## TEXAS INSTRUMENTS INC

Form 10-Q
October 31, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

## S QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008
o 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)
75-0289970
(I.R.S. Employer Identification No.)

| 12500 TI Boulevard, P.O. Box 660199, Dallas, | 75266-0199 |
| :---: | :---: |
| Texas |  |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code 972-995-3773

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90
days. Yes S No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer S
Non-accelerated filer o (Do not check if a smaller reporting company)

Accelerated filer o
Smaller reporting company o

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

1,296,424,945
Number of shares of Registrant's common stock outstanding as of September 30, 2008

## PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES <br> Consolidated Statements of Income (Millions of dollars, except share and per-share amounts)

|  | For Three Months Ended Sept. 30, |  |  |  | For Nine Months Ended Sept. 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |
| Revenue | \$ | 3,387 | \$ | 3,663 | \$ | 10,010 | \$ | 10,279 |
| Cost of revenue |  |  |  |  |  |  |  |  |
| (COR) |  | 1,744 |  | 1,679 |  | 4,862 |  | 4,873 |
| Gross profit |  | 1,643 |  | 1,984 |  | 5,148 |  | 5,406 |
| Research and development (R\&D) |  | 507 |  | 542 |  | 1,509 |  | 1,646 |
| Selling, general and administrative (SG\&A) |  | 390 |  | 429 |  | 1,252 |  | 1,259 |
| Operating profit |  | 746 |  | 1,013 |  | 2,387 |  | 2,501 |
| Other income (expense) net |  | 10 |  | 53 |  | 58 |  | 149 |
| Income from continuing operations before income taxes |  | 756 |  | 1,066 |  | 2,445 |  | 2,650 |
| Provision for income taxes |  | 193 |  | 308 |  | 632 |  | 762 |
| Income from continuing operations |  | 563 |  | 758 |  | 1,813 |  | 1,888 |
| Income from discontinued operations, net of taxes |  | -- |  | 18 |  | -- |  | 14 |
| Net income | \$ | 563 | \$ | 776 | \$ | 1,813 | \$ | 1,902 |
|  |  |  |  |  |  |  |  |  |
| Basic earnings per common share: |  |  |  |  |  |  |  |  |
| Income from continuing operations | \$ | . 43 | \$ | . 54 | \$ | 1.38 | \$ | 1.32 |
| Net income | \$ | . 43 | \$ | . 55 | \$ | 1.38 | \$ | 1.33 |
| Diluted earnings per common share: |  |  |  |  |  |  |  |  |
| Income from continuing operations | \$ | . 43 | \$ | . 52 | \$ | 1.36 | \$ | 1.29 |
| Net income | \$ | . 43 | \$ | . 54 | \$ | 1.36 | \$ | 1.30 |
|  |  |  |  |  |  |  |  |  |
| Average shares outstanding (millions): |  |  |  |  |  |  |  |  |
| Basic |  | 1,304 |  | 1,417 |  | 1,317 |  | 1,432 |
| Diluted |  | 1,318 |  | 1,448 |  | 1,335 |  | 1,462 |
|  |  |  |  |  |  |  |  |  |
| Cash dividends declared per share of common stock | \$ | . 10 | \$ | . 08 | \$ | . 30 | \$ | . 20 |

See accompanying notes.

## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES <br> Consolidated Statements of Comprehensive Income (Millions of dollars)

| For Three Months Ended | For Nine Months Ended |
| :---: | :---: |
| Sept. 30, | Sept. 30, |
| 2008 | 2007 |


| Income from continuing operations | \$ | 563 | \$ | 758 | \$ | 1,813 | \$ | 1,888 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Other comprehensive income (loss): |  |  |  |  |  |  |  |  |
| Changes in available-for-sale investments: |  |  |  |  |  |  |  |  |
| Adjustment, net of taxes |  | (19) |  | 2 |  | (28) |  | 2 |
| Reclassification of recognized transactions, net of taxes |  | -- |  | -- |  | (3) |  | (1) |
| Unrecognized net actuarial loss of defined benefit plans: |  |  |  |  |  |  |  |  |
| Adjustment, net of taxes |  | 2 |  | (10) |  | (8) |  | 58 |
| Reclassification of recognized transactions, net of taxes |  | 5 |  | 5 |  | 17 |  | 18 |
| Unrecognized prior service cost of defined benefit plans: |  |  |  |  |  |  |  |  |
| Adjustment, net of taxes |  | 1 |  | 3 |  | 4 |  | 2 |
| Total |  | (11) |  | -- |  | (18) |  | 79 |
| Total from continuing operations |  | 552 |  | 758 |  | 1,795 |  | 1,967 |
| Income from discontinued operations, net of taxes |  | -- |  | 18 |  | -- |  | 14 |
| Total comprehensive income | \$ | 552 | \$ | 776 |  | 1,795 | \$ | 1,981 |

See accompanying notes.

2

# TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES 

Consolidated Balance Sheets
(Millions of dollars, except share amounts)


3

| 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 |  |  |  |  |
| Paid-in capital |  | 973 |  | 931 |
| Retained earnings |  | 21,204 |  | 19,788 |
| Less treasury common stock at cost: |  |  |  |  |
| Shares: September 30, 2008 - 443,292,628; December 31, 2007 - 396,421,798 |  | $(13,481)$ |  | $(12,160)$ |
| Accumulated other comprehensive income (loss), net of taxes |  | (342) |  | (324) |
| Total stockholders' equity |  | 10,094 |  | 9,975 |
| Total liabilities and stockholders' equity | \$ | 12,466 | \$ | 12,667 |

See accompanying notes.

4

## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Cash Flows <br> (Millions of dollars)

|  | For Nine Months Ended Sept. 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  |
| Cash flows from operating activities: |  |  |  |  |
| Net income | \$ | 1,813 | \$ | 1,902 |
| Adjustments to net income: |  |  |  |  |
| Income from discontinued operations |  | -- |  | (14) |
| Depreciation |  | 738 |  | 770 |
| Stock-based compensation |  | 162 |  | 212 |
| Amortization of acquisition-related intangibles |  | 28 |  | 38 |
| Loss (gain) on sale of assets |  | 6 |  | (39) |
| Deferred income taxes |  | (159) |  | 30 |
| Increase (decrease) from changes in: |  |  |  |  |
| Accounts receivable |  | (24) |  | (244) |
| Inventories |  | (157) |  | (21) |
| Prepaid expenses and other current assets |  | (25) |  | (13) |
| Accounts payable and accrued expenses |  | (171) |  | 97 |
| Income taxes payable |  | 25 |  | 351 |
| Accrued profit sharing and retirement |  | (74) |  | (19) |
| Other |  | 50 |  | (67) |
| Net cash provided by operating activities of continuing operations |  | 2,212 |  | 2,983 |
|  |  |  |  |  |
| Cash flows from investing activities: |  |  |  |  |
| Additions to property, plant and equipment |  | (686) |  | (505) |
| Proceeds from sales of assets |  | -- |  | 61 |
| Purchases of short-term investments |  | (362) |  | $(4,241)$ |
| Sales and maturities of short-term investments |  | 1,118 |  | 3,914 |
| Purchases of long-term investments |  | (8) |  | (26) |
| Sales of long-term investments |  | 48 |  | 9 |
| Acquisitions, net of cash acquired |  | (19) |  | (31) |
| Net cash provided by (used in) investing activities of continuing operations |  | 91 |  | (819) |
|  |  |  |  |  |
| Cash flows from financing activities: |  |  |  |  |
| Payments on long-term debt |  | -- |  | (43) |
| Dividends paid |  | (396) |  | (287) |
| Sales and other common stock transactions |  | 195 |  | 694 |


| Excess tax benefit from share-based <br> payments | 10 |  |
| :--- | ---: | ---: |
| Stock repurchases | $(1,736)$ | $(3,008)$ |
| Net cash used in financing activities of continuing operations | $(1,920)$ | $(2,538)$ |
| Effect of exchange rate changes on <br> cash | 4 | $(2)$ |
| Net increase (decrease) in cash and cash <br> equivalents <br> Cash and cash equivalents, beginning of <br> period <br> Cash and cash equivalents, end of <br> period | 387 |  |

See accompanying notes.

5

## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Notes to Financial Statements
1.Description of Business and Significant Accounting Policies and Practices. Texas Instruments (TI) makes, markets and sells high-technology components; about 80,000 customers all over the world buy our products.

Acquisitions - In the second quarter of 2008, we made two acquisitions that were integrated into the Semiconductor segment. In the first and third quarters of 2007, we also made acquisitions, including an asset acquisition, that were integrated into the Semiconductor segment.

