

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2020

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-03761

**TEXAS INSTRUMENTS INCORPORATED**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State of Incorporation)

12500 TI Boulevard, Dallas, Texas

(Address of principal executive offices)

75-0289970

(I.R.S. Employer Identification No.)

75243

(Zip Code)

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

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

917,942,130

Number of shares of Registrant's common stock outstanding as of  
October 13, 2020

PART I - FINANCIAL INFORMATION

ITEM 1. Financial statements

Consolidated Statements of Income (Millions of dollars, except share and per-share amounts)	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 3,817	\$ 3,771	\$ 10,385	\$ 11,033
Cost of revenue (COR)	1,364	1,325	3,762	3,966
Gross profit	2,453	2,446	6,623	7,067
Research and development (R&D)	386	379	1,142	1,158
Selling, general and administrative (SG&A)	407	399	1,225	1,233
Acquisition charges	51	79	151	238
Restructuring charges/other	—	—	24	(36)
Operating profit	1,609	1,589	4,081	4,474
Other income (expense), net (OI&E)	27	34	151	122
Interest and debt expense	49	43	142	125
Income before income taxes	1,587	1,580	4,090	4,471
Provision for income taxes	234	155	183	524
Net income	\$ 1,353	\$ 1,425	\$ 3,907	\$ 3,947
Earnings per common share (EPS):				
Basic	\$ 1.47	\$ 1.51	\$ 4.22	\$ 4.19
Diluted	\$ 1.45	\$ 1.49	\$ 4.17	\$ 4.12
Average shares outstanding (millions):				
Basic	917	935	921	937
Diluted	929	950	933	953

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

Net income	\$ 1,353	\$ 1,425	\$ 3,907	\$ 3,947
Income allocated to RSUs	(6)	(8)	(19)	(25)
Income allocated to common stock for diluted EPS	\$ 1,347	\$ 1,417	\$ 3,888	\$ 3,922

See accompanying notes.

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 1,353	\$ 1,425	\$ 3,907	\$ 3,947
Other comprehensive income (loss)				
Net actuarial losses of defined benefit plans:				
Adjustments, net of tax effect of \$3 and (\$2); \$4 and \$1	(7)	5	(8)	—
Recognized within net income, net of tax effect of (\$2) and (\$3); (\$7) and (\$10)	7	9	21	30
Prior service credit of defined benefit plans:				
Recognized within net income, net of tax effect of \$0 and \$0; \$0 and \$0	(1)	—	(1)	—
Other comprehensive income (loss), net of taxes	(1)	14	12	30
Total comprehensive income	\$ 1,352	\$ 1,439	\$ 3,919	\$ 3,977

See accompanying notes.

Consolidated Balance Sheets	September 30, 2020	December 31, 2019
<b>(Millions of dollars, except share amounts)</b>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,822	\$ 2,437
Short-term investments	2,696	2,950
Accounts receivable, net of allowances of (\$12) and (\$8)	1,392	1,074
Raw materials	192	176
Work in process	959	916
Finished goods	921	909
Inventories	2,072	2,001
Prepaid expenses and other current assets	277	299
Total current assets	9,259	8,761
Property, plant and equipment at cost	5,698	5,740
Accumulated depreciation	(2,508)	(2,437)
Property, plant and equipment	3,190	3,303
Long-term investments	47	300
Goodwill	4,362	4,362
Acquisition-related intangibles	189	340
Deferred tax assets	299	197
Capitalized software licenses	133	69
Overfunded retirement plans	227	218
Other long-term assets	501	468
Total assets	\$ 18,207	\$ 18,018
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 550	\$ 500
Accounts payable	411	388
Accrued compensation	656	714
Income taxes payable	44	46
Accrued expenses and other liabilities	524	475
Total current liabilities	2,185	2,123
Long-term debt	6,247	5,303
Underfunded retirement plans	103	93
Deferred tax liabilities	69	78
Other long-term liabilities	1,278	1,514
Total liabilities	9,882	9,111
Stockholders' equity:		
Preferred stock, \$25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred – None issued	—	—
Common stock, \$1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	2,257	2,110
Retained earnings	41,305	39,898
Treasury common stock at cost		
Shares: September 30, 2020 – 823,174,578; December 31, 2019 – 808,784,381	(36,643)	(34,495)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(335)	(347)
Total stockholders' equity	8,325	8,907
Total liabilities and stockholders' equity	\$ 18,207	\$ 18,018

See accompanying notes.

