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

FORM 10-K

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

For the fiscal year ended December 31, 2021

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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 **75-0289970**
(State of Incorporation) (I.R.S. Employer Identification No.)

12500 TI Boulevard, Dallas, Texas **75243**
(Address of principal executive offices) (Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer,"

“accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$177,340,424,753 as of June 30, 2021.

923,547,062 (Number of shares of common stock outstanding as of January 25, 2022)

Part III hereof incorporates information by reference to the Registrant's proxy statement for the 2022 annual meeting of stockholders.

PART I

ITEM 1. Business

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. Our operations began in 1930, and we are incorporated in Delaware. With headquarters in Dallas, Texas, we have design, manufacturing or sales operations in more than 30 countries. Our two reportable segments are Analog and Embedded Processing, and we report the results of our remaining business activities in Other. In 2021, we generated \$18.34 billion of revenue.

For decades, we have operated with a passion to create a better world by making electronics more affordable through semiconductors. We were pioneers in the transition from vacuum tubes to transistors and then to integrated circuits. As each generation became more reliable, more affordable and lower in power, semiconductors were used by a growing number of customers and markets. This passion is alive today as we help our customers develop electronics and new applications, particularly in industrial and automotive markets.

For many years, we have run our business with three overarching ambitions in mind. First, we will act like owners who will own the company for decades. Second, we will adapt and succeed in a world that is ever changing. And third, we will be a company that we are personally proud to be a part of and that we would want as our neighbor. Our ambitions are foundational to ensuring that we operate in a sustainable, socially thoughtful and environmentally responsible manner. When we are successful in achieving these ambitions, our employees, customers, communities and shareholders all win.

As engineers, we are fortunate to work on exciting technology which helps our customers innovate to create a better world. Technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share.

Our strategy to maximize free cash flow per share growth has three elements:

The first element of our strategy is a business model that is focused on analog and embedded processing products and built around four competitive advantages. This business model is the result of a series of strategic decisions made over the years and that continue today. The four sustainable competitive advantages are a strong foundation of manufacturing and technology, a broad portfolio of analog and embedded processing products, the reach of our market channels, and diversity and longevity of our products, markets and customer positions. In combination, these four competitive advantages provide tangible benefits, are difficult to replicate and ultimately separate us from our best peers. Together, these competitive advantages help position TI in a unique class of companies capable of generating and returning significant amounts of cash for our owners. We make our investments with an eye towards long-term strengthening and leveraging of these advantages.

The second element of our strategy to maximize free cash flow per share growth is disciplined allocation of capital. This spans how we select R&D projects, develop new capabilities like TI.com, invest in new manufacturing capacity or how we think about acquisitions and returning cash to our owners. Over a 10-year period from 2012 to 2021, we allocated \$79 billion, which reinforces the importance of discipline in capital allocation. The largest allocation over this period was to drive organic growth, which includes investments in R&D, sales and marketing, capital expenditures and working capital for inventory. In this period we allocated just over \$8 billion to capital expenditures, and in the years ahead this amount will increase, as we expect it to be the largest driver of long-term free cash flow growth. Beyond that, we also

allocated capital to dividends and share repurchases. Dividends are designed to appeal to a broad set of investors, and share repurchases are made with the goal of the accretive capture of future free cash flow for long-term investors. Lastly, for inorganic growth, we allocate to acquisitions that meet our financial and strategic objectives.

The third element of our strategy is efficiency, which we think of as constantly striving for more output for every dollar spent. This is about getting our investments in the most impactful areas to maximize the growth of long-term free cash flow per share; it is not just about optimizing cost-cutting to get to the last dollar of expense. We bring this philosophy of efficiency and continuous improvement to all areas of the company, and this focus on efficiency contributes to revenue growth, improved gross margins, disciplined R&D and SG&A expense, free cash flow margins and ultimately to free cash flow per share growth.

We believe that our business model with the combined effect of our four competitive advantages sets TI apart from our peers and will for a long time to come. We will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies. Finally, we will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as “chips,” combine multiple transistors to form a complete electronic circuit. We have a diverse product portfolio that is used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes approximately 80,000 products that are integral to almost every type of electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels. Our segments also reflect how management allocates resources and measures results.

Analog

Our Analog segment generated \$14.05 billion of revenue in 2021. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or using a battery. As the digitization of electronics continues, there is a growing need and opportunity for analog chips to provide the power to run devices and the critical interfaces with human beings, the real world and other electronic devices. Our Analog products are used in many markets, particularly industrial, automotive and personal electronics.

Sales of our Analog products generated about 77% of our revenue in 2021.

Our Analog segment includes the following major product lines: Power and Signal Chain.

Power

Power includes products that help customers manage power in electronic systems. Our broad portfolio is designed to manage power requirements across different voltage levels, including battery-management solutions, DC/DC switching regulators, AC/DC and isolated controllers and converters, power switches, linear regulators, voltage references and lighting products.

Signal Chain

Signal Chain includes products that sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control. Our Signal Chain products include amplifiers, data converters, interface products, motor drives, clocks, logic and sensing products.

Embedded Processing

Our Embedded Processing segment generated \$3.05 billion of revenue in 2021. Embedded Processing products are the digital “brains” of many types of electronic equipment. They are designed to handle

specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. Our devices vary from simple, low-cost microcontrollers used in applications such as electric toothbrushes to highly specialized, complex devices such as motor control. Our Embedded Processing products are used in many markets, particularly industrial and automotive.

An important characteristic of our Embedded Processing products is that our customers often invest their own research and development (R&D) to write software that operates on our products. This investment tends to increase the length of our customer relationships because many customers prefer to reuse software from one product generation to the next.

Sales of Embedded Processing products generated about 17% of our revenue in 2021.

Our Embedded Processing segment includes microcontrollers, digital signal processors (DSPs) and applications processors. Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors are designed for specific computing activity.

Other

We report the results of our remaining business activities in Other, which includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other generated \$1.25 billion of revenue in 2021 and includes revenue from DLP® products (primarily used to project high-definition images), calculators and certain custom semiconductors known as application-specific integrated circuits (ASICs).

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition, integration and restructuring charges, as well as certain corporate-level items, such as litigation expenses, environmental costs and gains and losses from other activities, including asset dispositions.

Markets for our products

The table below lists the major markets for our products in 2021 and the estimated percentage of our 2021 revenue that the market represented. The chart also lists, in declining order of our revenue, the sectors

within each market.

Market	Sector
Industrial (41% of TI revenue)	Factory automation & control Building automation Grid infrastructure Medical Aerospace & defense Test & measurement Appliances Pro audio, video & signage Motor drives Power delivery Retail automation & payment Industrial transport Lighting
Automotive (21% of TI revenue)	Infotainment & cluster Advanced driver assistance systems (ADAS) Passive safety Hybrid, electric & powertrain systems Body electronics & lighting
Personal electronics (24% of TI revenue)	Mobile phones Portable electronics PC & notebooks Connected peripherals & printers Home theater & entertainment TV Tablets Wearables (non-medical) Data storage Gaming
Communications equipment (6% of TI revenue)	Wireless infrastructure Wired networking Broadband fixed line access Datacom module
Enterprise systems (6% of TI revenue)	Data center & enterprise computing Enterprise projectors Enterprise machine
Other (calculators and other) (2% of TI revenue)	

Market characteristics

Competitive landscape

Despite recent consolidation, the analog and embedded processing markets remain highly fragmented. As a result, we face significant global competition from dozens of large and small companies, including both broad-based suppliers and niche suppliers. Our competitors also include emerging companies, particularly in Asia.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and reach of its channels to market, technological innovation, product development execution, technical support, customer service, quality, reliability, price and manufacturing capacity and capabilities. In addition, manufacturing process and package technologies that provide differentiated levels of performance and a structural cost advantage are competitive factors for our analog products, and customers' prior investments in software development is a competitive factor for our embedded processing products.

