TEXAS INSTRUMENTS INC
Form 10-Q
July 22, 2010

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 June 30, 2010

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, Texas (Address of principal executive offices)	75266-0199 (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 T No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes T 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	T		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	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 T

1,195,195,435

Number of shares of Registrant's common stock outstanding as of

June 30, 2010

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	$3,496	$2,457	$6,701	$4,542
Cost of revenue	1,602	1,333	3,118	2,613
Gross profit	1,894	1,124	3,583	1,929
Research and development	392	369	761	755
Selling, general and administrative	378	327	737	631
Restructuring expense	17	85	28	190
Operating profit	1,107	343	2,057	353
Other income (expense) net	4	13	11	19
Income before income taxes	1,111	356	2,068	372
Provision for income taxes	342	96	641	95
Net income	$769	$260	$1,427	$277
Earnings per common share:				
Basic	$.63	$.20	$1.15	$.22
Diluted	$.62	$.20	$1.14	$.22
Average shares outstanding (millions):				
Basic	1,208	1,267	1,221	1,271
Diluted	1,221	1,272	1,234	1,275
Cash dividends declared per share of common stock	$.12	$.11	$.24	$.22

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Millions of dollars)

	For Three Months Ended June 30, 2010	For Three Months Ended June 30, 2009	For Six Months Ended June 30, 2010	For Six Months Ended June 30, 2009
Net income	$769	$260	$1,427	$277
Other comprehensive income (loss):				
Available-for-sale investments:				
Unrealized gains, net of taxes	2	10	3	19
Reclassification of recognized transactions, net of taxes	--	1	--	1
Net actuarial gains (losses) of defined benefit plans:				
Adjustment, net of taxes	(52)	49	(75)	80
Reclassification of recognized transactions, net of taxes	22	13	38	25
Prior service cost of defined benefit plans:				
Adjustment, net of taxes	1	--	1	(3)
Reclassification of recognized transactions, net of taxes	--	(6)	--	(6)
Total	(27)	67	(33)	116
Total comprehensive income	$742	$327	$1,394	$393

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated Balance Sheets
(Millions of dollars, except share amounts)

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$1,138	$ 1,182
Short-term investments	1,167	1,743
Accounts receivable, net of allowances of ($21) and ($23)	1,715	1,277
Raw materials	98	93
Work in process	812	758
Finished goods	439	351
Inventories	1,349	1,202
Deferred income taxes	566	546
Prepaid expenses and other current assets	195	164
Total current assets	6,130	6,114
Property, plant and equipment at cost	6,831	6,705
Less accumulated depreciation	(3,591)	(3,547)
Property, plant and equipment, net	3,240	3,158
Long-term investments	557	637
Goodwill	926	926
Acquisition-related intangibles	97	124
Deferred income taxes	915	926
Capitalized software licenses, net	229	119
Overfunded retirement plans	22	64
Other assets	48	51
Total assets	$12,164	$ 12,119
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$542	$ 503
Accrued expenses and other liabilities	823	841
Income taxes payable	18	128
Accrued profit sharing and retirement	155	115
Total current liabilities	1,538	1,587
Underfunded retirement plans	470	425
Deferred income taxes	70	67
Deferred credits and other liabilities	331	318
Total liabilities	2,409	2,397
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares. Participating cumulative preferred. None issued.	--	--
Common stock, $1 par value. Authorized – 2,400,000,000 shares. Shares issued: June 30, 2010 -- 1,739,888,675; December 31, 2009 -- 1,739,811,721	1,740	1,740
Paid-in capital	1,127	1,086
Retained earnings	23,194	22,066
Less treasury common stock at cost.		

Shares: June 30, 2010 -- 544,693,240; December 31, 2009 -- 499,693,704	(15,652)	(14,549)
Accumulated other comprehensive income (loss), net of taxes	(654)	(621)
Total stockholders' equity	9,755	9,722
Total liabilities and stockholders' equity	$12,164	$ 12,119

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Millions of dollars)

	For Six Months Ended June 30, 2010	For Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net income	$1,427	$277
Adjustments to net income:		
Depreciation	426	451
Stock-based compensation	96	97
Amortization of acquisition-related intangibles	25	22
Deferred income taxes	(18)	9
Increase (decrease) from changes in:		
Accounts receivable	(439)	(334)
Inventories	(147)	316
Prepaid expenses and other current assets	4	(7)
Accounts payable and accrued expenses	(28)	(18)
Income taxes payable	(135)	(3)
Accrued profit sharing and retirement	43	(71)
Other	18	69
Net cash provided by operating activities	1,272	808
Cash flows from investing activities:		
Additions to property, plant and equipment	(502)	(91)
Purchases of short-term investments	(1,212)	(563)
Sales and maturities of short-term investments	1,801	1,273
Purchases of long-term investments	(2)	(5)
Redemptions and sales of long-term investments	68	46
Acquisitions, net of cash acquired	--	(155)
Net cash provided by investing activities	153	505
Cash flows from financing activities:		
Dividends paid	(296)	(280)
Sales and other common stock transactions	79	37
Excess tax benefit from share-based payments	2	--
Stock repurchases	(1,254)	(351)
Net cash used in financing activities	(1,469)	(594)
Net (decrease) increase in cash and cash equivalents	(44)	719
Cash and cash equivalents, beginning of period	1,182	1,046
Cash and cash equivalents, end of period	$1,138	$1,765

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Notes to Financial Statements

1. Description of business and significant accounting policies and practices. Texas Instruments (TI) designs and makes semiconductors that we sell to electronics designers and manufacturers; about 80,000 customers all over the world buy our products.