<b>Consolidated Statements of Cash Flows</b> (Millions of dollars)	<b>For Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 3,907	\$ 3,947
Adjustments to net income:		
Depreciation	553	522
Amortization of acquisition-related intangibles	151	238
Amortization of capitalized software	45	40
Stock compensation	182	176
Gains on sales of assets	(3)	(23)
Deferred taxes	(115)	31
Increase (decrease) from changes in:		
Accounts receivable	(318)	(135)
Inventories	(71)	177
Prepaid expenses and other current assets	—	285
Accounts payable and accrued expenses	60	(64)
Accrued compensation	(48)	(115)
Income taxes payable	(316)	(200)
Changes in funded status of retirement plans	16	26
Other	(29)	(10)
Cash flows from operating activities	<u>4,014</u>	<u>4,895</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(437)	(684)
Proceeds from asset sales	3	30
Purchases of short-term investments	(3,435)	(1,374)
Proceeds from short-term investments	3,958	2,004
Other	(15)	25
Cash flows from investing activities	<u>74</u>	<u>1</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	1,498	1,491
Repayment of debt	(500)	(750)
Dividends paid	(2,489)	(2,167)
Stock repurchases	(2,538)	(2,471)
Proceeds from common stock transactions	356	491
Other	(30)	(35)
Cash flows from financing activities	<u>(3,703)</u>	<u>(3,441)</u>
Net change in cash and cash equivalents	385	1,455
Cash and cash equivalents at beginning of period	2,437	2,438
Cash and cash equivalents at end of period	<u>\$ 2,822</u>	<u>\$ 3,893</u>

See accompanying notes.

Notes to financial statements

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

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

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

During the third quarter, we reorganized the product lines within our Analog segment to simplify our business structure into our Power and Signal Chain product lines. These changes had no effect on either our previously reported consolidated financial statements or on our reportable segment results.

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

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

*Segment information*

	For Three Months Ended		For Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<b>Revenue:</b>				
Analog	\$ 2,865	\$ 2,674	\$ 7,759	\$ 7,726
Embedded Processing	651	724	1,850	2,310
Other	301	373	776	997
Total revenue	<u>\$ 3,817</u>	<u>\$ 3,771</u>	<u>\$ 10,385</u>	<u>\$ 11,033</u>
<b>Operating profit:</b>				
Analog	\$ 1,320	\$ 1,231	\$ 3,398	\$ 3,427
Embedded Processing	187	233	494	747
Other (a)	102	125	189	300
Total operating profit	<u>\$ 1,609</u>	<u>\$ 1,589</u>	<u>\$ 4,081</u>	<u>\$ 4,474</u>

(a) Includes acquisition charges and restructuring charges/other

*Geographic area information*

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

	For Three Months Ended		For Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<b>Revenue:</b>				
United States	\$ 440	\$ 504	\$ 1,179	\$ 1,468
Asia (a)	2,555	2,263	6,756	6,512
Europe, Middle East and Africa	578	699	1,648	2,151
Japan	140	198	523	607
Rest of world	104	107	279	295
Total revenue	\$ 3,817	\$ 3,771	\$ 10,385	\$ 11,033

- (a) Revenue from products shipped into China was \$2.2 billion and \$1.9 billion in the third quarters of 2020 and 2019, respectively, and \$5.7 billion and \$5.4 billion in the first nine months of 2020 and 2019, respectively, which includes shipments to customers that manufacture in China and then export end products to their customers around the world, as well as distributors that transship inventory through China to service other countries.