Market cycle

The "semiconductor cycle" refers to the ebb and flow of supply and demand and the building and depleting of inventories. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. These are typically referred to as upturns and downturns in the semiconductor cycle. Semiconductor cycles are affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

Seasonality

Our revenue is subject to some seasonal variation. Historically, our sequential revenue growth rate tends to be weaker in the first and fourth quarters when compared with the second and third quarters.

Customers, sales and distribution

We sell our products to over 100,000 customers. Our customer base is diverse, with more than 40% of our revenue derived from customers outside our largest 100.

We market and sell our products through direct sales channels, including our website and broad sales and applications team, and, to a lesser extent, through distributors. Over the past several years, we have been investing in new capabilities to build closer direct customer relationships. For example, in 2021 about two-thirds of our revenue was direct, and transactions on TI.com grew to about 10% of our revenue, as customers valued the convenience of purchasing online. Closer direct relationships with our customers help to strengthen our reach of market channel advantage and give us access to more customers and more of their design projects, leading to opportunities to sell more of our products into each design. Additionally, broader and deeper access gives us better insight and knowledge of customer needs.

Our investments in new and improved capabilities to directly support our customers include website and e-commerce enhancements as well as inventory consignment programs and order fulfillment services. We expanded the reach of our TI.com e-commerce channel by offering a localized online experience in many countries, with convenience features such as immediate availability, local currency, payment methods, invoicing and importer of record. In addition to doing business directly with TI, we offer customers the option of using a single worldwide distributor and a few region-specific distributors for order fulfillment.

Manufacturing

Semiconductor manufacturing begins with a sequence of photolithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is packaged and tested. The entire process takes place in highly specialized facilities that require substantial investments.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities.

We invest in manufacturing technologies and do most of our manufacturing in-house. This strategic decision to make manufacturing and technology a core competitive advantage provides us with tangible benefits of lower manufacturing costs and greater control of our supply chain. We have focused on creating a competitive manufacturing structural cost advantage by investing in our advanced 300-millimeter capacity. An unpackaged chip built on a 300-millimeter wafer costs about 40% less than an unpackaged chip built on a 200-millimeter wafer.

We continue to invest to strengthen our competitive advantage in manufacturing and technology as part of our long-term capacity planning. Progress and investments include:

- continuing construction of RFAB2 (Richardson, Texas), our next 300-millimeter wafer fabrication facility, to begin production in the second half of 2022;
- purchasing a 300-millimeter wafer fabrication facility in Lehi, Utah, to support analog and embedded processing manufacturing, which is expected to begin production in early 2023; and
- planning construction on our next two 300-millimeter wafer fabrication facilities in Sherman, Texas, to begin in 2022. This North Texas site has the potential for up to four fabrication facilities to meet demand over time, as semiconductor growth in electronics, particularly in industrial and automotive markets, is expected to continue well into the future. Production is expected to begin in 2025.

Together, these investments are designed to strengthen our manufacturing and technology competitive advantage, provide us with lower costs and greater control of our supply chain, and support growth over the next 10 to 15 years.

We assess and are careful to address potential health, safety, and environmental risks presented by our operations, including our manufacturing operations. We care for our environment and work to prevent pollution and the potential risks related to climate change by implementing practices such as recycling and reusing materials, controlling harmful emissions, and properly handling hazardous and restricted substances.

We expect to continue to maintain sufficient internal manufacturing capacity to meet the majority of our production needs and to obtain manufacturing equipment to support new technology developments and revenue growth. To supplement our manufacturing capacity and maximize our responsiveness to customer demand, we selectively use the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2021, we sourced about 20% of our total wafers from external foundries and about 40% of our assembly/test services from subcontractors.

Inventory

Our objectives for inventory are to maintain high levels of customer service, maintain stable and competitive lead times, minimize inventory obsolescence and improve manufacturing asset utilization. To meet these objectives and to allow greater flexibility in periods of high demand, our strategy is to build ahead of demand our broad-based products that are used across a diverse set of applications and customers and have low risk of obsolescence. Inventory levels will vary based on market conditions and seasonality.

Raw materials

We purchase materials, parts and supplies from a number of suppliers. In some cases we purchase such items from sole-source suppliers. The materials, parts and supplies essential to our business are generally available at present, and we believe that such materials, parts and supplies will be available in the foreseeable future.

Intellectual property

We own many patents and have many patent applications pending in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and

continually add patents to that portfolio. We also have license agreements, which vary in duration, involving rights to our portfolio or those of other companies. We do not consider our business materially dependent upon any one patent or patent license.

Information about our executive officers

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

Name	Age	Position
Ahmad S. Bahai	59	Senior Vice President
Kyle M. Flessner	51	Senior Vice President
Mark S. Gary	47	Senior Vice President
Haviv Ilan	53	Director, Executive Vice President and Chief Operating Officer
Hagop H. Kozanian	39	Senior Vice President
Rafael R. Lizardi	49	Senior Vice President and Chief Financial Officer
Mark T. Roberts	46	Senior Vice President
Amichai Ron	44	Senior Vice President
Richard K. Templeton	63	Director, Chairman of the Board, President and Chief Executive Officer
Cynthia Hoff Trochu	58	Senior Vice President, Secretary and General Counsel
Darla H. Whitaker	56	Senior Vice President
Christine A. Witzsche	37	Senior Vice President

The term of office of these officers is from the date of their election until their successor shall have been elected and qualified. All have been employees of the company for more than five years. Messrs. Templeton, Ilan and Lizardi and Ms. Trochu and Whitaker have served as executive officers of the company for more than five years. Messrs. Bahai, Flessner and Kozanian became executive officers of the company in 2018. Mr. Ron became an executive officer in 2019. Mr. Gary became an executive officer in 2020. Mr. Roberts and Ms. Witzsche became executive officers in 2021.

Human capital management

At December 31, 2021, we had about 31,000 employees worldwide. Of those, about 87% were in Sales, R&D or manufacturing. Our objective for human capital management is to recruit, develop and retain the best talent possible. As a technology and manufacturing company, our success is grounded in having strong engineering talent and a reliable factory workforce. We have a promote-from-within culture and offer training and rotation programs that provide the opportunity to quickly gain experience in different areas. In 2021, our turnover rate was 9.7%.

It is important that our employees represent a mix of experiences and backgrounds in order to make our company stronger, more innovative and more inclusive. Inclusion is one of our core values, and we have programs in place to promote diversity and inclusion. We encourage you to review our Corporate Citizenship Report for more information. Nothing in the Corporate Citizenship Report shall be deemed incorporated by reference into this report.

Available information

Our internet address is www.ti.com. Information on our website is not part of this report. We make available free of charge through our Investor Relations website our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the Securities and Exchange Commission. Also available through the TI Investor Relations website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports.

Available on our website at www.ti.com/corporategovernance: (i) our Corporate Governance Guidelines; (ii) charters for the Audit, Compensation, and Governance and Stockholder Relations Committees of our board of directors; (iii) our code of conduct; and (iv) our Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, Attention: Investor Relations, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199.

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 into 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 TI, a company with broad international operations. Like many companies, we are susceptible to a potential downturn associated with macroeconomic weakness, which may affect 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 results, dividends or share repurchases, and other factors, many of which are beyond our control.

Risks related to our business and industry

The extent to which the COVID-19 pandemic will adversely affect our business, results of operations and financial condition is uncertain.

The global spread of the coronavirus (COVID-19) has created significant uncertainty and economic disruption, both near-term and potentially long-term. We have modified, and might further modify, our business practices in response to the COVID-19 pandemic, related third-party responses, including from government authorities and our suppliers, customers and distributors, and the economic and social ramifications of the disease and societal responses across the markets in which TI operates. The extent to which the COVID-19 pandemic will continue to affect our business, results of operation and financial condition is difficult to predict and depends on numerous evolving factors including: the duration and scope of the pandemic; government, social, business and other actions that have been and will be taken in response to the pandemic; and the effect of the pandemic on short- and long-term general economic conditions. We have experienced, and continue to experience, short- or long-term constrained supply or volatility in customer demand, which could materially and adversely affect our business and financial results.