Basis of Presentation – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. 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, 2009. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended June 30, 2010 and 2009, and the balance sheet as of June 30, 2010, 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, 2009, presented herein is derived from the audited consolidated balance sheet presented in our annual report on Form 10-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 U.S. 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, 2009. The results for the three-month and six-month periods are not necessarily indicative of a full year's results.

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.

Acquisitions – In the second quarter of 2009, we acquired Luminary Micro for net cash of $51 million and other consideration of $7 million. These operations were integrated into our Embedded Processing segment.

In the first quarter of 2009, we acquired CICLON Semiconductor Device Corporation for net cash of $104 million and other consideration of $7 million. These operations were integrated into our Analog segment.

The results of operations of these acquisitions have been included in our financial statements from their respective acquisition dates.

Use of Derivatives and Hedging – We use derivative financial instruments to manage exposure to foreign exchange risk. These instruments are primarily forward foreign currency exchange contracts that are used as economic hedges to reduce the earnings impact exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures or for specified non-U.S. dollar forecasted transactions. Gains and losses from changes in the fair value of these forward foreign currency exchange contracts are credited or charged to other income (expense) net (OI&E). We do not use derivatives for speculative or trading purposes. We do not apply hedge accounting to our foreign currency derivative instruments.

Fair Values of Financial Instruments – The fair values of our derivative financial instruments were not significant at June 30, 2010. Our investments in cash equivalents, short-term investments and certain long-term investments are carried at fair value and are discussed in Note 5. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments.

Changes in Accounting Standards – In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010 - 06 – Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. Except for the detailed disclosures of changes in Level 3 items, which will be effective for us as of January 1, 2011, the remaining new disclosure requirements were effective for us as of January 1, 2010. We have included these new disclosures, as applicable, in Note 5.

In April 2010, the FASB issued ASU No. 2010 - 17 – Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition. This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard will be effective for us on a prospective basis for periods beginning after January 1, 2011. We have evaluated the potential impact of this standard and expect it will have no significant impact on our financial position or results of operations.

2. Restructuring activities. In October 2008, we announced actions to reduce expenses in our Wireless segment, especially our baseband operation. In January 2009, we announced actions that included broad-based employment reductions to align our spending with weakened demand. Combined, these actions eliminated about 3,900 jobs; they were completed in 2009.

The table below reflects the changes in accrued restructuring balances associated with these actions:

	Severance and Benefits	Impairments and Other Charges	Total
Remaining accrual at December 31, 2009	$ 84	$ 10	$ 94
Restructuring expense	28	--	28
Non-cash charges	(28)*	--	(28)
Payments	(53)	(2)	(55)
Remaining accrual at June 30, 2010	$ 31	$ 8	$ 39

* Reflects postretirement benefit plan settlement charges.

The accrual balances above are a component of Accrued expenses and other liabilities or Deferred credits and other liabilities on our balance sheets, depending on the expected timing of payment.

Restructuring expense recognized by segment from the actions above is as follows:

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2010	2009	2010	2009

Analog	$7	$34	$11	$74
Embedded Processing	3	18	5	37
Wireless	5	24	8	58
Other	2	9	4	21
Total	$17	$85	$28	$190

3. 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. The rate is based on current tax law and for 2010 does not assume reinstatement of the federal research tax credit, which expired at the end of 2009. As of June 30, 2010, the estimated annual effective tax rate for 2010 is about 31 percent, which differs from the 35 percent statutory corporate tax rate primarily due to the effects of non-U.S. tax rates.

4. Earnings per share (EPS). Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock units (RSUs), are considered to be participating securities and the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below.

Computation and reconciliation of earnings per common share are as follows:

	For Three Months Ended June 30, 2010			For Three Months Ended June 30, 2009		
	Income	Shares	EPS	Income	Shares	EPS
Basic EPS:						
Net Income	$769			$260		
Less income allocated to RSUs	(11)			(2)		
Income allocated to common stock for basic EPS calculation	$758	1,208	$.63	$258	1,267	$.20
Adjustment for dilutive shares:						
Stock-based compensation plans		13			5	
Diluted EPS:						
Net Income	$769			$260		
Less income allocated to RSUs	(11)			(2)		
Income allocated to common stock for diluted EPS calculation	$758	1,221	$.62	$258	1,272	$.20