**2. Basis of presentation and significant accounting policies and practices**
*Basis of presentation*

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

*Significant accounting policies and practices*
Earnings per share (EPS)

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

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

	For Three Months Ended September 30,					
	2020			2019		
	Net Income	Shares	EPS	Net Income	Shares	EPS
<b>Basic EPS:</b>						
Net income	\$ 1,353			\$ 1,425		
Income allocated to RSUs	(6)			(9)		
Income allocated to common stock	\$ 1,347	917	\$ 1.47	\$ 1,416	935	\$ 1.51
Dilutive effect of stock compensation plans		12			15	
<b>Diluted EPS:</b>						
Net income	\$ 1,353			\$ 1,425		
Income allocated to RSUs	(6)			(8)		
Income allocated to common stock	\$ 1,347	929	\$ 1.45	\$ 1,417	950	\$ 1.49
<b>For Nine Months Ended September 30,</b>						
	2020			2019		
	Net Income	Shares	EPS	Net Income	Shares	EPS
	<b>Basic EPS:</b>					
Net income	\$ 3,907			\$ 3,947		
Income allocated to RSUs	(19)			(25)		
Income allocated to common stock	\$ 3,888	921	\$ 4.22	\$ 3,922	937	\$ 4.19
Dilutive effect of stock compensation plans		12			16	
<b>Diluted EPS:</b>						
Net income	\$ 3,907			\$ 3,947		
Income allocated to RSUs	(19)			(25)		
Income allocated to common stock	\$ 3,888	933	\$ 4.17	\$ 3,922	953	\$ 4.12

Potentially dilutive securities representing 3 million and 6 million shares of common stock that were outstanding during the third quarters of 2020 and 2019, respectively, and 4 million and 7 million shares outstanding during the first nine months of 2020 and 2019, respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

Derivatives and hedging

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

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

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

We do not use derivatives for speculative or trading purposes.



Fair values of financial instruments

The fair values of our derivative financial instruments were not material as of September 30, 2020. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. As of September 30, 2020, the carrying value of long-term debt, including the current portion, was \$6.80 billion, and the estimated fair value was \$7.73 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 4 for a description of fair value and the definition of Level 2 inputs.

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

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

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

3. Income taxes

Our estimated annual effective tax rate is about 14%, which does not include discrete tax items. This differs from the 21% statutory corporate tax rate due to the effect of U.S. tax benefits.

Provision for income taxes is based on the following:

	For Three Months Ended		For Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Taxes calculated using the estimated annual effective tax rate	\$ 231	\$ 257	\$ 561	\$ 715
Discrete tax items	3	(102)	(378)	(191)
Provision for income taxes	\$ 234	\$ 155	\$ 183	\$ 524
Actual effective tax rate	15 %	10 %	4 %	12 %

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

4. Valuation of debt and equity investments and certain liabilities

*Investments measured at fair value*

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

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

*Other investments*

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

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

Details of our investments are as follows:

	September 30, 2020			December 31, 2019		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
<b>Measured at fair value:</b>						
Available-for-sale debt securities:						
Money market funds	\$ 911	\$ —	\$ —	\$ 1,213	\$ —	\$ —
Corporate obligations	341	256	—	174	1,216	—
U.S. government agency and Treasury securities	1,047	2,440	—	604	1,734	—
Trading securities:						
Mutual funds	—	—	16	—	—	272
<b>Total</b>	<b>2,299</b>	<b>2,696</b>	<b>16</b>	<b>1,991</b>	<b>2,950</b>	<b>272</b>
<b>Other measurement basis:</b>						
Equity-method investments	—	—	27	—	—	24
Non-marketable equity investments	—	—	4	—	—	4
Cash on hand	523	—	—	446	—	—
<b>Total</b>	<b>\$ 2,822</b>	<b>\$ 2,696</b>	<b>\$ 47</b>	<b>\$ 2,437</b>	<b>\$ 2,950</b>	<b>\$ 300</b>

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

Proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$510 million and \$220 million for the third quarters of 2020 and 2019, respectively, and \$3.71 billion and \$2.00 billion for the first nine months of 2020 and 2019, respectively. Gross realized gains and losses from these sales were not material.