Disposition - In the third quarter of 2007, we completed the sale of our broadband digital subscriber line (DSL) customer-premises equipment semiconductor product line to Infineon Technologies AG (Infineon) for $\$ 61$ million and recognized in cost of revenue an initial gain of $\$ 39$ million. Based on the levels of revenue generated by this product line for Infineon subsequent to the closing date, we may be required to refund up to $\$ 16$ million, which has been previously accrued.

Change in Capitalization - On April 2, 2007, we retired $\$ 43$ million of $8.75 \%$ notes at maturity.
Basis of Presentation - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (US 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, 2007, except for the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," as of January 1, 2008. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended September 30, 2008 and 2007, and the balance sheet as of September 30, 2008, 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. The consolidated balance sheet as of December 31, 2007, presented herein is derived from the audited consolidated balance sheet presented in our annual report on Form $10-\mathrm{K}$ at that date. Certain amounts in the prior periods' financial statements have been reclassified to conform to the current period presentation. 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 US 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, 2007. The results for the nine-month period are not necessarily indicative of a full year's results.

As disclosed in our 2007 annual report on Form 10-K, SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" requires us to recognize the funded status (i.e. the difference between the fair value of plan assets and the projected benefit obligations) of our defined benefit pension and other postretirement benefit plans on our balance sheets. The funded status is required to be measured annually on December 31 in accordance with SFAS 158, and as a result, the funded status of our plans as of September 30, 2008, does not reflect changes that have occurred during 2008 in certain actuarial assumptions, such as the assumed discount rates used for measuring our pension obligations, nor does it reflect changes in the fair value of plan assets since December 31, 2007. While we expect that changes in general market conditions, such as the recent decline experienced in global equity markets, will adversely affect the funded status of our various plans at the December 31 measurement date, we do not anticipate these changes will significantly impact our liquidity or our overall financial condition. Please refer to Note 10 in our 2007 annual report on Form $10-\mathrm{K}$ for a full description of our postretirement benefit plans.

The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in the notes, except share and per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated.

Changes in Accounting Standards - In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, "Fair Value Measurements," which provides guidance on how to measure assets and liabilities that are recorded at fair value. SFAS 157 does not expand the use of fair value to any new circumstances, but does require additional disclosures in both annual and quarterly reports. We adopted SFAS 157 and its related amendments for financial assets and liabilities effective as of January 1, 2008 (see Note 5 below). SFAS 157 is effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008. We have evaluated the non-financial assets and liabilities portion of the standard and anticipate it will have no material impact to our financial position or results of operations.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133." This standard applies to derivative instruments, nonderivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 does not change the accounting for derivatives and hedging activities, but requires enhanced disclosures concerning the effect on the financial statements from their use. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." Under the provisions of this standard, unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock units (RSUs), are considered participating securities for purposes of calculating earnings per share. As a result, these participating securities will be included in the weighted average number of shares outstanding as disclosed on the face of the income statement. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented in financial reports after the effective date shall be adjusted retrospectively to conform with the provisions of this FSP. Early application is not permitted. We have evaluated the potential impact of this standard and anticipate it will have no material impact on our previously reported earnings per share amounts.

On October 10, 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," which clarifies how companies should apply the fair value measurement methodologies of SFAS 157 to financial assets when markets they are traded in are illiquid or inactive. Under the provisions of this FSP, companies may use their own assumptions about future cash flows and appropriately risk-adjusted discount rates when relevant observable inputs are either not available or are based solely on transaction prices that reflect forced liquidations or distressed sales. This FSP is effective as of September 30, 2008. There was no impact to our financial position or results of operations from the adoption of this FSP.
2.Earnings Per Share (EPS). Computation and reconciliation of earnings per common share from continuing operations are as follows:


Diluted
EPS
3.Stock-based Compensation. We have several stock-based employee compensation plans, which are more fully described in Note 9 in our 2007 annual report on Form 10-K.

The amounts of stock-based compensation expense recognized in the periods presented are as follows:

|  | For Three Months Ended Sept. 30, |  |  |  | For Nine Months Ended Sept. 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |
| COR | \$ | 10 | \$ | 12 | \$ | 32 | \$ | 40 |
| R\&D |  | 15 |  | 20 |  | 47 |  | 63 |
| SG\&A |  | 28 |  | 34 |  | 83 |  | 109 |
| Total | \$ | 53 | \$ | 66 | \$ | 162 | \$ | 212 |

The amounts above include the impact of recognizing compensation expense related to RSUs, non-qualified stock options and stock options offered under the employee stock purchase plan. Stock-based compensation expense has not been allocated between segments, but is reflected in Corporate.
4.Investments in Auction-rate Securities. As of September 30, 2008, we held $\$ 511$ million ( $\$ 542$ million par value) of auction-rate securities, which are debt instruments with variable interest rates that historically would periodically reset through an auction process. The $\$ 31$ million difference between fair value and par value is considered temporary and is recorded as an unrealized loss, net of taxes, in accumulated other comprehensive income (AOCI) on our balance sheets.

Since mid-February 2008, conditions in global credit markets have resulted in the failure of auctions for most auction-rate securities, including those we hold, because the amount of securities submitted for sale in those auctions exceeded the amount of bids. A failed auction does not represent a default by the issuer of the underlying security. When auctions are not successful, the interest rate moves to a maximum rate defined for each security, and is generally reset periodically at a level higher than defined short-term interest benchmarks. To date, we have collected all interest on all of our auction-rate securities when due and expect to continue to do so in the future. The principal associated with failed auctions will not be accessible until successful auctions resume, a buyer is found outside of the auction process, or issuers use a different form of financing to replace these securities. In the meantime, issuers continue to repay principal over time from cash flows prior to final maturity, or make final payments when they come due according to contractual maturities ranging from 14 to 39 years. We understand that issuers and financial markets are working on alternatives that may improve liquidity, although it is not yet clear when or to what extent such efforts will be successful. We expect that we will receive the principal associated with our auction-rate securities through one of the means described above. Due to the failed auctions and the uncertainty regarding the liquidity of these securities, beginning in the first quarter of 2008 we reclassified our investments in auction-rate securities with a par value of $\$ 571$ million from short-term investments to long-term investments.

During the quarter and since the failure of the auctions in February 2008, $\$ 26$ million and $\$ 29$ million of our auction-rate securities were redeemed by the issuers at par. Of the $\$ 29$ million of redemptions, $\$ 15$ million involved securities classified as Level 2 for purposes of determining fair value (see Note 5).

As of September 30, 2008, $\$ 507$ million par value of our auction-rate securities are backed by pools of student loans guaranteed by the U.S. Department of Education and we continue to believe that the credit quality of these securities is high based on this guarantee. As of September 30, 2008, these securities were all rated AAA/Aaa by the major credit rating agencies. The remaining $\$ 35$ million par value of our auction-rate securities are covered by bond insurance and were rated Aa3 by Moody's as of September 30, 2008.

While our ability to liquidate auction-rate investments is likely to be limited for some period of time, we do not believe this will materially impact our ability to fund our working capital needs, capital expenditures, dividend payments or other business requirements.
5.Fair Value Measurement. As discussed in Note 1, SFAS 157 became effective for measuring and reporting financial assets and liabilities in our financial statements as of January 1, 2008.

SFAS 157 defines fair value 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.

SFAS 157 establishes a three-level hierarchy for disclosure to show the extent and level of judgment used to estimate fair value measurements.

8

Level 1 - Uses unadjusted quoted prices that are available in active markets for the 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.

Level 3 - Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Investments in auction-rate securities are our only Level 3 assets, and in the first quarter of 2008 were transferred from Level 2 because quoted prices from broker-dealers were unavailable due to events described in Note 4 . We used a discounted cash flow (DCF) model to determine the estimated fair value of these investments as of each quarter end for 2008. The assumptions used in preparing the DCF model included estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions we considered relevant factors including: the formula applicable to each security which defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the guarantees by the U.S. Department of Education of the underlying student loans, guarantees by other third parties, and additional credit enhancements provided through other means; and, publicly available pricing data for recently issued student loan asset-backed securities which are not subject to auctions. Our estimate of the rate of return required by investors to own these securities also considers the current reduced liquidity for auction-rate securities.

