures considered dilutive common stock equivalents.

EXHIBIT 21

# TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
## LIST OF SUBSIDIARIES OF THE REGISTRANT

The following are current subsidiaries of the Registrant.

| Subsidiary and Name Under Which Business is Done | Where Organized |
| --- | --- |
| Texas Instruments Deutschland G.m.b.H. | Germany |
| Texas Instruments France S.A. | France |
| Texas Instruments Holland B.V. | Netherlands |
| Texas Instruments Hong Kong Limited | Hong Kong |
| Texas Instruments Italia S.p.A. | Italy |
| Texas Instruments Japan Limited | Japan |
| Texas Instruments Limited | United Kingdom |
| Texas Instruments Malaysia Sdn. Bhd. | Malaysia |
| Texas Instruments (Philippines) Incorporated | Delaware |
| Texas Instruments Singapore (Pte) Limited | Singapore |
| Texas Instruments Taiwan Limited | Taiwan |
| TI Information Engineering Limited | United Kingdom |

Note: The names of other subsidiaries of the Registrant are not listed herein since the additional subsidiaries considered in the aggregate as a single subsidiary do not constitute a significant subsidiary as defined by Rule 1.02(v) of Regulation S-X.

EXHIBIT 23

# CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report on Form 10-K of Texas Instruments Incorporated and subsidiaries of our report dated January 26, 1995, included in the 1994 Annual Report to Stockholders of Texas Instruments Incorporated.

Our audits also included the financial statement schedule of Texas Instruments Incorporated listed in Item 14(a). This schedule is the responsibility of the Registrant's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements, and in the related prospectuses thereto, of our report dated January 26, 1995 with respect to the consolidated financial statements and consolidated schedule of Texas Instruments Incorporated, included in or incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 1994: Registration Statement No. 33-61154 on Form S-8, Registration Statement No. 33-21407 on Form S-8, Registration Statement No. 33-42172 on Form S-8, Registration Statement No. 33-54615 on Form S-8, Registration Statement No. 33-18509 on Form S-3, and Registration Statement No. 33-48840 on Form S-3.

ERNST & YOUNG LLP

Dallas, Texas
March 20, 1995

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES AS OF DECEMBER 31, 1994, AND FOR THE YEAR THEN ENDED, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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Dec-31-1994
Dec-31-1994
760
530
1,442
37
882
4,017
4,895
2,327
6,989
2,199
808
93
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7.27
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