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

*Fair-value considerations*

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

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

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

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

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

	September 30, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Assets:</b>						
Money market funds	\$ 911	\$ —	\$ 911	\$ 1,213	\$ —	\$ 1,213
Corporate obligations	—	597	597	—	1,390	1,390
U.S. government agency and Treasury securities	3,487	—	3,487	2,338	—	2,338
Mutual funds	16	—	16	272	—	272
Total assets	\$ 4,414	\$ 597	\$ 5,011	\$ 3,823	\$ 1,390	\$ 5,213
<b>Liabilities:</b>						
Deferred compensation	\$ 314	\$ —	\$ 314	\$ 298	\$ —	\$ 298
Total liabilities	\$ 314	\$ —	\$ 314	\$ 298	\$ —	\$ 298

##### 5. Goodwill and acquisition-related intangibles

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

The components of acquisition-related intangibles are as follows:

	Amortization Period (Years)	September 30, 2020			December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	8 – 10	\$ 1,895	\$ 1,706	\$ 189	\$ 2,000	\$ 1,660	\$ 340

##### *Acquisition charges*

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

Amortization of acquisition-related intangibles was \$51 million and \$79 million for the third quarters of 2020 and 2019, respectively, and \$151 million and \$238 million for the first nine months of 2020 and 2019. Fully amortized assets are written off against accumulated amortization.

6. Postretirement benefit plans

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

For Three Months Ended September 30,	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2020	2019	2020	2019	2020	2019
Service cost	\$ 5	\$ 4	\$ 1	\$ 1	\$ 9	\$ 7
Interest cost	7	9	3	4	9	11
Expected return on plan assets	(9)	(10)	(2)	(4)	(20)	(20)
Recognized net actuarial loss	1	3	—	—	4	6
Amortization of prior service cost (credit)	—	—	(1)	(1)	—	1
Net periodic benefit costs	4	6	1	—	2	5
Settlement losses	3	3	—	—	1	—
Total, including other postretirement losses	\$ 7	\$ 9	\$ 1	\$ —	\$ 3	\$ 5

For Nine Months Ended September 30,	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2020	2019	2020	2019	2020	2019
Service cost	\$ 14	\$ 13	\$ 2	\$ 2	\$ 25	\$ 23
Interest cost	24	28	9	11	28	33
Expected return on plan assets	(27)	(31)	(8)	(11)	(58)	(64)
Recognized net actuarial loss	5	8	—	—	11	21
Amortization of prior service cost (credit)	—	—	(1)	(1)	—	1
Net periodic benefit costs	16	18	2	1	6	14
Settlement losses	10	9	—	—	2	2
Total, including other postretirement losses	\$ 26	\$ 27	\$ 2	\$ 1	\$ 8	\$ 16

 7. Debt and lines of credit
*Short-term borrowings*

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

*Long-term debt*

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

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

Long-term debt outstanding is as follows:

	September 30, 2020	December 31, 2019
Notes due 2020 at 1.75%	\$ —	\$ 500
Notes due 2021 at 2.75%	550	550
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	300
Notes due 2025 at 1.375%	750	—
Notes due 2027 at 2.90%	500	500
Notes due 2029 at 2.25%	750	750
Notes due 2030 at 1.75%	750	—
Notes due 2039 at 3.875%	750	750
Notes due 2048 at 4.15%	1,500	1,500
Total debt	<u>6,850</u>	5,850
Net unamortized discounts, premiums and issuance costs	<u>(53)</u>	(47)
Total debt, including net unamortized discounts, premiums and issuance costs	6,797	5,803
Current portion of long-term debt	<u>(550)</u>	(500)
Long-term debt	<u>\$ 6,247</u>	<u>\$ 5,303</u>

Interest and debt expense was \$49 million and \$43 million for the third quarters of 2020 and 2019, respectively, and \$142 million and \$125 million for the first nine months of 2020 and 2019, respectively. This was net of the amortized discounts, premiums and issuance costs. Capitalized interest was not material.