Our global operations subject us to risks associated with domestic or international political, social, economic or other conditions.

We have facilities in more than 30 countries. About 90% of our revenue comes from shipments to locations outside the United States; shipments of products to China-based customers represent about 25% of our revenue. Certain countries where we operate have experienced, and other countries may experience, trade tension that affects global trade and macroeconomic conditions through the enactment of tariffs, import or export restrictions, trade embargoes and sanctions, restrictions on cross-border investment and other trade barriers. Trade tensions impact our ability to deliver products and product support into China, cause Chinese customers to seek alternate suppliers and could otherwise adversely affect our operations and financial results.

We are exposed to political, social and economic conditions, security risks, terrorism or other hostile acts, health conditions and epidemics, labor conditions, climate change risks and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate. In addition, our global operations expose us to periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business. The remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

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 this competition will continue to increase from large competitors and from small competitors serving niche markets, and also from emerging companies, particularly in Asia, that sell products into the same markets in which we operate. For example, we may face increased competition as a result of China actively promoting and reshaping its domestic semiconductor industry through policy changes and investment. These actions, in conjunction with trade tensions, may restrict us from participating in the China market or may prevent us from competing effectively. Certain competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products, and consolidation among our competitors may allow them to compete more effectively. 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.

Changes in expected demand for our products could have a material adverse effect on our results of operations.

Our customers include companies in a wide range of end markets and sectors within those markets. If demand in one or more sectors within our end markets declines or the rate of growth slows, our results of operations may be adversely affected. The cyclical nature of the semiconductor market occasionally leads to significant and rapid increases and decreases in product demand. Additionally, the loss or significant curtailment of purchases by one or more of our large customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, the timing of customer or distributor inventory adjustments, changes in demand for customer products, or trade restrictions, may adversely affect our results of operations and financial condition.

Our results of operations also might suffer because of a general decline in customer demand resulting from, for example: uncertainty regarding the stability of global credit and financial markets; natural events, epidemics or domestic or international political, social, economic or other conditions; breaches of customer information technology systems that disrupt customer operations; or a customer's inability to access credit markets and other sources of needed liquidity.

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. Due to strong demand, our manufacturing lead times for some products are longer than normal, and lead times might continue to extend. We manufacture products with the intent to provide high levels of customer service. Our manufacturing forecasts are based on multiple assumptions, and if inaccurate, could cause us to hold inadequate, excess or obsolete inventory that would reduce our profit margins and adversely affect our results of operations and financial condition.

Our operating results and our reputation could be adversely affected by cybersecurity events, breaches, disruptions or other incidents relating to our information technology systems.

Breaches, disruptions or other incidents relating to our information technology systems or the systems of our customers, vendors and other third parties could be caused by factors such as computer viruses, system failures, restricted network access, unauthorized access, terrorism, employee malfeasance, or human error. These events could, among other things, compromise our information technology networks; result in corrupt or lost data or the unauthorized release of our, our customers' or our suppliers' confidential or proprietary information; cause a disruption to our manufacturing and other operations; result in the release of personal data; or cause us to incur costs associated with increased protection,

remediation, regulatory inquiries or penalties, or claims for damages, any of which could adversely affect our operating results and our reputation. Cybersecurity or other threats to our information technology systems or the systems of our customers, vendors and other third parties are frequent and constantly evolving, thereby increasing the difficulty of defending against them.

Our ability to successfully implement strategic, business and organizational changes could affect our business plans and results of operations.

From time to time, we undertake strategic, business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our objectives. For example, the purchase of our 300-millimeter semiconductor factory in Lehi, Utah in 2021. If we do not successfully implement these changes, our business plans and operating results could be adversely affected. We may not achieve or sustain the expected growth, cost savings or other benefits of strategic, business and organizational changes, and charges associated with these actions could differ materially in amount and timing from our expectations.

Our results of operations could be affected by natural events in the locations in which we operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as severe weather, geological events or epidemics that could disrupt operations. Climate change might exacerbate these occurrences or cause natural disasters to occur with greater frequency. A natural disaster that results in a prolonged disruption, particularly where we have principal manufacturing and design operations, as listed in the Properties section in Item 2, may adversely affect our results and financial condition.

Rapid technological change in markets we serve requires us to develop new technologies and products.

Rapid technological change in markets we serve could contribute to shortened product life cycles and a decline in average selling prices of our products. Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a timely and cost-effective manner. We make significant investments in research and development to improve existing technology and products, develop new products to meet changing customer demands, and improve our production processes. In some cases, we might not realize a return or the expected return on our investments because they are generally made before commercial viability can be assured. Further, projects that are commercially viable may not contribute to our operating results until at least a few years after they are completed.

We face supply chain and manufacturing risks.

We rely on third parties to supply us with goods and services in a cost-effective and timely manner. Our access to needed goods and services may be adversely affected by potential disputes with suppliers or disruptions in our own or suppliers' operations as a result of, for example: quality excursions; uncertainty regarding the stability of global credit and financial markets; domestic or international political, social, economic and other conditions; natural events or epidemics in the locations in which our suppliers operate; or limited or delayed access to and high costs of key materials, natural resources, services and utilities. Additionally, a breach or other incident relating to our suppliers' information technology systems could result in a release of confidential or proprietary information. If our suppliers are unable to access credit markets and other sources of needed liquidity, we may be unable to obtain needed supplies, collect accounts receivable or access needed technology.

In particular, our manufacturing processes and critical manufacturing equipment, and those of our suppliers, require that certain key materials, natural resources, services and utilities be available. Suppliers of these items have and might continue to extend lead times, limit supply or increase prices due to factors beyond our control. Limited or delayed access to and high costs of key materials, natural resources, services and utilities could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally,

our costs may increase if one or more of our customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Our inability to timely implement new manufacturing technologies or install manufacturing equipment could adversely affect our results of operations. We have made and will continue to make significant investments in manufacturing capacity, and we might not realize our expected return on those investments. We subcontract a portion of our wafer fabrication and assembly and testing of our products, and we depend on third parties to provide advanced logic manufacturing process technology development. We do not have long-term contracts with all of these suppliers, and the number of alternate suppliers is limited. Reliance on these suppliers involves risks, including possible shortages of capacity in periods of high demand, suppliers' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost-effective, and appropriate manner, the possibility of suppliers' imposition of increased costs on us and the unauthorized disclosure or use of our intellectual property.

Our results of operations and our reputation could be affected by warranty claims, product liability claims, product recalls or legal proceedings.

Claims based on warranty, product liability, epidemic or delivery failures, or other grounds relating to our products, software, manufacturing, services, designs, communications or cybersecurity could lead to significant expenses as we defend the claims or pay damage awards or settlements. In the event of a claim, we would also incur costs if we decide to compensate the affected customer or end consumer. Any such claims may also cause us to write off the value of related inventory. We 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 a customer to recall a product containing a TI part, for example, with respect to products used in automotive applications or handheld electronics, which may cause us to incur costs and expenses relating to the recall. Any of these events could adversely affect our results of operations, financial condition and reputation.

Our results of operations could be adversely affected by distributors' promotion of competing product lines or our distributors' financial performance.

In 2021, about one-third of our revenue was generated from sales of our products through distributors. Our distributors carry competing product lines, and our sales could be affected if semiconductor distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us. Disputes with current or former distributors could be disruptive or harmful to our business.

Our margins vary.

Our profit margins vary due to a number of factors, which may include customer demand and shipment volume; our manufacturing processes; product mix; inventory levels; tariffs; freight costs; and new accounting pronouncements or changes in existing accounting practices or standards. In addition, we operate in a highly competitive market environment that might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these fixed costs do not decline with reductions in customer demand or factory loadings, and can adversely affect profit margins as a result.