The table below sets forth, by level, our financial assets and liabilities that were accounted for at fair value as of September 30, 2008. The table does not include cash on hand and also does not include assets and liabilities that are measured at historical cost or any basis other than fair value.

|  | Portion of <br> Carrying <br> Value <br> Measured <br> at Fair <br> Value <br> Sept. |  |  |  |
| :--- | :--- | :--- | :--- | :--- |


| Mortgage-backed securities - Government Sponsored |  |  |  |  |  |  |
| :--- | :--- | ---: | ---: | ---: | ---: | ---: |
| Enterprise (GSE) |  |  |  |  |  |  |
| guaranteed |  |  |  |  |  |  |
| Mortgage-backed securities - senior bonds |  |  |  |  |  |  |
| Other |  |  |  |  |  |  |


| Balance, December 31, 2007 | \$ | -- |
| :---: | :---: | :---: |
| Transfers into Level 3 |  | 556 |
| Unrealized loss - included in AOCI |  | (20) |
| Balance, March 31, 2008 | \$ | 536 |
| Decrease in unrealized loss from prior quarter - included in AOCI |  | 14 |
| Redemption at par |  | (3) |
| Balance, June 30, 2008 | \$ | 547 |
| Increase in unrealized loss from prior quarter - included in AOCI |  | (25) |
| Redemption at par |  | (11) |
| Balance, September 30, | \$ | 511 |

All of our financial assets measured at fair value, except for investments in mutual funds, are classified as available-for-sale securities. Adjustments to fair value of these investments are recorded as an increase or decrease, net of taxes, in accumulated other comprehensive income except where losses are considered to be other-than-temporary, in which case the losses are recorded in other income (expense) net. Our investments in mutual funds, which are intended to generate returns that offset changes in certain liabilities related to deferred compensation arrangements, are classified as trading securities. Adjustments to fair value of both the mutual funds and the related deferred compensation liabilities are recorded in SG\&A expense.
6. Post-employment Benefit Plans. Components of net periodic employee benefit cost are as follows:

| For three months ended Sept. 30, | U.S. <br> Defined Benefit |  |  |  | U.S. <br> Retiree Health Care |  |  |  | Non-U.S. Defined Benefit |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |
| Service cost | \$ | 6 | \$ | 6 | \$ | 1 | \$ | 1 | \$ | 11 | \$ | 10 |
| Interest cost |  | 12 |  | 11 |  | 7 |  | 6 |  | 15 |  | 13 |
| Expected return on plan assets |  | (11) |  | (12) |  | (7) |  | (7) |  | (21) |  | (18) |
| Amortization of prior service cost |  | -- |  | -- |  | 1 |  | 1 |  | (1) |  | (1) |
| Recognized net actuarial loss |  | 4 |  | 4 |  | 2 |  | 1 |  | 1 |  | 2 |
| Net periodic benefit cost | \$ | 11 | \$ | 9 | \$ | 4 | \$ | 2 | \$ | 5 | \$ | 6 |


|  | U.S. <br> Defined Benefit |  |  |  | U.S. <br> Retiree Health Care |  |  |  | Non-U.S. Defined Benefit |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| For nine months ended Sept. 30, |  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |  |  |  |
| Service cost | \$ | 18 | \$ | 18 | \$ | 3 | \$ | 3 | \$ | 33 | \$ | 30 |
| Interest cost |  | 37 |  | 32 |  | 20 |  | 19 |  | 46 |  | 38 |
| Expected return on plan assets |  | (34) |  | (35) |  | (20) |  | (20) |  | (63) |  | (54) |
| Amortization of prior service cost |  | 1 |  | -- |  | 2 |  | 2 |  | (3) |  | (2) |
| Recognized net actuarial loss |  | 12 |  | 16 |  | 6 |  | 5 |  | 4 |  | 7 |

Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q
Net periodic benefit cost
\$ 34 \$
31 \$
11 \$
9 \$
17 \$
19

10
7. Income Taxes. Federal income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. As of September 30, 2008, the estimated annual effective tax rate for 2008 was about 30 percent, which differs from the 35 percent statutory corporate tax rate due to the effects of non-U.S. tax rates. This estimated annual effective tax rate is based on tax law in effect on that date, which does not include reinstatement of the federal research tax credit. On October 3, 2008, the President signed into law the Emergency Economic Stabilization Act of 2008, which reinstated the federal research tax credit and is effective retroactively to January 1,2008 . The effect of the reinstatement of this tax credit will be recorded in the fourth quarter of 2008 and is estimated to reduce the annual effective tax rate for 2008 to about 28 percent.

During the third quarter of 2008, we recorded a discrete tax benefit of $\$ 34$ million primarily due to adjustments identified through the completion of tax returns for prior years. Additionally, during the first quarter of 2008, we recorded a discrete tax benefit of $\$ 81$ million primarily due to our decision to indefinitely reinvest the accumulated earnings of a non-U.S. subsidiary.
8. Contingencies. We routinely sell products with a limited intellectual property indemnification included in the terms of sale. Historically, we have had only minimal and infrequent losses associated with these indemnities. Consequently, any future liabilities brought about by the intellectual property indemnities cannot reasonably be estimated or accrued.

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, and historically we have experienced a low rate of payments on product claims. Consistent with general industry practice, we enter into formal contracts with certain customers in which the parties define warranty remedies. Typically, under these agreements, our warranty for semiconductor products covers three years; an obligation to repair, replace or refund; and a maximum payment obligation tied to the price paid for our products. In some cases, product claims may be disproportionate to the price of our products.

We are subject to various other 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 upon our financial condition, results of operations or liquidity.

Discontinued Operations Indemnity - In connection with the sale of the former Sensors \& Controls business to an affiliate of Bain Capital, LLC in 2006, we have agreed to indemnify the former business, renamed Sensata Technologies, Inc., for certain specified litigation matters, as well as other liabilities, including environmental liabilities. Our indemnification obligations with respect to breaches of representations and warranties and the specified litigation matters are, generally, subject to a total deductible of $\$ 30$ million and our maximum potential exposure is limited to $\$ 300$ million. As of September 30, 2008, there were no significant liabilities recorded under these indemnification obligations.
9. Segment Data. We have two reportable operating segments: Semiconductor and Education Technology.

| For Three Months Ended | For Nine Months Ended |
| :---: | :---: |
| Sept. 30, | Sept. 30, |
| 2008 | 2007 |

## Segment Revenue

| Semiconductor | $\$$ | 3,205 | $\$$ | 3,461 | $\$$ | 9,571 | $\$$ | 9,833 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Education Technology |  | 182 |  | 202 |  | 439 | 446 |  |
| Total revenue | $\$$ | 3,387 | $\$$ | 3,663 | $\$$ | 10,010 | $\$$ | 10,279 |


| Segment Operating Profit (Loss) | For Three Months Ended Sept. 30, |  |  |  | For Nine Months Ended Sept. 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2008 |  | 2007 |  | 2008 |  | 2007 |  |
|  |  |  |  |  |  |  |  |  |
| Semiconductor* | \$ | 766 | \$ | 1,031 | \$ | 2,579 | \$ | 2,766 |
| Education Technology |  | 92 |  | 99 |  | 187 |  | 188 |
| Corporate** |  | (112) |  | (117) |  | (379) |  | (453) |
| Operating profit | \$ | 746 | \$ | 1,013 | \$ | 2,387 | \$ | 2,501 |

Semiconductor results for the three and nine months ended September 30, 2008, include charges of \$44 million associated with impairments of long-lived assets and site consolidations. These charges consist of $\$ 36$ million for impairments of long-lived assets, considered to be held for sale, to reduce the carrying value of facilities and equipment in several locations to their fair value less cost to sell. Additionally, voluntary termination benefits of $\$ 8$ million were recognized in association with site consolidations. These costs are reflected in operating profit as follows: $\$ 17$ million in cost of revenue, $\$ 23$ million in R\&D and $\$ 4$ million in SG\&A.
**Corporate includes restructuring charges of $\$ 15$ million for the three months ended September 30, 2007, and $\$ 46$ million for the nine months ended September 30, 2007. These restructuring charges consist of severance and benefit costs of $\$ 7$ million ( $\$ 27$ million for the nine months) and acceleration of depreciation of $\$ 8$ million ( $\$ 19$ million for the nine months). Of the total restructuring charges, $\$ 13$ million ( $\$ 32$ million for the nine months) is included in cost of revenue, $\$ 2$ million ( $\$ 13$ million for the nine months) is included in $R \& D$, and $\$ 1$ million for the nine months is included in SG\&A. Corporate also includes a gain of $\$ 39$ million for the three and nine months ended September 30, 2007, from the sale of our semiconductor product line for broadband DSL customer-premises equipment; this gain is included in cost of revenue.
10. Subsequent Events. On October 16, 2008, we declared an $\$ 0.11$ quarterly cash dividend on common stock, payable November 17, 2008, to stockholders of record on October 31, 2008. This dividend rate represents a ten percent increase from our prior rate and results in annual dividend payments of $\$ 0.44$ per share.

On October 20, 2008, we announced actions that when complete, are expected to reduce expenses by more than $\$ 200$ million annualized in our Wireless operations, especially our cellular baseband operation. We are also actively pursuing the sale of the merchant portion of the baseband operation, which includes our standard Wireless baseband products, and are in discussions with potential buyers. Reductions in cellular baseband operations will begin immediately and are expected to be complete by June 2009. We expect to take restructuring charges of approximately $\$ 110$ million across the next three quarters.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
The following should be read in conjunction with the Financial Statements and the related Notes that appear elsewhere in this document. All dollar amounts in the tables in this discussion are stated in millions of U.S. dollars, except per-share amounts. All amounts in this discussion reference continuing operations unless otherwise noted.