8. Stockholders' equity

Changes in equity are as follows:

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2019	\$ 1,741	\$ 2,110	\$ 39,898	\$ (34,495)	\$ (347)
<b>2020</b>					
Net income	—	—	1,174	—	—
Dividends declared and paid (\$0.90 per share)	—	—	(841)	—	—
Common stock issued for stock-based awards	—	(77)	—	223	—
Stock repurchases	—	—	—	(1,730)	—
Stock compensation	—	63	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	19
Dividend equivalents on RSUs	—	—	(4)	—	—
Balance, March 31, 2020	1,741	2,096	40,227	(36,002)	(328)
Net income	—	—	1,380	—	—
Dividends declared and paid (\$0.90 per share)	—	—	(823)	—	—
Common stock issued for stock-based awards	—	17	—	70	—
Stock repurchases	—	—	—	(793)	—
Stock compensation	—	69	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(6)
Dividend equivalents on RSUs	—	—	(4)	—	—
Balance, June 30, 2020	1,741	2,182	40,780	(36,725)	(334)
Net income	—	—	1,353	—	—
Dividends declared and paid (\$0.90 per share)	—	—	(825)	—	—
Common stock issued for stock-based awards	—	26	—	97	—
Stock repurchases	—	—	—	(15)	—
Stock compensation	—	50	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(1)
Dividend equivalents on RSUs	—	—	(3)	—	—
Other	—	(1)	—	—	—
Balance, September 30, 2020	\$ 1,741	\$ 2,257	\$ 41,305	\$ (36,643)	\$ (335)

**TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES**

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2018	\$ 1,741	\$ 1,950	\$ 37,906	\$ (32,130)	\$ (473)
<b>2019</b>					
Net income	—	—	1,217	—	—
Dividends declared and paid (\$0.77 per share)	—	—	(724)	—	—
Common stock issued for stock-based awards	—	(84)	—	235	—
Stock repurchases	—	—	—	(1,185)	—
Stock compensation	—	61	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	8
Dividend equivalents on RSUs	—	—	(4)	—	—
Other	—	—	1	—	—
Balance, March 31, 2019	1,741	1,927	38,396	(33,080)	(465)
Net income	—	—	1,305	—	—
Dividends declared and paid (\$0.77 per share)	—	—	(722)	—	—
Common stock issued for stock-based awards	—	10	—	136	—
Stock repurchases	—	—	—	(830)	—
Stock compensation	—	67	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	8
Dividend equivalents on RSUs	—	—	(4)	—	—
Other	—	(1)	(1)	(1)	—
Balance, June 30, 2019	1,741	2,003	38,974	(33,775)	(457)
Net income	—	—	1,425	—	—
Dividends declared and paid (\$0.77 per share)	—	—	(721)	—	—
Common stock issued for stock-based awards	—	8	—	186	—
Stock repurchases	—	—	—	(456)	—
Stock compensation	—	48	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	14
Dividend equivalents on RSUs	—	—	(4)	—	—
Other	—	(1)	—	—	—
Balance, September 30, 2019	\$ 1,741	\$ 2,058	\$ 39,674	\$ (34,045)	\$ (443)

**9. Contingencies**
*Indemnification guarantees*

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

*Warranty costs/product liabilities*

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

General

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

10. Supplemental financial information

*Restructuring charges/other*

During the first nine months of 2020, we recognized \$24 million of restructuring charges for severance and benefit costs associated with our Embedded Processing business. As of September 30, 2020, \$1 million of payments have been made.