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, as well as the effective management of succession for key employees. Skilled and experienced personnel in our industry, including engineering, management, marketing, technical and staff personnel, are in high demand and competition for their talents is intense. There can be no assurance that we will be able to successfully retain and recruit the key engineering, management and technical personnel that we require to execute our business strategy. Our ability to recruit internationally or deploy employees to various locations may be limited by immigration laws and policies, including changes to, or the administration or interpretation of, those laws and policies.

Legal and regulatory risks

Our operations could be affected by the complex laws, rules and regulations to which our business is subject.

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, the environment and climate change; safety; health; trade; bribery and corruption;

financial reporting; tax; data privacy and protection; labor and employment; competition; market access; epidemics; intellectual property ownership and infringement; and the movement of currency. Compliance with these laws, rules and regulations may be onerous and expensive and could restrict our ability to manufacture or ship our products and operate our business. If we do not comply or if we become subject to enforcement activity, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

Increased focus from government authorities, investors, customers and other key stakeholders on environmental, social and governance (ESG) matters has led to new and more stringent reporting standards and disclosure requirements. As the nature, scope and complexity of ESG reporting, diligence and disclosure requirements expand, we might have to undertake costly efforts to control, assess and report on ESG metrics.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, natural resources, or materials or gases used or emitted into the environment in connection with the manufacture of our products. A substitute for a prohibited material or process might not be available, or might not be available at reasonable cost.

Our results of operations could be affected by changes in tax-related matters.

We have facilities in more than 30 countries 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. If our tax rate increases, our results of operations could be adversely affected. A number of factors could cause our tax rate to increase, including a change in the jurisdictions in which our profits are earned and taxed; a change in the mix of profits from those jurisdictions; changes in available tax credits or deductions, including for amounts relating to stock compensation; changes in applicable tax rates; changes in tariff regulations or surcharges; changes in accounting principles; or adverse resolution of audits by taxing authorities. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also affect our results of operations.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. These laws and regulations can be complex and subject to interpretation. Changes in these laws and regulations, including those that align with the Organisation for Economic Cooperation and Development's Base Erosion and Profit Shifting recommendations, could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. Each quarter we forecast our tax expense based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax expense will change.

Our performance depends in part on our ability to enforce our intellectual property rights and to maintain freedom of operation.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio in all jurisdictions where we conduct business. There can be no assurance that, as our business evolves, we will obtain the necessary intellectual property rights, or that 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 technology from others for which a license is required, there can be no assurance that we will be able to obtain such a license at all or on terms we consider reasonable. We, directly and indirectly, face infringement claims from third parties, including non-practicing entities that have acquired patents to pursue enforcement actions against other companies. We also face infringement claims where we or our customers make, use or sell products and where the intellectual property laws may be less established or less predictable. These assertions, whether or not of any merit, expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have a

contractual or other legal obligation to indemnify them against damages resulting from infringement claims.

We actively enforce and protect our own intellectual property rights. However, our efforts cannot prevent all misappropriation or improper use of our protected technology and information, including, for example, third parties' use of our patented or copyrighted technology, or our trade secrets in their products without the right to do so, or third parties' sale of counterfeit products bearing our trademark. The risk of unfair copying or cloning may impede our ability to sell our products. The laws of countries where we operate may not protect our intellectual property rights to the same extent as U.S. laws.

Risks related to our financing activities and other risks

Our debt could affect our operations and financial condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including our other risk factors, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise might be invested in our operations or returned to shareholders, or could cause us to raise funds by, for example, issuing new debt or equity or selling assets.

Our results of operations and liquidity could be affected by changes in the financial markets.

We maintain bank accounts, a portfolio of investments, access to one or more multiyear revolving credit agreements and the ability to issue debt to support the financing needs of the company. Our ability to fund our operations, invest in our business, make strategic acquisitions, service our debt obligations and meet our cash return objectives depends upon continuous access to our bank and investment accounts, and may depend on access to our bank credit lines that 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 and our ability to access the capital markets or redeem our investments could be restricted.

Material impairments of our goodwill could adversely affect our results of operations.

We have a significant amount of goodwill on our consolidated balance sheet. Charges associated with impairments of goodwill could adversely affect our financial condition and results of operations.

ITEM 1B. Unresolved staff comments

Not applicable.

ITEM 2. Properties

Our principal executive offices are located at 12500 TI Boulevard, Dallas, Texas. The following table indicates the general location of our principal manufacturing and design operations and the reportable segments that make major use of them. Except as otherwise indicated, we own these facilities.

	Analog	Embedded Processing
North Texas (Dallas, Richardson and Sherman)	X	X
Lehi, Utah	X	X
Houston, Texas		X
Tucson, Arizona	X	
Santa Clara, California	X	
South Portland, Maine	X	
Chengdu, China †	X	X
Shanghai, China *	X	X
Freising, Germany	X	X
Bangalore, India †	X	X
Aizu, Japan	X	X
Miho, Japan	X	X
Kuala Lumpur, Malaysia †	X	X
Melaka, Malaysia †	X	
Aguascalientes, Mexico *	X	
Baguio, Philippines †	X	X
Pampanga (Clark), Philippines †	X	X
Taipei, Taiwan †	X	X

* Leased.

Portions of the facilities are leased and owned. This may include
† land leases.

Our facilities in the United States contained approximately 14.9 million square feet at December 31, 2021, of which approximately 0.3 million square feet were leased. Our facilities outside the United States contained approximately 10.2 million square feet at December 31, 2021, of which approximately 1.5 million square feet were leased.

At the end of 2021, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates, generally within the next five years. We believe our current properties are suitable and adequate for their intended purpose.

ITEM 3. Legal proceedings

We are involved in various inquiries and proceedings that arise in the ordinary course of our business. We believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

ITEM 4. Mine safety disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's common equity, related stockholder matters and issuer purchases of equity securities

TI common stock is quoted on The Nasdaq Global Select Market under the ticker symbol TXN. At December 31, 2021, we had 12,151 stockholders of record.

The following table contains information regarding our purchases of our common stock during the fourth quarter of 2021.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
October 1, 2021 through October 31, 2021	109,100	\$187.94	109,100	\$10.23 billion
November 1, 2021 through November 30, 2021	364,797	190.55	351,373	10.16 billion
December 1, 2021 through December 31, 2021	314,834	190.89	314,834	10.10 billion
Total	<u>788,731 (b)</u>	<u>\$190.33 (b)</u>	<u>775,307</u>	<u>\$10.10 billion (c)</u>

- (a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$12.0 billion of additional shares of TI common stock announced September 20, 2018.
- (b) In addition to open-market purchases, 13,424 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.
- (c) As of December 31, 2021, this amount consisted of the remaining portion of the \$12.0 billion authorized in September 2018. No expiration date has been specified for this authorization.

ITEM 6. [Reserved]

No longer required per the amendments to Regulation S-K that eliminate Item 301.

ITEM 7. Management's discussion and analysis of financial condition and results of operations

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share.

Our strategy to maximize free cash flow per share growth has three elements:

1. A great business model that is focused on analog and embedded processing products and built around four sustainable competitive advantages. The four sustainable competitive advantages are powerful in combination and provide tangible benefits:
 - i. A strong foundation of manufacturing and technology that provides lower costs and greater control of our supply chain.
 - ii. A broad portfolio of analog and embedded processing products that offers more opportunity per customer and more value for our investments.
 - iii. The reach of our market channels that gives access to more customers and more of their design projects, leading to the opportunity to sell more of our products into each design and gives us better insight and knowledge of customer needs.
 - iv. Diversity and longevity of our products, markets and customer positions that provide less single point dependency and longer returns on our investments.

Together, these competitive advantages help position TI in a unique class of companies capable of generating and returning significant amounts of cash for our owners. We make our investments with an eye towards long-term strengthening and leveraging of these advantages.