## Overview

At Texas Instruments, we design and make high-technology components that we sell to customers all over the world. We have two business segments: Semiconductor and Education Technology. Semiconductor is by far the larger of these segments, accounting for 96 percent of our revenue in 2007. This segment sells integrated circuits, or semiconductors, to electronics designers and manufacturers. Our Education Technology segment accounts for the remaining 4 percent of our revenue and sells calculators and related technologies to consumers and educators.

With our quarterly report on Form 10-Q for the quarter ended June 30, 2008, we began describing Semiconductor revenue in four product categories: Analog, Embedded Processing, Wireless and remaining semiconductor. We expect that for our 2008 10-K, we will have transitioned to four segments: Analog, Embedded Processing, Wireless and Other. Our Other segment will consist of what is presently remaining semiconductor and Education Technology. For a complete description of these changes, please reference the Enhanced Financial Reporting Structure materials from our conference call and webcast, held on July 1, 2008, available at www.ti.com/ir.

The details relevant to each segment are discussed below.
Semiconductor

## Background

Our Semiconductor segment invents and produces a variety of semiconductors, commonly called "chips." These semiconductors are used to accomplish many different things, such as converting and amplifying signals, interfacing with input and output devices and other semiconductors, managing and distributing power, processing data, canceling noise and improving signal resolution. Our portfolio includes products that are central to almost all electronic equipment.

Our Semiconductor segment can be affected by cyclical upturns and downturns characteristic of the markets for our products, which sometimes cause wide swings in growth rates from quarter to quarter or year to year. Prices and manufacturing costs of Semiconductor products tend to decline over time.

Although we regularly introduce new products, they are typically shipped in limited quantities initially and ramp into higher volume over time. Consequently, new products tend not to have a significant impact on Semiconductor revenue in the quarter in which they are introduced. In the discussion below, changes in our Semiconductor shipments are attributable to changing demand for our products, unless otherwise noted.

## Products

We have three major semiconductor product categories: Analog, Embedded Processing and Wireless. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead, and therefore we focus our resources on these product categories.

Within our semiconductor product categories, there are two general types of products, custom and standard - terms that refer to how and to whom the products are sold. A custom product is designed for a specific customer for a specific application, is sold only to that customer and is typically sold directly to the customer. A standard product is designed for use by many customers and/or many applications and is generally sold through both distribution and direct channels. Standard products include both commodity and proprietary products.

## Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q

## Analog

Analog semiconductors change real-world signals - such as sound, temperature, pressure or images - by conditioning them, amplifying them and often converting them to a stream of digital data so the signals can be processed by digital signal processors (DSPs). Analog semiconductors are also used to manage power distribution and consumption. Sales from our Analog product category accounted for about 35 percent of our revenue in 2007. The worldwide market for analog semiconductors was about $\$ 36$ billion in 2007. Our share in this very fragmented market is about 13 percent, and we believe that we are well positioned to increase it over time. We have two categories of analog products: high-performance analog and high-volume analog \& logic.

High-performance analog products: These include standard analog semiconductors (our portfolio is about 17,000 products) that we market to many different customers (nearly 80,000 ) who will use them in many different products. These products generally have long life cycles, often 10 to 20 years.

High-volume analog \& logic products: These include two product types. The first, high-volume analog, includes custom products marketed for specific applications. The life cycles of our high-volume analog products are generally shorter than our high-performance analog products. End markets for high-volume analog products include communications equipment, automobiles, computing equipment and many consumer electronics products. The second type of products in this line, standard logic, includes commodity products marketed to many different customers for many different applications.

## Embedded Processing

Our embedded processing products are DSPs and microcontrollers. DSPs perform mathematical computations almost instantaneously to process and improve digital data. Microcontrollers are microprocessors that are designed to control a very specific task for electronic equipment. Sales of embedded processing products accounted for about 12 percent of our revenue in 2007. The worldwide market for embedded processors was about $\$ 17$ billion in 2007 and we have about 10 percent market share. A unique characteristic of embedded processing products is that our customers often invest their own research and development (R\&D) to write software that operates only with our products. We make and sell standard products used in many different applications and custom products used in applications that include communications infrastructure equipment and automobiles.

## Wireless

Cell phones require a radio or "baseband" to connect to the wireless carrier's network. Today's advanced cell phones also require an applications processor to run the phone's software and services, and semiconductors to enable connectivity to Bluetooth® devices, WiFi networks or GPS location services. We design, make and sell products to satisfy each of these requirements. Wireless products are typically sold in high volumes and our wireless portfolio includes both standard (or merchant) products and custom products. Sales of wireless products accounted for about 30 percent of our revenue in 2007.

As wireless communications have proliferated, consumers are demanding capabilities beyond voice. Smartphones (phones that contain email, media, games and computing capability) represent one of the fastest growing wireless markets. These phones tend to include many semiconductor products. Major handset manufacturers are actively pursuing the smartphone market and increasingly focusing their R\&D on applications and services. As a result, we believe customer demand for applications processors will continue to increase as handset manufacturers seek to differentiate their products by providing software and a unique user experience. Our OMAPTM product line has a leading position in the applications processor market and is used by most of the top handset manufacturers.

Our Wireless product category has been shifting focus from baseband chips, a market with shrinking competitive barriers, to applications processors. Consistent with this shift in focus, we are actively pursuing the sale of our merchant baseband chipset product lines and will concentrate our remaining investments on our application processors and connectivity products. For additional detail, see the discussion under the heading "Third-Quarter 2008 Results."

In addition to our three major semiconductor product categories, we offer the following (referred to as remaining semiconductor): DLP® products (which are used to create high-definition images for data projectors, televisions and movie projectors), reduced-instruction set computing (RISC) microprocessors (which are designed to provide very fast computing and are often implemented in servers), application-specific integrated circuits (ASICs) (which are custom chips), and radio-frequency identification (RFID) semiconductors (which provide the technology used in, among other things, automatic transportation payments and product tracking). An additional source of semiconductor revenue is royalties received for our patented technology that we license to other electronics companies.

## Inventory

Our inventory practices vary by product type. For standard products, where the risk of obsolescence is low, we generally carry higher levels of inventory. These products usually have many customers and long life cycles, and are often ordered in small quantities. Standard product inventory is sometimes held in unfinished form, giving us greater flexibility to meet final package and test configurations.

For custom products, where the risk of obsolescence is higher, we carry lower levels of inventory when possible. These products usually have a single customer, are sold in high volumes and have shorter life cycles. Life cycles of these products are often determined by end-equipment upgrade cycles and can be as short as 12 to 24 months.

As we've become a stronger competitor in the market for high-performance analog products, we've increased the inventory levels we carry for these products so that our tens of thousands of customers have access to what they need when they need it. Additionally, consignment programs with our largest customers and the fact that distributors now carry less inventory contribute to the need for us to carry higher levels of inventory.

Manufacturing
We own and operate semiconductor manufacturing sites in North America, Asia and Europe. These facilities include high-volume wafer fabrication plants and assembly/test sites. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these costs do not decline with reductions in customer demand or utilization of capacity, potentially reducing our profit margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, potentially benefiting our profit margins.

Our analog semiconductors typically require a lower level of investment in manufacturing processes and equipment than our other semiconductor products, which are based on advanced logic manufacturing processes. While analog chips benefit from unique, proprietary manufacturing processes, these processes can be applied using older, less expensive equipment. In addition, these processes and equipment remain usable for much longer than the manufacturing processes and equipment required for advanced logic manufacturing. Consequently, the level of capital spending needed to support analog semiconductor manufacturing is considerably less than is needed for an equivalent level of advanced logic semiconductor manufacturing.

To supplement our internal advanced logic wafer fabrication capacity, maximize our responsiveness to customer demand and minimize our overall capital expenditures, our manufacturing strategy utilizes the capacity of outside suppliers, commonly known as foundries. External foundries provide about 50 percent of the fabricated wafers for our advanced logic products. We expect the proportion of our advanced logic wafers provided by foundries will increase over time. We expect to maintain sufficient internal wafer fabrication capacity to meet substantially all our analog production needs.

As our internal manufacturing efforts shift to a higher percentage of analog products, an increasing proportion of our capital expenditures is devoted to assembly/test facilities and equipment. This is primarily due to the lower capital needs of analog wafer manufacturing equipment. We also use subcontractors to provide a small portion of our assembly and test needs, either where a product requires unique assembly packaging but we do not sell sufficient volume to justify purchasing the necessary equipment or where we have acquired companies whose products are already assembled and tested by subcontractors.