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

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

	For Three Months Ended		For Nine Months Ended		Impact to Related Statement of Income Lines
	September 30,		September 30,		
	2020	2019	2020	2019	
Net actuarial losses of defined benefit plans:					
Recognized net actuarial loss and settlement losses (a)	\$ 9	\$ 12	\$ 28	\$ 40	Decrease to OI&E
Tax effect	(2)	(3)	(7)	(10)	Decrease to provision for income taxes
Recognized within net income, net of taxes	\$ 7	\$ 9	\$ 21	\$ 30	Decrease to net income
Prior service credit of defined benefit plans:					
Amortization of prior service credit (a)	\$ (1)	\$ —	\$ (1)	\$ —	Increase to OI&E
Tax effect	—	—	—	—	Increase to provision for income taxes
Recognized within net income, net of taxes	\$ (1)	\$ —	\$ (1)	\$ —	Increase to net income

(a) Detailed in Note 6.

*Stock compensation*

Total shares of 2,160,645 and 8,943,825 were issued from treasury shares during the third quarter and first nine months of 2020, respectively, related to stock compensation.



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

### Overview

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

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

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

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

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

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

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

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. During the third quarter, we reorganized the product lines within our Analog segment to simplify our business structure into our Power and Signal Chain product lines. These changes had no impact on our previously reported consolidated financial statements or on our reportable segment results. See Note 1 to the financial statements for more information regarding our segments.
- When we discuss our results:
  - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
  - New products do not tend to have a significant impact on our revenue in any given period because we sell such a large number of products.
  - From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the "mix" of products shipped.
  - Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.
  - For an explanation of free cash flow and the term "annual operating tax rate," see the Non-GAAP financial information section.
- All dollar amounts in the tables are stated in millions of U.S. dollars.

### **Impact of COVID-19**

The coronavirus (COVID-19) pandemic and its follow-on effects are impacting and will likely continue to impact business activity across industries worldwide, including TI. Therefore, we remain cautious about how the economy might behave for the next few years.

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

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

### **Performance summary**

Our third quarter revenue was \$3.82 billion, net income was \$1.35 billion and earnings per share (EPS) were \$1.45.

Revenue increased 18% sequentially with notable strength from the rebound of automotive demand and growing demand from personal electronics. Revenue increased 1% from the same quarter a year ago.

In our core businesses, Analog revenue grew 18% and Embedded Processing grew 19% sequentially. From a year ago, Analog revenue grew 7% and Embedded Processing declined 10%.

Our cash flow from operations of \$5.8 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the same period was \$5.2 billion and 38% of revenue. This reflects the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

We have returned \$6.4 billion to shareholders in the past 12 months through stock repurchases and dividends. Over the same period, our dividends represented 64% of free cash flow, underscoring their sustainability. In September, we announced we would increase our dividend by 13%. Together, our stock repurchases and dividends reflect our continued commitment to return all free cash flow to our shareholders.

### Results of operations – third quarter 2020 compared with third quarter 2019

Revenue of \$3.82 billion increased \$46 million, or 1%, primarily due to higher revenue from Analog, partially offset by lower revenue from Embedded Processing.

Gross profit of \$2.45 billion was about even. As a percentage of revenue, gross profit decreased to 64.3% from 64.9%.

Operating expenses (R&D and SG&A) were \$793 million compared with \$778 million.

Acquisition charges were \$51 million compared with \$79 million and were non-cash. See Note 5 to the financial statements.

Operating profit was \$1.61 billion, or 42.2% of revenue, compared with \$1.59 billion, or 42.1% of revenue.

OI&E was \$27 million of income compared with \$34 million of income, which decreased primarily due to reduced interest income.

Interest and debt expense of \$49 million increased \$6 million due to the issuance of additional long-term debt.

Our provision for income taxes was \$234 million compared with \$155 million. This increase was due to lower discrete tax items, partially offset by a lower annual operating tax rate. Our annual operating tax rate, which does not include discrete tax items, is about 14% compared with 16% in 2019. We use “annual operating tax rate” to describe the estimated annual effective tax rate. The 2020 rate differs from the 21% U.S. statutory corporate tax rate due to the effect of U.S. tax benefits.

Net income was \$1.35 billion compared with \$1.43 billion. EPS was \$1.45 compared with \$1.49.