2. Discipline in allocating capital to the best opportunities. This spans how we select R&D projects, develop new capabilities like TI.com, invest in new manufacturing capacity or how we think about acquisitions and returning cash to our owners.
3. Efficiency, which means constantly striving for more output for every dollar spent.

We believe that our business model with the combined effect of our four competitive advantages sets TI apart from our peers and will for a long time to come. We will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies. Finally, we will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value.

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

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.
- When we discuss our results:

- Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
- New products do not tend to have a significant impact on our revenue in any given period because we sell such a large number of products.
- From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the “mix” of products shipped.

- Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase.
- For an explanation of free cash flow and the term “annual operating tax rate,” see the Non-GAAP financial information section.
- All dollar amounts in the tables are stated in millions of U.S. dollars.

Our results of operations provides details of our financial results for 2021 and 2020 and year-to-year comparisons between 2021 and 2020. Discussion of 2019 items and year-to-year comparisons between 2020 and 2019 that are not included in this Form 10-K can be found in “Management’s discussion and analysis of financial condition and results of operations” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

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

Results of operations

Our strategic focus is on analog and embedded processing products sold into six end markets: industrial, automotive, personal electronics, communications equipment, enterprise systems and other. While all end markets represent good opportunities, we place additional strategic emphasis on designing and selling those products into the industrial and automotive markets, which we believe represent the best growth opportunities. Gross margin of 67.5% reflected the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter production.

Our focus on analog and embedded processing allows us to generate strong cash flow from operations. Our cash flow from operations of \$8.76 billion underscored the strength of our business model. Free cash flow was \$6.29 billion and represented 34.3% of revenue. During 2021, we returned \$4.41 billion to shareholders through dividends and stock repurchases. Over the same period, our dividend represented 62% of free cash flow, underscoring its sustainability.

Details of financial results – 2021 compared with 2020

Revenue of \$18.34 billion increased \$3.88 billion, or 27%, due to higher revenue from Analog and, to a lesser extent, Embedded Processing.

Gross profit of \$12.38 billion was up \$3.11 billion, or 34%, primarily due to higher revenue. As a percentage of revenue, gross profit increased to 67.5% from 64.1%.

Operating expenses (R&D and SG&A) were \$3.22 billion compared with \$3.15 billion.

Acquisition charges were \$142 million compared with \$198 million and were non-cash.

Restructuring charges/other was \$54 million due to integration charges at our Lehi, Utah, manufacturing facility partially offset by gains on sales of assets, compared with \$24 million due to an Embedded Processing action in 2020.

Operating profit was \$8.96 billion, or 48.8% of revenue, compared with \$5.89 billion, or 40.8% of revenue.

Other income and expense (OI&E) was \$143 million of income compared with \$313 million of income, which decreased primarily due to lower royalty income. See Note 11 to the financial statements.

Our provision for income taxes was \$1.15 billion compared with \$422 million. This increase was due to higher income before income taxes and lower discrete tax benefits compared to 2020, which included a \$249 million benefit from the settlement of a depreciation-related uncertain tax position.

Our annual operating tax rate, which does not include discrete tax items, was 14% in both periods. We use “annual operating tax rate” to describe the estimated annual effective tax rate. Our effective tax rate, which includes discrete tax items, was 13% in 2021 compared with 7% in 2020. See Note 4 to the financial statements for a reconciliation of the U.S. statutory corporate tax rate to our effective tax rate.

Net income was \$7.77 billion compared with \$5.60 billion. EPS was \$8.26 compared with \$5.97.

Segment results – 2021 compared with 2020

Analog (includes Power and Signal Chain product lines)

	2021	2020	Change
Revenue	\$ 14,050	\$ 10,886	29 %
Operating profit	7,393	4,912	51 %
Operating profit % of revenue	52.6 %	45.1 %	

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

Embedded Processing (includes microcontrollers and processors)

	2021	2020	Change
Revenue	\$ 3,049	\$ 2,570	19 %
Operating profit	1,174	743	58 %
Operating profit % of revenue	38.5 %	28.9 %	

Embedded Processing revenue increased. Operating profit increased primarily due to higher revenue and associated gross profit.

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

	2021	2020	Change
Revenue	\$ 1,245	\$ 1,005	24 %
Operating profit *	393	239	64 %
Operating profit % of revenue	31.6 %	23.8 %	

* Includes acquisition charges and restructuring charges/other

Other revenue increased \$240 million, and operating profit increased \$154 million.

Financial condition

At the end of 2021, total cash (cash and cash equivalents plus short-term investments) was \$9.74 billion, an increase of \$3.17 billion from the end of 2020.

Accounts receivable were \$1.70 billion, an increase of \$287 million compared with the end of 2020. Days sales outstanding at the end of 2021 were 32 compared with 31 at the end of 2020.

Inventory was \$1.91 billion, a decrease of \$45 million from the end of 2020. Days of inventory at the end of 2021 were 116 compared with 123 at the end of 2020.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and access to debt markets. We also have a variable rate, revolving credit facility. As of December 31, 2021, our credit facility was undrawn, and we had no commercial paper outstanding. Cash flows from operating activities for 2021 were \$8.76 billion, an increase of \$2.62 billion due to higher net income and lower cash used for working capital.

Investing activities for 2021 used \$4.10 billion compared with \$922 million in 2020. Capital expenditures were \$2.46 billion compared with \$649 million in 2020 and were primarily for semiconductor manufacturing equipment and facilities in both periods, including the purchase of our 300-millimeter semiconductor factory in Lehi, Utah, during 2021. As we continue to invest to strengthen our competitive advantage in manufacturing and technology as part of our long-term capacity planning, we expect our capital expenditures to be higher than historical levels. Short-term investments used cash of \$1.65 billion in 2021 compared with \$241 million in 2020.

Financing activities for 2021 used \$3.14 billion compared with \$4.55 billion in 2020. In 2021, we received net proceeds of \$1.50 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$550 million. In 2020, we received net proceeds of \$1.50 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$500 million. Dividends paid in 2021 were \$3.89 billion compared with \$3.43 billion in 2020, reflecting an increased dividend rate. We used \$527 million to repurchase 2.9 million shares of our common stock compared with \$2.55 billion used in 2020 to repurchase 23.4 million shares. Employee exercises of stock options provided cash proceeds of \$377 million compared with \$470 million in 2020.

We had \$4.63 billion of cash and cash equivalents and \$5.11 billion of short-term investments as of December 31, 2021. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments and other business requirements for at least the next 12 months.

Non-GAAP financial information

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

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

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

	For Years Ended December 31,	
	2021	2020
Cash flow from operations (GAAP)	\$ 8,756	\$ 6,139
Capital expenditures	(2,462)	(649)
Free cash flow (non-GAAP)	\$ 6,294	\$ 5,490
Revenue	\$ 18,344	\$ 14,461
Cash flow from operations as a percentage of revenue (GAAP)	47.7 %	42.5 %
Free cash flow as a percentage of revenue (non-GAAP)	34.3 %	38.0 %

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

items. We believe the term annual operating tax rate helps differentiate from the effective tax rate, which includes discrete tax items.

Critical accounting estimates

Our accounting policies are more fully described in Note 2 of the consolidated financial statements. As disclosed in Note 2, the preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other estimates and assumptions would have a material impact on the financial statements. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require a higher degree of judgment.

Income taxes

In determining net income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the interpretation and application of complex tax laws, and significant judgment is necessary to (i) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (ii) measure the amount of tax benefit that qualifies for recognition. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different from what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. Our judgment regarding future recoverability of our deferred tax assets may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require adjustments to the valuation allowances and an accompanying reduction or increase in net income in the period when such determinations are made.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work in process and finished goods. Statistical allowances are determined quarterly for raw materials and work in process based on historical disposals of inventory for salability and obsolescence reasons. For finished goods, quarterly statistical allowances are determined by comparing inventory levels of individual parts to historical shipments, current backlog and estimated future sales in order to identify inventory considered unlikely to be sold. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance, such as an end-of-life part or demand with imminent risk of cancellation. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of the net realizable value for those products. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Commitments and contingencies

See Note 10 to the financial statements for a discussion of our commitments and contingencies.