Another element of our manufacturing strategy for advanced logic semiconductors involves working collaboratively with our foundry suppliers to develop future generations of wafer fabrication manufacturing processes, a model we transitioned to in 2007. Historically, we had developed these manufacturing processes in-house. This strategic shift allows us to better serve customers with cost-effective manufacturing processes from our foundry suppliers, while also increasing the efficiency of our own R\&D and capital. As we have decreased our R\&D spending on advanced logic manufacturing process development, we have increased R\&D spending, albeit at lesser amounts, on our analog manufacturing process development, where we remain able to differentiate our products through process technologies.

## Education Technology

Our Education Technology segment is the world's leading supplier of handheld graphing calculators. It also designs business and scientific calculators, as well as a wide range of advanced classroom hardware and software that help students and teachers explore math and science interactively. Our products are sold primarily through retailers and instructional dealers. Our Education Technology segment has an annual pattern of revenue that is tied to the U.S. back-to-school season. As a result, revenue is at its highest in the second and third quarters. This segment represented 4 percent of our revenue in 2007. Prices of Education Technology products tend to be stable.

## Tax Considerations

We operate in a number of tax jurisdictions and are subject to several types of taxes including those based on income, capital, property and payroll, and sales and other transactional taxes. The timing of the final determination of our tax liabilities varies among the various jurisdictions and their taxing authorities. As a result, during any particular reporting period, we might reflect in our financial statements one or more tax refunds or assessments, or changes to tax liabilities, involving one or more taxing authorities.

Third-Quarter 2008 Results

Our third-quarter revenue was $\$ 3.39$ billion, net income was $\$ 563$ million and earnings per share were $\$ 0.43$. Income included a $\$ 34$ million discrete tax benefit primarily due to adjustments identified through the completion of tax returns for prior years. This benefit was largely offset by $\$ 44$ million of pre-tax charges associated with impairments of long-lived assets and with site consolidations, $\$ 17$ million of which is in cost of revenue, $\$ 23$ million in R\&D and $\$ 4$ million in selling, general \& administrative (SG\&A).

We entered the third quarter with a cautious view of the economy and its impact on our markets. Revenue was weak, as expected, because consumers and corporations reduced their spending in this uncertain economy. Even so, the soundness of our strategic direction was underscored by results from our core product categories. Revenue for our Analog product category was steady and revenue for our Embedded Processing product category grew 9 percent compared with a year ago. Although not immune to near-term economic pressures, these are two of the best long-term opportunities in our industry. We are a leader in each and expect to strengthen our position even in this period of economic weakness.

Our outlook for the fourth quarter is for revenue to decline substantially based on weak order trends over the past few months, and our operating plan assumes a further decline in the first quarter of 2009. In anticipation of declining demand, we reduced our own inventory aggressively in the third quarter, which brought factory utilization down and put additional pressure on our profitability. We also worked closely with our distributors to reduce their inventory. We will accelerate our inventory reduction in the fourth quarter. We also will continue to reduce expenses and capital spending. At the same time, we will continue to invest in opportunities to strengthen our positions in Analog and Embedded Processing.

Subsequent to the end of the third quarter, we announced we are taking actions that, when complete, are expected to reduce expenses more than $\$ 200$ million annualized in our Wireless operations, especially in our cellular baseband operation. About 85 percent of these savings will be in R\&D, 10 percent in cost of revenue and 5 percent in SG\&A. We are also actively pursuing the sale of the merchant portion of this operation and are in discussions with potential buyers. Revenue from this merchant operation is expected to be about $\$ 350-400$ million in 2008. If a sale of this product line cannot be arranged, we will take action to eliminate the majority of the operating expenses required to support this product line. Reductions in the remaining cellular baseband operations will begin immediately and are expected to be complete by June 2009. We expect to take restructuring charges of approximately $\$ 110$ million across the next three quarters.

We will continue to support select programs in the custom portion of our baseband operation, which is expected to have revenue of about $\$ 2.3$ billion this year. We expect revenue from our custom baseband operation to decline over time as programs with Ericsson Mobile Platforms continue to wind down and as our largest customer implements its multi-supplier strategy.

We will focus our remaining Wireless investments in OMAP applications processors, which are at the heart of many smartphone products.

The market for smartphones is growing rapidly and our handset customers are differentiating their product lines through applications and user interfaces. We anticipated this opportunity and have been investing in it for more than a decade. As a result, our OMAP applications processors lead the market, and we will concentrate on extending this lead.

17

# Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q 

## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES <br> Consolidated Statements of Income <br> (Millions of dollars, except share and per-share amounts)

For Three Months Ended
Sept. 30, Sept. 30, June 30,

| Revenue | $\$$ | 3,387 | $\$$ | 3,663 | $\$$ |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Cost of revenue |  | 1,744 |  | 1,679 | 1,602 |
| Gross profit |  | 1,643 |  | 1,984 | 1,749 |
| R\&D | 507 | 542 | 488 |  |  |
| SG\&A | 390 |  | 429 | 428 |  |
| Operating profit | 746 | 1,013 | 833 |  |  |
| Other income (expense) net | 10 | 53 | 17 |  |  |
| Income from continuing operations before income taxes | 756 | 1,066 | 850 |  |  |
| Provision for income taxes | 193 | 308 | 262 |  |  |
| Income from continuing operations |  | 563 |  | 758 | 588 |
| Income from discontinued operations, net of taxes | -- | 18 | -- |  |  |
| Net income | $\$$ | 563 | $\$$ | 776 | $\$$ |
| Basic earnings per common share: |  |  |  |  |  |
| Income from continuing operations | $\$$ | .43 | $\$$ | .54 | $\$$ |
| Net income | $\$$ | .43 | $\$$ | .55 | $\$$ |

Average shares outstanding (millions):

| Basic | 1,304 | 1,417 | 1,320 |  |
| :--- | ---: | ---: | ---: | ---: |
| Diluted | 1,318 | 1,448 | 1,341 |  |
| Cash dividends declared per share of common stock | $\$$ | .10 | $\$$ | .08 |
|  | $\$$ | .10 |  |  |
| Percentage of revenue: |  |  |  |  |
| Gross profit | $48.5 \%$ | $54.2 \%$ | $52.2 \%$ |  |
| R\&D | $15.0 \%$ | $14.8 \%$ | $14.6 \%$ |  |
| SG\&A | $11.5 \%$ | $11.7 \%$ | $12.8 \%$ |  |
| Operating profit | $22.0 \%$ | $27.6 \%$ | $24.9 \%$ |  |

Details of Financial Results
Revenue for the third quarter of 2008 was $\$ 3.39$ billion, down $\$ 276$ million, or 8 percent, from the year-ago quarter, due to lower revenue from the Semiconductor segment as growth in revenue from Embedded Processing products was more than offset by declines in revenue from Wireless and remaining semiconductor products. Compared with the prior quarter, revenue increased $\$ 36$ million, or 1 percent.

Gross profit for the third quarter of 2008 was $\$ 1.64$ billion, or 48.5 percent of revenue, down 17 percent from $\$ 1.98$ billion in the year-ago quarter. The decline in gross profit from last year was due to a combination of, in decreasing order, lower revenue, higher manufacturing costs and the impact of lower factory utilization resulting from our efforts to reduce inventory. Manufacturing costs were adversely affected by the following items: transferring equipment from a manufacturing facility we shuttered to other facilities around the world; higher commodity prices (particularly for gold); rate-of-exchange impact on expenses such as labor in regions where we compensate in currencies other than the U.S. dollar; and, higher utility costs. Last year's gross profit included a $\$ 39$ million gain on the sale of our broadband digital subscriber line (DSL) customer-premises equipment product line.

Compared with the prior quarter, gross profit was down 6 percent despite higher revenue. The sequential decline in gross profit was primarily due to the impact of lower factory utilization resulting from our efforts to reduce inventory. As a consequence, the cost of underutilized capacity was expensed in the current quarter. Gross profit was also negatively affected by lower royalties and impairments of certain long-lived assets.

Operating expenses for the third quarter of 2008 were $\$ 507$ million for R\&D and $\$ 390$ million for SG\&A. R\&D expense decreased $\$ 35$ million, or 6 percent, from a year ago primarily due to lower Wireless R\&D expense, and to a lesser extent, the benefit from our collaborative work with foundries on advanced logic manufacturing technologies. These reductions were partially offset by impairments of long-lived assets in the third quarter of 2008. R\&D expense increased $\$ 19$ million from the prior quarter primarily due to impairments of long-lived assets. SG\&A expense decreased $\$ 39$ million from the year-ago quarter due to lower compensation-related expenses. SG\&A decreased $\$ 38$ million sequentially due to a combination of lower compensation-related expenses and, to a lesser extent, various cost-cutting measures.