#### Third quarter 2020 segment results

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

##### *Analog (includes Power and Signal Chain product lines)*

	Q3 2020	Q3 2019	Change
Revenue	\$ 2,865	\$ 2,674	7 %
Operating profit	1,320	1,231	7 %
Operating profit % of revenue	46.1 %	46.0 %	

Analog revenue increased in both product lines, led by Signal Chain. Operating profit increased due to higher revenue and associated gross profit.

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

	Q3 2020	Q3 2019	Change
Revenue	\$ 651	\$ 724	(10)%
Operating profit	187	233	(20)%
Operating profit % of revenue	28.7 %	32.2 %	

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

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

	Q3 2020	Q3 2019	Change
Revenue	\$ 301	\$ 373	(19)%
Operating profit*	102	125	(18)%
Operating profit % of revenue	33.9 %	33.5 %	

\* Includes acquisition charges

Other revenue decreased \$72 million, and operating profit decreased \$23 million.

### Results of operations – first nine months of 2020 compared with first nine months of 2019

Revenue of \$10.39 billion decreased \$648 million, or 6%, primarily due to lower revenue from Embedded Processing.

Gross profit of \$6.62 billion was down \$444 million, or 6%, due to lower revenue. As a percentage of revenue, gross profit decreased to 63.8% from 64.1%.

Operating expenses were \$2.37 billion compared with \$2.39 billion.

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

Acquisition charges were \$151 million compared with \$238 million and were non-cash. See Note 5 to the financial statements.

Operating profit was \$4.08 billion, or 39.3% of revenue, compared with \$4.47 billion, or 40.6% of revenue.

OI&E was \$151 million of income compared with \$122 million of income, which increased primarily due to the reversal of interest accrued on an uncertain tax position, partially offset by lower interest income.

Interest and debt expense of \$142 million increased \$17 million due to the issuance of additional long-term debt.

Our provision for income taxes was \$183 million compared with \$524 million. This decrease was due to higher discrete tax benefits, which included a \$249 million benefit from the settlement of a depreciation-related uncertain tax position, and, to a lesser extent, a lower annual operating tax rate and lower income before income taxes.

Net income was \$3.91 billion compared with \$3.95 billion. EPS was \$4.17 compared with \$4.12.

### Year-to-date segment results

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

#### *Analog*

	YTD 2020	YTD 2019	Change
Revenue	\$ 7,759	\$ 7,726	— %
Operating profit	3,398	3,427	(1)%
Operating profit % of revenue	43.8 %	44.4 %	

Analog revenue was about even in both product lines. Operating profit was about even.

#### *Embedded Processing*

	YTD 2020	YTD 2019	Change
Revenue	\$ 1,850	\$ 2,310	(20)%
Operating profit	494	747	(34)%
Operating profit % of revenue	26.7 %	32.3 %	

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

## Other

	YTD 2020	YTD 2019	Change
Revenue	\$ 776	\$ 997	(22)%
Operating profit*	189	300	(37)%
Operating profit % of revenue	24.4 %	30.1 %	

\* Includes acquisition charges and restructuring charges/other

Other revenue decreased \$221 million, and operating profit decreased \$111 million.

### Financial condition

At the end of the third quarter of 2020, total cash (cash and cash equivalents plus short-term investments) was \$5.52 billion, an increase of \$131 million from the end of 2019.

Accounts receivable were \$1.39 billion, an increase of \$318 million compared with the end of 2019. Days sales outstanding at the end of the third quarter of 2020 were 33 compared with 29 at the end of 2019.

Inventory was \$2.07 billion, an increase of \$71 million from the end of 2019. Days of inventory at the end of the third quarter of 2020 were 137 compared with 144 at the end of 2019. The increase in inventory reflects our desire to maintain high optionality with our operating plan so we can keep our lead times stable and product availability high, particularly during this time when our customers' ability to forecast their demand is limited. It is also higher as we reduce the number of distributors this year and have a closer, direct relationship with our customers.

### Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and a variable-rate, revolving credit facility. Cash flows from operating activities for the first nine months of 2020 were \$4.01 billion, a decrease of \$881 million from the year-ago period primarily due to an increase in cash used for working capital.

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

Investing activities for the first nine months of 2020 provided \$74 million compared with \$1 million in the year-ago period. Capital expenditures were \$437 million compared with \$684 million in the year-ago period and were primarily for semiconductor manufacturing equipment and facilities in both periods. Short-term investments provided cash of \$523 million compared with \$630 million in the year-ago period.

Financing activities for the first nine months of 2020 used \$3.70 billion compared with \$3.44 billion in the year-ago period. In 2020, we received net proceeds of \$1.50 billion from the issuance of fixed-rate, long-term debt, and we retired maturing debt of \$500 million. In the year-ago period, we received net proceeds of \$1.49 billion from the issuance of fixed-rate, long-term debt, and we retired maturing debt of \$750 million. Dividends paid were \$2.49 billion compared with \$2.17 billion in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used \$2.54 billion to repurchase 23.3 million shares of our common stock compared with \$2.47 billion used in the year-ago period to repurchase 23.4 million shares. Employee exercises of stock options provided cash proceeds of \$356 million compared with \$491 million in the year-ago period.

We had \$2.82 billion of cash and cash equivalents and \$2.70 billion of short-term investments as of September 30, 2020. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

### Non-GAAP financial information

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

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

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

	<b>For 12 Months Ended</b>		<b>Change</b>
	<b>September 30,</b>		
	<b>2020</b>	<b>2019</b>	
Cash flow from operations (GAAP)	\$ 5,768	\$ 7,040	(18)%
Capital expenditures	(600)	(1,007)	
Free cash flow (non-GAAP)	<u>\$ 5,168</u>	<u>\$ 6,033</u>	(14)%
Revenue	<u>\$ 13,735</u>	<u>\$ 14,750</u>	
Cash flow from operations as a percentage of revenue (GAAP)	42.0 %	47.7 %	
Free cash flow as a percentage of revenue (non-GAAP)	37.6 %	40.9 %	

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

#### **Long-term contractual obligations**

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

#### **Changes in accounting standards**

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

**ITEM 4. Controls and procedures**

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

## PART II – OTHER INFORMATION

### ITEM 1A. Risk factors

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

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

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

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
July 1, 2020 through July 31, 2020	89,262	\$ 129.15	68,088	\$ 10.65 billion
August 1, 2020 through August 31, 2020	40,951	131.33	40,951	10.65 billion
September 1, 2020 through September 30, 2020	877	134.78	877	10.65 billion
Total	<u>131,090 (b)</u>	\$ <u>129.87 (b)</u>	<u>109,916</u>	\$ 10.65 billion (c)

- (a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$12.0 billion of additional shares of TI common stock announced September 20, 2018.
- (b) In addition to open-market purchases, 21,174 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.
- (c) As of September 30, 2020, this amount consisted of the remaining portion of the \$12.0 billion authorized in September 2018. No expiration date has been specified for this authorization.



## ITEM 6. Exhibits

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

† Filed or furnished herewith.

## Notice regarding forward-looking statements

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

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

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

- Impairments of our non-financial assets.

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



## CERTIFICATIONS

I, Richard K. Templeton, certify that:

1. I have reviewed this report on Form 10-Q of Texas Instruments Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 21, 2020

/s/ Richard K. Templeton

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Richard K. Templeton  
Chairman, President  
and Chief Executive Officer

CERTIFICATIONS

I, Rafael R. Lizardi, certify that:

1. I have reviewed this report on Form 10-Q of Texas Instruments Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 21, 2020

/s/ Rafael R. Lizardi

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Rafael R. Lizardi  
Senior Vice President and  
Chief Financial Officer

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

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: October 21, 2020

/s/ Richard K. Templeton

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Richard K. Templeton  
Chairman, President  
and Chief Executive Officer

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

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: October 21, 2020

/s/ Rafael R. Lizardi

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Rafael R. Lizardi  
Senior Vice President and  
Chief Financial Officer