ITEM 7A. Quantitative and qualitative disclosures about market risk

Foreign exchange risk

The U.S. dollar is our functional currency for financial reporting. Our non-U.S. entities own assets or liabilities denominated in U.S. dollars or other currencies, and exchange rate fluctuations in those jurisdictions may impact our effective tax rate.

Our balance sheet also reflects amounts remeasured from non-U.S. dollar currencies. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by forward currency exchange contracts, which are based on year-end 2021 balances and currency exchange rates, a hypothetical 10% plus or minus fluctuation in non-U.S. currency exchange rates relative to the U.S. dollar would result in a pretax currency exchange gain or loss of approximately \$1 million.

We use these forward currency exchange contracts to reduce the earnings impact that exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. As of December 31, 2021, we had forward currency exchange contracts outstanding with a notional value of \$313 million to hedge net balance sheet exposures (including \$127 million to sell Japanese yen, \$82 million to sell British pounds and \$42 million to sell euros). Similar hedging activities existed at year-end 2020.

Interest rate risk

We have the following potential exposure to changes in interest rates: (i) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (ii) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2021, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by about \$15 million and decrease the fair value of our long-term debt by \$715 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2021 include the following:

- *Investments in mutual funds* – includes mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.
- *Investments in venture capital funds* – includes investments in limited partnerships (accounted for under either the equity method or at cost with adjustments to observable market changes or impairments).
- *Equity investments* – includes non-marketable (non-publicly traded) equity securities.

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in certain deferred compensation liabilities. Non-marketable equity securities and certain venture capital funds are stated at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Investments in the remaining venture capital funds are stated using the equity method. See Note 6 to the financial statements for details of equity and other long-term investments.

We also utilize total return swaps to economically hedge exposure to changes in liabilities related to the equity market risks of certain deferred compensation arrangements with employees. Gains or losses from changes in the fair value of these total return swaps generally offset the related losses or gains on the deferred compensation liabilities.

ITEM 8. Financial statements and supplementary data

List of financial statements:

- Income for each of the three years in the period ended December 31, 2021
- Comprehensive income for each of the three years in the period ended December 31, 2021
- Balance sheets as of December 31, 2021 and 2020
- Cash flows for each of the three years in the period ended December 31, 2021
- Stockholders' equity for each of the three years in the period ended December 31, 2021
- Reports of independent registered public accounting firm (PCAOB ID: 42)

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

Consolidated Statements of Income

	For Years Ended December 31,		
(In millions, except per-share amounts)	2021	2020	2019
Revenue	\$ 18,344	\$ 14,461	\$ 14,383
Cost of revenue (COR)	5,968	5,192	5,219
Gross profit	12,376	9,269	9,164
Research and development (R&D)	1,554	1,530	1,544
Selling, general and administrative (SG&A)	1,666	1,623	1,645
Acquisition charges	142	198	288
Restructuring charges/other	54	24	(36)
Operating profit	8,960	5,894	5,723
Other income (expense), net (OI&E)	143	313	175
Interest and debt expense	184	190	170
Income before income taxes	8,919	6,017	5,728
Provision for income taxes	1,150	422	711
Net income	\$ 7,769	\$ 5,595	\$ 5,017
Earnings per common share (EPS):			
Basic	\$ 8.38	\$ 6.05	\$ 5.33
Diluted	\$ 8.26	\$ 5.97	\$ 5.24
Average shares outstanding:			
Basic	923	921	936
Diluted	936	933	952

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

Net income	\$ 7,769	\$ 5,595	\$ 5,017
Income allocated to RSUs	(33)	(27)	(31)
Income allocated to common stock for diluted EPS	\$ 7,736	\$ 5,568	\$ 4,986

See accompanying notes.

Consolidated Statements of Comprehensive Income

(In millions)	For Years Ended December 31,		
	2021	2020	2019
Net income	\$ 7,769	\$ 5,595	\$ 5,017
Other comprehensive income (loss)			
Net actuarial losses of defined benefit plans:			
Adjustments, net of tax effect of (\$56), \$3 and (\$37)	175	(41)	88
Recognized within net income, net of tax effect of (\$8), (\$9) and (\$13)	29	29	38
Prior service credit of defined benefit plans:			
Recognized within net income, net of tax effect of \$0, \$0 and \$0	(1)	(1)	—
Other comprehensive income (loss), net of taxes	203	(13)	126
Total comprehensive income	\$ 7,972	\$ 5,582	\$ 5,143

See accompanying notes.

Consolidated Balance Sheets

	December 31,	
(In millions, except par value)	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,631	\$ 3,107
Short-term investments	5,108	3,461
Accounts receivable, net of allowances of (\$8) and (\$11)	1,701	1,414
Raw materials	245	180
Work in process	1,067	964
Finished goods	598	811
Inventories	1,910	1,955
Prepaid expenses and other current assets	335	302
Total current assets	13,685	10,239
Property, plant and equipment at cost	7,858	5,781
Accumulated depreciation	(2,717)	(2,512)
Property, plant and equipment	5,141	3,269
Goodwill	4,362	4,362
Deferred tax assets	263	343
Capitalized software licenses	85	122
Overfunded retirement plans	392	246
Other long-term assets	748	770
Total assets	\$ 24,676	\$ 19,351
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 500	\$ 550
Accounts payable	653	415
Accrued compensation	775	767
Income taxes payable	121	134
Accrued expenses and other liabilities	520	524
Total current liabilities	2,569	2,390
Long-term debt	7,241	6,248
Underfunded retirement plans	79	131
Deferred tax liabilities	87	90
Other long-term liabilities	1,367	1,305
Total liabilities	11,343	10,164
Stockholders' equity:		
Preferred stock, \$25 par value. Shares authorized – 10; none issued	—	—
Common stock, \$1 par value. Shares authorized – 2,400; shares issued – 1,741	1,741	1,741
Paid-in capital	2,630	2,333
Retained earnings	45,919	42,051
Treasury common stock at cost		
Shares: 2021 – 817; 2020 – 821	(36,800)	(36,578)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(157)	(360)
Total stockholders' equity	13,333	9,187
Total liabilities and stockholders' equity	\$ 24,676	\$ 19,351

See accompanying notes.

Consolidated Statements of Cash Flows

(In millions)	For Years Ended December 31,		
	2021	2020	2019
Cash flows from operating activities			
Net income	\$ 7,769	\$ 5,595	\$ 5,017
Adjustments to net income:			
Depreciation	755	733	708
Amortization of acquisition-related intangibles	142	198	288
Amortization of capitalized software	57	61	54
Stock compensation	230	224	217
Gains on sales of assets	(57)	(4)	(23)
Deferred taxes	15	(137)	81
Increase (decrease) from changes in:			
Accounts receivable	(287)	(340)	133
Inventories	45	46	216
Prepaid expenses and other current assets	57	(79)	265
Accounts payable and accrued expenses	33	63	(93)
Accrued compensation	7	63	(15)
Income taxes payable	(20)	(181)	(193)
Changes in funded status of retirement plans	62	(9)	29
Other	(52)	(94)	(35)
Cash flows from operating activities	<u>8,756</u>	<u>6,139</u>	<u>6,649</u>
Cash flows from investing activities			
Capital expenditures	(2,462)	(649)	(847)
Proceeds from asset sales	75	4	30
Purchases of short-term investments	(10,124)	(5,786)	(3,444)
Proceeds from short-term investments	8,478	5,545	2,309
Other	(62)	(36)	32
Cash flows from investing activities	<u>(4,095)</u>	<u>(922)</u>	<u>(1,920)</u>
Cash flows from financing activities			
Proceeds from issuance of long-term debt	1,495	1,498	1,491
Repayment of debt	(550)	(500)	(750)
Dividends paid	(3,886)	(3,426)	(3,008)
Stock repurchases	(527)	(2,553)	(2,960)
Proceeds from common stock transactions	377	470	539
Other	(46)	(36)	(42)
Cash flows from financing activities	<u>(3,137)</u>	<u>(4,547)</u>	<u>(4,730)</u>
Net change in cash and cash equivalents	1,524	670	(1)
Cash and cash equivalents at beginning of period	3,107	2,437	2,438
Cash and cash equivalents at end of period	<u>\$ 4,631</u>	<u>\$ 3,107</u>	<u>\$ 2,437</u>

See accompanying notes.