Operating profit for the third quarter of 2008 was $\$ 746$ million, or 22.0 percent of revenue, compared with $\$ 1.01$ billion, or 27.6 percent of revenue, in the year-ago quarter and $\$ 833$ million, or 24.9 percent of revenue, in the prior quarter. The decreases were due to lower gross profit.

Other income (expense) net (OI\&E) for the third quarter of 2008 was $\$ 10$ million, a decrease of $\$ 43$ million from the year-ago quarter primarily due to lower interest income, and to a lesser extent, reduced interest related to tax refunds. The decrease in interest income from a year ago was primarily due to lower average invested cash balances, and to a lesser extent, lower average interest rates. OI\&E decreased $\$ 7$ million from the prior quarter due to lower interest income and lower earnings on investments.

As of September 30, 2008, the estimated annual effective tax rate for 2008 was about 30 percent (see Note 7 to the Financial Statements for additional information). This tax rate was based on tax law in effect on that date, which does not include reinstatement of the federal research tax credit. On October 3, 2008, the President signed into law the Emergency Economic Stabilization Act of 2008, which reinstated the federal research tax credit and is effective retroactively to January 1, 2008. The effect of the reinstatement of this tax credit will be recorded in the fourth quarter of 2008 and is estimated to reduce the annual effective tax rate for 2008 to about 28 percent.

Quarterly income taxes are calculated using the estimated annual effective tax rate.
The tax provision for the third quarter of 2008 was $\$ 193$ million, compared with $\$ 308$ million in the year-ago quarter. Included in the third-quarter 2008 tax provision was $\$ 34$ million of discrete tax benefits resulting primarily from adjustments identified through the completion of tax returns for prior years. The decline in the tax provision from the year-ago quarter was due to lower income before income taxes. Compared with the second quarter, our tax provision declined due about equally to an increase in discrete tax benefits and the effect of lower income before income taxes.

Income from continuing operations was $\$ 563$ million, a decrease of $\$ 195$ million from the year-ago quarter and a decrease of $\$ 25$ million from the prior quarter.

Earnings per share (EPS) for the third quarter were $\$ 0.43$ per share, compared with $\$ 0.52$ per share for the year-ago quarter and $\$ 0.44$ for the prior quarter. EPS benefited $\$ 0.04$ from the year-ago quarter and $\$ 0.01$ sequentially from a lower number of average shares outstanding as a result of our stock repurchase program. EPS in the third quarter of 2007 also included a gain of $\$ 0.02$ from the sale of our semiconductor product line for broadband DSL customer-premises equipment.

Orders in the third quarter were $\$ 3.23$ billion, which was 9 percent lower than the year-ago quarter and 7 percent lower than the prior quarter, reflecting lower demand for Semiconductor products.

## Semiconductor

Semiconductor segment revenue was $\$ 3.21$ billion, a decrease of $\$ 256$ million, or 7 percent, from the year-ago quarter and an increase of $\$ 30$ million, or 1 percent, from the prior quarter.

Semiconductor revenue by product category was as follows:


* Revenue by product category for historical periods reflects minor reclassifications to previously reported amounts.

Analog revenue was about even with the year-ago period as higher revenue from increased shipments of high-performance analog products was insufficient to offset lower revenue from shipments of high-volume analog and logic products. Compared to the prior quarter, analog revenue was about even.

Embedded Processing revenue grew 9 percent compared with the year-ago quarter due to a greater proportion of shipments of higher-priced communications infrastructure products, and to a lesser extent, increased shipments of standard products. These increases more than offset lower automotive product revenue resulting from decreased shipments. Revenue decreased 3 percent sequentially as higher shipments of communications infrastructure products failed to offset a greater proportion of shipments of lower-priced standard products, and to a lesser extent, a decline in shipments of automotive products.

Wireless revenue declined 16 percent from the year-ago quarter primarily due to lower shipments of baseband products to Ericsson Mobile Platforms. Compared with the prior quarter, Wireless revenue was about even.

Remaining semiconductor revenue declined 14 percent from the year-ago quarter due to the combination of, in decreasing order, lower shipments of RISC microprocessors, the sale of our DSL customer-premises equipment product line in 2007 and lower royalties. Compared with the prior quarter, remaining semiconductor revenue increased 5 percent due to higher shipments of DLP products, partially offset by lower royalties. In both comparisons, revenue from our ASIC products increased due to higher shipments.

Operating profit for the third quarter was $\$ 766$ million, or 23.9 percent of revenue. This was a decrease of $\$ 265$ million from the year-ago quarter due to lower gross profit, which was partially offset by lower operating expenses. Operating profit decreased $\$ 120$ million from the prior quarter due to lower gross profit.

## Education Technology

Education Technology revenue for the third quarter of 2008 was $\$ 182$ million. This was a decrease of $\$ 20$ million, or 10 percent, from the year-ago quarter due to lower shipments of graphing calculators. Compared with the prior quarter, revenue increased $\$ 6$ million due to higher shipments of calculators in preparation for the back-to-school season.

Operating profit for the third quarter was $\$ 92$ million, or 50.5 percent of revenue, a decrease of $\$ 7$ million from the year-ago quarter due to lower revenue. Compared with the prior quarter, operating profit increased $\$ 14$ million due about equally to lower operating expenses and higher revenue.

First Nine Months of 2008 Results
For the first nine months of 2008, we report the following:
Revenue of $\$ 10.01$ billion was $\$ 269$ million, or 3 percent, lower than the year-ago period due to lower revenue from the Semiconductor segment.

Gross profit for the first nine months of 2008 was $\$ 5.15$ billion, a decrease of $\$ 258$ million, or 5 percent, from $\$ 5.41$ billion in the year-ago period, primarily due to lower revenue and, to a lesser extent, increased manufacturing costs. Gross profit margin was 51.4 percent of revenue compared with 52.6 percent in the year-ago period.

R\&D expense for the first nine months of 2008 of $\$ 1.51$ billion decreased $\$ 137$ million, or 8 percent compared with the year-ago period primarily due to the benefit from our collaborative work with foundries on advanced logic manufacturing technologies and, to a lesser extent, lower Wireless product development costs. R\&D expense as a percent of revenue was 15.1 percent, compared with 16.0 percent in the year-ago period.

SG\&A expense for the first nine months of 2008 was $\$ 1.25$ billion, about the same as the year-ago period. SG\&A expense as a percent of revenue was 12.5 percent, compared with 12.2 percent in the year-ago period.

Operating profit for the first nine months of 2008 was $\$ 2.39$ billion, or 23.8 percent of revenue, compared with $\$ 2.50$ billion, or 24.3 percent of revenue, in the year-ago period. The decrease was due to lower gross profit partially offset by lower R\&D expense.

OI\&E for the first nine months of 2008 was $\$ 58$ million. Other income decreased $\$ 91$ million from the first nine months of 2007, primarily due to lower interest income, and to a lesser extent, reduced interest on tax refunds.

The tax provision for the first nine months of 2008 was $\$ 632$ million, compared with $\$ 762$ million in the same period of 2007. The decrease was primarily due to an increase in discrete tax benefits, and to a lesser extent, lower income before income taxes. This decrease was partially offset by the expiration of the federal research tax credit.

Income from continuing operations for the first nine months of 2008 was $\$ 1.81$ billion compared with $\$ 1.89$ billion for 2007. Earnings per share were $\$ 1.36$ per share compared with $\$ 1.29$ per share in the year-ago period. As a result of our share repurchases, average diluted shares outstanding decreased by 127 million shares from the year-ago period, benefiting earnings per share by $\$ 0.12$.

Net income for the first nine months of 2008 was $\$ 1.81$ billion, compared with $\$ 1.90$ billion in the year-ago period.
Orders of $\$ 10.00$ billion were down 2 percent from the year-ago period, reflecting lower demand for Semiconductor products.

## Semiconductor

Semiconductor revenue in the first nine months of 2008 was $\$ 9.57$ billion, a decrease of $\$ 262$ million, or 3 percent, from the year-ago period, as increased revenue from higher shipments of Analog and Embedded Processing products was insufficient to offset decreased revenue from lower shipments of Wireless and remaining semiconductor products.

Semiconductor operating profit for the first nine months of 2008 was $\$ 2.58$ billion, or 26.9 percent of revenue, compared with $\$ 2.77$ billion, or 28.1 percent of revenue, in the year-ago period due to lower gross profit partially offset by lower R\&D expense.

## Education Technology

Education Technology revenue was $\$ 439$ million for the first nine months of 2008 compared with $\$ 446$ million in the year-ago period, as shipments decreased.

Operating profit for the first nine months of 2008 was $\$ 187$ million, or 42.6 percent of revenue, compared with $\$ 188$ million, or 42.3 percent of revenue in the year-ago period.