Consolidated Statements of Stockholders' Equity	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
(In millions, except per-share amounts)					
Balance, December 31, 2018	\$ 1,741	\$ 1,950	\$ 37,906	\$(32,130)	\$ (473)
2019					
Net income	—	—	5,017	—	—
Dividends declared and paid (\$3.21 per share)	—	—	(3,008)	—	—
Common stock issued for stock-based awards	—	(55)	—	594	—
Stock repurchases	—	—	—	(2,960)	—
Stock compensation	—	217	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	126
Dividend equivalents on RSUs	—	—	(17)	—	—
Other	—	(2)	—	1	—
Balance, December 31, 2019	1,741	2,110	39,898	(34,495)	(347)
2020					
Net income	—	—	5,595	—	—
Dividends declared and paid (\$3.72 per share)	—	—	(3,426)	—	—
Common stock issued for stock-based awards	—	—	—	470	—
Stock repurchases	—	—	—	(2,553)	—
Stock compensation	—	224	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(13)
Dividend equivalents on RSUs	—	—	(16)	—	—
Other	—	(1)	—	—	—
Balance, December 31, 2020	1,741	2,333	42,051	(36,578)	(360)
2021					
Net income	—	—	7,769	—	—
Dividends declared and paid (\$4.21 per share)	—	—	(3,886)	—	—
Common stock issued for stock-based awards	—	67	—	310	—
Stock repurchases	—	—	—	(532)	—
Stock compensation	—	230	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	203
Dividend equivalents on RSUs	—	—	(15)	—	—
Balance, December 31, 2021	\$ 1,741	\$ 2,630	\$ 45,919	\$(36,800)	\$ (157)

See accompanying notes.

Notes to financial statements

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

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. We have two reportable segments, Analog and Embedded Processing, each of which represents groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels.

- 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or using a battery. Our Analog segment consists of two major product lines: Power and Signal Chain.
- Embedded Processing products are the digital “brains” of many types of electronic equipment. They are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application.

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

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition, integration and restructuring charges (see Note 11); and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

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

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. We have no material intersegment revenue. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies and practices.

Segment information

	For Years Ended December 31,		
	2021	2020	2019
Revenue:			
Analog	\$ 14,050	\$ 10,886	\$ 10,223
Embedded Processing	3,049	2,570	2,943
Other	1,245	1,005	1,217
Total revenue	<u>\$ 18,344</u>	<u>\$ 14,461</u>	<u>\$ 14,383</u>
Operating profit:			
Analog	\$ 7,393	\$ 4,912	\$ 4,477
Embedded Processing	1,174	743	907
Other	393	239	339
Total operating profit	<u>\$ 8,960</u>	<u>\$ 5,894</u>	<u>\$ 5,723</u>

Geographic area information

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

	For Years Ended December 31,		
	2021	2020	2019
Revenue:			
United States	\$ 1,906	\$ 1,547	\$ 1,827
Asia (a)	12,185	9,541	8,650
Europe, Middle East and Africa	2,802	2,249	2,707
Japan	959	734	796
Rest of world	492	390	403
Total revenue	<u>\$ 18,344</u>	<u>\$ 14,461</u>	<u>\$ 14,383</u>

- (a) Revenue from products shipped into China was \$10.0 billion, \$8.0 billion and \$7.2 billion in 2021, 2020 and 2019, respectively, which includes shipments to customers that manufacture in China and then export end products to their customers around the world, as well as distributors that transship inventory through China to service other countries.

	December 31,	
	2021	2020
Property, plant and equipment:		
United States	\$ 3,648	\$ 2,036
Asia (a)	1,292	1,005
Europe, Middle East and Africa	47	52
Japan	139	165
Rest of world	15	11
Total property, plant and equipment	<u>\$ 5,141</u>	<u>\$ 3,269</u>

- (a) Property, plant and equipment at our two sites in the Philippines was \$370 million and \$333 million as of December 31, 2021 and 2020, respectively. Property, plant and equipment at our sites in China was \$570 million and \$370 million as of December 31, 2021 and 2020, respectively.

Major customer

One of our end customers accounted for 9%, 10% and 8% of revenue in 2021, 2020 and 2019, respectively, recognized primarily in our Analog segment. No end customer accounted for 10% or more of revenue in 2021 or 2019.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The basis of these financial statements is comparable for all periods presented herein.

The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. All dollar and share amounts in the financial statements and tables in these notes, except per-share amounts, are presented in millions unless otherwise indicated. We have reclassified certain amounts in the prior periods' financial statements to conform to the 2021 presentation.

The preparation of financial statements requires the use of estimates from which final results may vary.

Significant accounting policies and practices

Revenue recognition

We generate revenue primarily from the sale of semiconductor products, either directly to a customer or to a distributor, and recognize revenue when control is transferred. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where required, when the customer has accepted the products. This transfer generally occurs at a point in time upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Payment for sales to customers and distributors is generally due on our standard commercial terms. For sales to distributors, payment is not contingent upon resale of the products.

Revenue from sales of our products that are subject to inventory consignment agreements is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that we store at designated locations. Delivery and transfer of control occur at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, we retain control over the products' disposition, including the right to pull back or relocate the products.

The revenue recognized is adjusted based on allowances, which are prepared on a portfolio basis using a most likely amount methodology based on analysis of historical data and contractual terms. These allowances, which are not material, generally include adjustments for pricing arrangements, product returns, incentives and credit losses. We recognize shipping fees, if any, received from customers in revenue. We include the related shipping and handling costs in cost of revenue. The majority of our customers pay these fees directly to third parties.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was \$27 million, \$28 million and \$30 million in 2021, 2020 and 2019, respectively.

Income taxes

We account for income taxes using an asset and liability approach. We record the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences related to events that have been recognized in the financial statements or tax returns. We record a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Other assessed taxes

Some transactions require us to collect taxes such as sales, value-added and excise taxes from our customers. These transactions are presented in our Consolidated Statements of Income on a net (excluded from revenue) basis.

Leases

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

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

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

Earnings per share (EPS)

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

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

	For Years Ended December 31,								
	2021			2020			2019		
	Net Income	Shares	EPS	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:									
Net income	\$ 7,769			\$5,595			\$5,017		
Income allocated to RSUs	(33)			(27)			(32)		
Income allocated to common stock	<u>\$ 7,736</u>	<u>923</u>	<u>\$ 8.38</u>	<u>\$5,568</u>	<u>921</u>	<u>\$ 6.05</u>	<u>\$4,985</u>	<u>936</u>	<u>\$ 5.33</u>
Dilutive effect of stock compensation plans		13			12			16	
Diluted EPS:									
Net income	\$ 7,769			\$5,595			\$5,017		
Income allocated to RSUs	(33)			(27)			(31)		
Income allocated to common stock	<u>\$ 7,736</u>	<u>936</u>	<u>\$ 8.26</u>	<u>\$5,568</u>	<u>933</u>	<u>\$ 5.97</u>	<u>\$4,986</u>	<u>952</u>	<u>\$ 5.24</u>

Potentially dilutive securities representing 3 million, 4 million and 6 million shares of common stock that were outstanding in 2021, 2020 and 2019 respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

Investments

We present investments on our Consolidated Balance Sheets as cash equivalents, short-term investments or other long-term assets. See Note 6 for additional information.