## Financial Condition

At the end of the third quarter of 2008, total cash (cash and cash equivalents plus short-term investments) was $\$ 1.99$ billion. This was $\$ 931$ million lower than at the end of 2007, primarily due to the reclassification of our remaining auction-rate securities from short-term to long-term investments at the end of the first quarter (see Note 4 to the Financial Statements).

21

Accounts receivable were $\$ 1.77$ billion at the end of the quarter. This was an increase of $\$ 32$ million from the end of 2007. Days sales outstanding were 47 at the end of the quarter compared with 44 at the end of 2007, due to the seasonal increase in accounts receivable from sales of Education Technology products that more than offset the reduction in Semiconductor receivables.

Inventory was $\$ 1.58$ billion at the end of the quarter. This was $\$ 157$ million higher than at the end of 2007. Days of inventory at the end of the third quarter were 81 , compared with 78 days at the end of 2007. The increase in inventory was due to, in decreasing order, a planned build earlier in the year, especially in high-performance analog, to better service our customers and higher manufacturing costs. In the third quarter, we reduced our inventory level by $\$ 76$ million. With our current demand outlook, inventory still remains above our desired levels. As a result, we continue to aggressively reduce inventory in the fourth quarter.

Capital spending in the first nine months of 2008 totaled $\$ 686$ million. This was an increase of $\$ 181$ million from a year ago primarily due to higher expenditures for semiconductor assembly/test facilities and equipment, and to a lesser extent, higher expenditures for analog manufacturing equipment. Depreciation in the first nine months of 2008 was $\$ 738$ million, down $\$ 32$ million from a year ago.

## Liquidity and Capital Resources

Our sources of liquidity are our operating cash flows, existing balances of cash and cash equivalents, short-term investments and revolving credit facilities. Operating cash flows represent net income adjusted for certain non-cash items and changes in current operating assets and liabilities. Cash provided by operations for the first nine months of 2008 was $\$ 2.21$ billion, a decrease of $\$ 771$ million from the year-ago period. This decrease was primarily due to the decrease in cash provided from changes in working capital. Working capital in the year-ago period benefited from the receipt of an income tax refund, while in 2008, it decreased due to increased inventory spending. Contributing to a lesser extent to the decrease in cash provided by operations from the year-ago period was the impact of lower net income and related non-cash adjustments.

Investing cash flows consist of capital expenditures; sales, purchases and maturities of investments; acquisitions; and proceeds from the sales of assets. For the first nine months of 2008, net cash provided from investing activities was $\$ 91$ million, compared with cash used of $\$ 819$ million in the year-ago period. During the first nine months of 2008, we reduced purchases of short-term investments and increased investments in cash equivalents in response to disruptions in global credit markets.

For the first nine months of 2008, net cash used in financing activities was $\$ 1.92$ billion, compared with $\$ 2.54$ billion in the year-ago period. We used $\$ 1.74$ billion of cash in the first nine months of 2008 to repurchase 60 million shares of our common stock and paid dividends of $\$ 396$ million. In the same period last year we used $\$ 3.01$ billion of cash to repurchase 90 million shares of common stock and paid $\$ 287$ million in dividends. Dividends were higher due to the increase in the quarterly dividend rate in the second and fourth quarters of 2007. Employee exercises of stock options for shares of TI stock are also reflected in cash from financing activities. In the first nine months of 2008, such exercises provided $\$ 195$ million compared with $\$ 694$ million for the same period a year ago. Excess tax benefits also fluctuate with the level of stock option exercises. In April 2007, we retired $\$ 43$ million of outstanding 8.75\% notes at maturity.

In September 2008, we announced a 10 percent increase in our quarterly cash dividend to $\$ 0.11$ per share, resulting in annual dividend payments of $\$ 0.44$ per share. The new quarterly dividend will be payable November 17, 2008, to stockholders of record on October 31, 2008. This marks the fifth consecutive year we have increased our dividend rate.

In 2008, we expect: an annual effective tax rate of about 28 percent reflecting the reinstatement of the federal research tax credit, which will be recorded in the fourth quarter of 2008; R\&D expense of $\$ 2.0$ billion; capital expenditures of $\$ 0.8$ billion; and depreciation of $\$ 1.0$ billion.

We believe we have the necessary financial resources to fund our working capital needs, capital expenditures, authorized stock repurchases, dividend payments and other business requirements for at least the next 12 months.

Changes in Accounting Standards
See Note 1 to the Financial Statements for detailed information regarding the status of new accounting standards that are not yet effective for us.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.
Information concerning market risk is contained on pages 58-59 of Exhibit 13 to our Form 10-K for the year ended December 31, 2007, and is incorporated by reference to such exhibit.

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 providing reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. 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

You should read the following Risk Factors in conjunction with the factors discussed elsewhere in this and other of our filings with the Securities and Exchange Commission (SEC) and in materials incorporated by reference in these filings. These Risk Factors are intended to highlight certain factors that may affect our financial condition and results of operations and are not meant to be an exhaustive discussion of risks that apply to companies like TI with broad international operations. Like other companies, we are susceptible to macroeconomic downturns in the United States or abroad that may affect the general economic climate and our performance and the performance of our customers. Similarly, the price of our securities is subject to volatility due to fluctuations in general market conditions, actual financial results that do not meet our and/or the investment community's expectations, changes in our and/or the investment community's expectations for our future financial results and other factors, many of which are beyond our control.

## Cyclicality in the Semiconductor Market May Affect Our Performance.

Our semiconductor business is our largest business segment and the principal source of our revenue. The semiconductor market historically has been cyclical and subject to significant and often rapid increases and decreases in product demand. These changes could have adverse effects on our results of operations, and on the market price of our securities. The results of our operations may be adversely affected in the future if demand for our integrated circuits decreases or if these markets or key end-equipment markets such as communications, consumer electronics, computing and industrial grow at a significantly slower pace than management expects.

Our Margins May Vary over Time.
Our profit margins may be adversely affected in the future by a number of factors, including decreases in our shipment volume, reductions in, or obsolescence of our inventory, and shifts in our product mix. In addition, the highly competitive market environment in which we operate might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs are fixed. In general, these costs do not decline with reductions in customer demand or utilization of manufacturing capacity, and can adversely affect profit margins as a result.

The Technology Industry Is Characterized by Rapid Technological Change That Requires Us to Develop New Technologies and Products.

Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a rapidly changing technological environment. We require significant capital to develop new technologies and products to meet changing customer demands that, in turn, may result in shortened product life cycles. Moreover, expenditures for technology and product development are generally made before the commercial viability for such developments can be assured. As a result, there can be no assurance that we will successfully develop and market these new products. There also is no assurance that the products we do develop and market will be well received by customers, nor that we will realize a return on the capital expended to develop such products.

We Face Substantial Competition That Requires Us to Respond Rapidly to Product Development and Pricing Pressures.

We face intense technological and pricing competition in the markets in which we operate. We expect the level of this competition will continue to increase from large competitors and from smaller competitors serving niche markets. Certain of our competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products. The price and product development pressures that result from competition may lead to reduced profit margins and lost business opportunities in the event that we are unable to match the price declines or cost efficiencies, or meet the technological, product, support, software or manufacturing advancements of our competitors.

Our Performance Depends in Part upon Our Ability to Enforce Our Intellectual Property Rights and to Develop and License New Intellectual Property.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio. There can be no assurance that, as our business expands into new areas, we will be able to independently develop the technology, software or know-how necessary to conduct our business or that we can do so without infringing the intellectual property rights of others. To the extent that we have to rely on licensed technology from others, there can be no assurance that we will be able to obtain licenses at all or on terms we consider reasonable. The lack of a necessary license could expose us to claims for damages and/or injunction from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify them against damages resulting from infringement claims.

With regard to our own intellectual property, we actively enforce and protect our rights. However, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of our protected technology.

We benefit from royalty revenue generated from various patent license agreements. The amount of such revenue depends in part on negotiations with new licensees, and with existing licensees in connection with renewals of their licenses. There is no guarantee that such negotiations will be successful. Future royalty revenue also depends on the strength and enforceability of our patent portfolio and our enforcement efforts, and on the sales and financial stability of our licensees. Additionally, the consolidation of our licensees may negatively affect our royalty revenue. Royalty revenue from licensees is not always uniform or predictable, in part due to the performance of our licensees and in part due to the timing of new license agreements or the expiration and renewal of existing agreements.

A Decline in Demand in Certain End-User Markets Could Have a Material Adverse Effect on the Demand for Our Products and Results of Operations.

Our customer base includes companies in a wide range of industries, but we generate a significant amount of revenue from sales to customers in the communications- and computer-related industries. Within these industries, a large portion of our revenue is generated from sales to customers in the cell phone, personal computer and communications infrastructure markets. Decline in one or several of these end-user markets could have a material adverse effect on the demand for our products and our results of operations and financial condition.

Our Global Manufacturing, Design and Sales Activities Subject Us to Risks Associated with Legal, Political, Economic or Other Changes.

We have facilities in more than 25 countries worldwide, and in 2007 more than 80 percent of our revenue came from sales to locations outside the United States. Operating internationally exposes us to changes in export controls and other laws or policies, as well as political and economic conditions, security risks, health conditions and possible disruptions in transportation networks of the various countries in which we operate. Any of these could result in an adverse effect on our business operations and our financial results. Also, as discussed in more detail on pages 58 and 59 of our 2007 annual report to stockholders, we use forward currency exchange contracts to minimize the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the re-measurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

Our Results of Operations Could be Affected by Natural Events in the Locations in which We, Our Customers or Suppliers Operate.

We have manufacturing and other operations in locations subject to natural occurrences such as severe weather and geological events that could disrupt operations. In addition, our suppliers and customers also have operations in such locations. A natural disaster that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may adversely affect our results and financial condition.

The Loss of or Significant Curtailment of Purchases by Any of Our Largest Customers Could Adversely Affect Our Results of Operations.

While we generate revenue from thousands of customers worldwide, the loss of or significant curtailment of purchases by one or more of our top customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments, may adversely affect our results of operations and financial condition.

Incorrect Forecasts of Customer Demand Could Adversely Affect Our Results of Operations.
Our ability to match inventory and production with the product mix needed to fill orders may affect our ability to meet a quarter's revenue forecast. In addition, when responding to customers' requests for shorter shipment lead times, we manufacture products based on forecasts of customers' demands. These forecasts are based on multiple assumptions. If we inaccurately forecast customer demand, we may hold inadequate, excess or obsolete inventory that would reduce our profit margins and adversely affect our results of operations and financial condition.

Our Performance Depends on the Availability and Cost of Raw Materials, Utilities, Critical Manufacturing Equipment, Manufacturing Processes and Third-Party Manufacturing Services.

Our manufacturing processes and critical manufacturing equipment require that certain key raw materials and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Additionally, the inability to timely implement new manufacturing technologies or install manufacturing equipment could adversely affect our results of operations. We subcontract a portion of our wafer fabrication and assembly and testing of our integrated circuits. We also depend on third parties to provide advanced digital process technology development. We depend on a limited number of third parties to perform these functions. We do not have long-term contracts with all of these third parties. Reliance on these third parties involves risks, including possible shortages of capacity in periods of high demand, the third parties' inability to develop and deliver advanced digital process technology in a timely, cost effective and appropriate manner and the possibility of third parties imposing increased costs on us.

Our Results of Operations Could be Affected by Changes in Taxation.
We have facilities in more than 25 countries worldwide and as a result are subject to taxation and audit by a number of taxing authorities. Tax rates vary among the jurisdictions in which we operate. Our results of operations could be affected by market opportunities or decisions we make that cause us to increase or decrease operations in one or more countries, or by changes in applicable tax rates or audits by the taxing authorities in countries in which we operate.

In addition, we are subject to laws and regulations in various locations that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. Changes in these laws and regulations could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations could affect our ability to realize those deferred tax assets, which could also affect our results of operations. Each quarter we forecast our tax liability based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax liability will change.

Our Results of Operations Could be Affected by Changes in the Financial Markets.
We maintain bank accounts, multi-year revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our daily operations, invest in our business, and make strategic acquisitions requires continuous access to our bank and investment accounts, as well as access to our bank credit lines, which support commercial paper borrowings and provide additional liquidity through short-term bank loans. If we are unable to access these accounts and credit lines (for example, due to instability in the financial markets), our results of operations and financial condition could be adversely affected. Similarly, such circumstances could also restrict our ability to access the capital markets or redeem our investments.

Our Results of Operations Could be Affected by Warranty Claims, Product Recalls or Product Liability.

We could be subject to warranty or product liability claims or claims based on epidemic or delivery failures that could lead to significant expenses as we defend such claims or pay damage awards. The risk of a significant claim is generally greater for products used in health and safety applications. In the event of a warranty claim, we may also incur costs if we decide to compensate the affected customer or end consumer. We do maintain product liability insurance, but there is no guarantee that such insurance will be available or adequate to protect against all such claims. In addition, it is possible for one of our customers to recall a product containing a TI part. In such instances, we may incur costs and expenses relating to the recall. Costs or payments we may make in connection with warranty, epidemic failure and delivery claims or product recalls may adversely affect our results of operations and financial condition.

Our Continued Success Depends in Part on Our Ability to Retain and Recruit a Sufficient Number of Qualified Employees in a Competitive Environment.

Our continued success depends in part on the retention and recruitment of skilled personnel including technical, marketing, management and staff personnel. There can be no assurance that we will be able to successfully retain and recruit the key personnel that we require.

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 |  |  | Total Number of Shares <br> Purchased as <br> Part of Publicly Announced Plans or Programs(1) |  | Approximate <br> Dollar Value of <br> Shares that <br> May Yet Be <br> Purchased <br> Under the <br> Plans or <br> Programs(1) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| July 1 through July 31, 2008 | 4,587,400 | \$ | 26.34 | 4,587,400 |  | 4,192 million |
| August 1 through August 31, 2008 | 5,483,800 | \$ | 25.02 | 5,483,800 |  | 4,055 million |
| September 1 through September 30, 2008 | 6,052,379 | \$ | 22.49 | 6,052,379 | \$ | 3,919 million |
| Total | 16,123,579 | \$ | 24.45 | 16,123,579(2)(3) |  | 3,919 million(3) |

(1) All purchases during the quarter were made through open market purchases under an authorization to purchase up to $\$ 5$ billion of additional shares of TI common stock announced on September 21, 2007. No expiration date has been specified for this authorization.
(2) All purchases were made through open-market purchases except for 25,000 shares that were acquired in August through a privately negotiated forward purchase contract with a non-affiliated financial institution. The forward purchase contract was designed to minimize the adverse impact on our earnings from the effect of stock market value fluctuations on the portion of our deferred compensation obligations denominated in TI stock.
(3) Includes the purchase of 879,644 shares for which trades were settled in the first three business days of October 2008 for $\$ 20$ million. The table does not include the purchase of $1,890,000$ shares pursuant to orders placed in the second quarter, for which trades were settled in the first three business days of the third quarter for $\$ 54$ million. The purchase of these shares was reflected in this item in our report on Form 10-Q for the quarter ended June 30, 2008.

ITEM 6. Exhibits.

## Description of Exhibit

Designation
of Exhibits
in This
Report
31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
32.1 Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
32.2 Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

27
"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:
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 wor phrases of similar import. Similarly, statements herein that describe our 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 its management:

Market demand for semiconductors, particularly in key markets such as communications, entertainment electronics and computing;
TI's ability to maintain or improve profit margins, including its ability to utilize its manufacturing facilities at sufficient levels to cover its fixed operating costs, in an intensely competitive and cyclical industry;
TI's ability to develop, manufacture and market innovative products in a rapidly changing technological environment;

- TI's ability to compete in products and prices in an intensely competitive industry;

TI's ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties;
Expiration of license agreements between TI and its patent licensees, and market conditions reducing royalty payments to TI;
Economic, social and political conditions in the countries in which TI, its customers or its suppliers operate, including security risks, health conditions, possible disruptions in transportation networks and fluctuations in foreign currency exchange rates;
Natural events such as severe weather and earthquakes in the locations in which TI, its customers or its suppliers operate;
Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
Changes in the tax rate applicable to TI as the result of changes in tax law, the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets; Losses or curtailments of purchases from key customers and the timing and amount of distributor and other customer inventory adjustments;

- Customer demand that differs from our forecasts;
-The financial impact of inadequate or excess TI inventory that results from demand that differs from projections;
- TI's ability to access its bank accounts and lines of credit or otherwise access the capital markets;

Product liability or warranty claims, claims based on epidemic or delivery failure or recalls by TI customers for a product containing a TI part;

- TI's ability to recruit and retain skilled personnel; and

Timely implementation of new manufacturing technologies, installation of manufacturing equipment and the ability to obtain needed third-party foundry and assembly/test subcontract services.

For a more detailed discussion of these factors, see the Risk Factors discussion in Part II, Item 1A of this report. The forward-looking statements included in this quarterly report on Form 10-Q 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.

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## TEXAS INSTRUMENTS INCORPORATED

By:<br>/s/ Kevin P. March<br>Kevin P. March<br>Senior Vice President<br>and Chief Financial Officer

Date: October 30, 2008

29

Edgar Filing: TEXAS INSTRUMENTS INC - Form 10-Q