- *Cash equivalents and short-term investments* – The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns. We consider investments in available-for-sale debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in available-for-sale debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments.

- *Other long-term assets* – Long-term investments, which are included within other long-term assets on our Consolidated Balance Sheets, consist of mutual funds, venture capital funds and non-marketable equity securities.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in, first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory.

We review inventory quarterly for salability and obsolescence. A statistical allowance is provided for inventory considered unlikely to be sold. The statistical allowance is based on an analysis of historical disposal activity, historical customer shipments, as well as estimated future sales. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. We write off inventory in the period in which disposal occurs.

Property, plant and equipment; acquisition-related intangibles; and other capitalized costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

We regularly review whether facts or circumstances exist that indicate the carrying values of property, plant and equipment or other long-lived assets, including intangible assets, are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Any impairment charge is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

Goodwill

Goodwill is reviewed for impairment annually in the fourth quarter or more frequently if certain impairment indicators arise. We perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill. If, as a result of the qualitative assessment, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then we perform the quantitative goodwill impairment test. See Note 11 for additional information.

Foreign currency

The functional currency for our non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than the U.S. dollar are remeasured into the functional currency. Current assets (except inventories), deferred taxes, other long-term assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Property, plant and equipment with associated depreciation and inventories are valued at historical exchange rates. Revenue and expense accounts other than depreciation for each month are calculated at the appropriate daily rate of exchange. Currency exchange gains and losses from remeasurement are credited or charged to OI&E.

Derivatives and hedging

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

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

In connection with the issuance of long-term debt, we may use financial derivatives such as treasury-rate lock agreements that are recognized in AOCI and amortized over the life of the related debt.

The results of these derivative transactions were not material. We do not use derivatives for speculative or trading purposes.

3. Stock compensation

We have stock options outstanding to participants under long-term incentive plans. The option price per share may not be less than the fair market value of our common stock on the date of the grant. The options have a 10-year term, generally vest ratably over four years and continue to vest after the option recipient retires.

We also have RSUs outstanding to participants under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock, issued on the vesting date, which is generally four years after the date of grant. RSUs continue to vest after the recipient retires. Holders of RSUs receive an annual cash payment equivalent to the dividends paid on our common stock. The fair value per share of RSUs is generally determined based on the closing price of our common stock on the date of grant.

We have options and RSUs outstanding to non-employee directors under director compensation plans. The plans generally provide for annual grants of stock options and RSUs, a one-time grant of RSUs to each new non-employee director and the issuance of TI common stock upon the distribution of stock units credited to director deferred compensation accounts.

We also have an employee stock purchase plan (ESPP) under which options are offered to all eligible employees in amounts based on a percentage of the employee's compensation, subject to a cap. Under the plan, the option price per share is 85% of the fair market value on the exercise date. As of December 31, 2021, 33 million shares remain available for future issuance under this plan.

Total stock compensation expense recognized is as follows:

	For Years Ended December 31,		
	2021	2020	2019
COR	\$ 21	\$ 21	\$ 21
R&D	67	68	66
SG&A	134	135	130
Restructuring charges/other	8	—	—
Total	<u>230</u>	<u>224</u>	<u>217</u>

These amounts include expenses related to non-qualified stock options, RSUs and stock options offered under our ESPP and are net of estimated forfeitures.

We recognize compensation expense for non-qualified stock options and RSUs on a straight-line basis over the minimum service period required for vesting of the award, adjusting for estimated forfeitures based on historical activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis. Options issued under our ESPP are expensed over a three-month period.

As of December 31, 2021, total future compensation related to equity awards not yet recognized in our Consolidated Statements of Income was \$271 million, which we expect to recognize over a weighted average period of 1.7 years.

Fair value methods and assumptions

We account for all awards granted under our various stock compensation plans at fair value.

We estimate the fair values for non-qualified stock options using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	For Years Ended December 31,		
	2021	2020	2019
Weighted average grant date fair value, per share	\$ 40.78	\$ 25.55	\$ 22.08
Weighted average assumptions used:			
Expected volatility	32 %	26 %	26 %
Expected lives (in years)	6.7	6.8	7.1
Risk-free interest rates	0.72 %	1.53 %	2.66 %
Expected dividend yields	2.41 %	2.76 %	2.95 %

We use market-based measures of implied volatility to determine expected volatility on all options granted. We determine expected lives of options based on the historical option exercise experience of our option holders using a rolling 10-year average.

Expected dividend yields are based on the annualized approved quarterly dividend rate and the current market price of our common stock at the time of grant. No assumption for a future dividend rate change is included unless there is an approved plan to change the dividend in the near term.

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans are as follows:

	Stock Options		RSUs	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding grants, December 31, 2020	28	\$ 79.69	5	\$ 100.80
Granted	3	169.52	1	176.08
Stock options exercised/RSUs vested	(6)	65.89	(2)	81.31
Outstanding grants, December 31, 2021 (a)	25	91.58	4	124.80

(a) Forfeited and expired shares were not material.

	For Years Ended December 31,		
	2021	2020	2019
Weighted average grant date fair value per share for RSUs	\$ 176.08	\$ 130.59	\$ 106.58
Total grant date fair value of shares vested for RSUs	\$ 115	\$ 110	\$ 125
Aggregate intrinsic value of options exercised	\$ 611	\$ 681	\$ 819

As of December 31, 2021, 37 million shares remain available for future issuance under these plans.

Summarized information about stock options outstanding as of December 31, 2021, is as follows:

Exercise Price Range	Stock Options Outstanding		
	Number Outstanding (Shares)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share
\$ 28.13 to 193.58	25	5.5	\$ 91.58

	Options Fully Vested and Expected to Vest (a)	Options Exercisable
Options outstanding (shares)	25	16
Weighted average remaining contractual life (in years)	5.5	4.2
Weighted average exercise price per share	\$ 90.97	\$ 69.43
Intrinsic value	\$ 2,408	\$ 1,952

(a) Includes effects of expected forfeitures. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was \$2.42 billion.

Effect on shares outstanding and treasury shares

Treasury shares were acquired in connection with the board-authorized stock repurchase program. As of December 31, 2021, \$10.10 billion of stock repurchase authorizations remain, and no expiration date has been specified.

Our practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. The following table reflects the

	For Years Ended	
	2021	2020
Balance, January 1	821	8
Repurchases	3	
Shares issued	(7)	
Balance, December 31	817	8

changes in our treasury shares:

	For Year	
	2021	2020
Proceeds from common stock transactions (a)	\$ 377	\$ 377
Tax benefit realized from stock compensation	\$ 175	\$ 175
Reduction to deferred tax asset	(39)	(39)
Excess tax benefit for stock compensation	\$ 136	\$ 136

The effects on cash flows are as follows:

(a) Net of taxes paid for employee shares withheld of \$53 million, \$53 million and \$52 million in 2021, 2020 and 2019, respectively.

4. Income taxes

Income before income taxes is comprised of the following components:

	For Years Ended December 31,		
	2021	2020	2019
U.S.	\$ 7,998	\$ 5,210	\$ 4,915
Non-U.S.	921	807	813
Total	<u>\$ 8,919</u>	<u>\$ 6,017</u>	<u>\$ 5,728</u>

Provision for income taxes is comprised of the following components:

	For Years Ended December 31,								
	2021			2020			2019		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
U.S. federal	\$ 948	\$ (23)	\$ 925	\$ 357	\$ (122)	\$ 235	\$ 483	\$ 25	\$ 508
Non-U.S.	169	38	207	192	(15)	177	135	56	191
U.S. state	18	—	18	10	—	10	12	—	12
Total	<u>\$ 1,135</u>	<u>\$ 15</u>	<u>\$ 1,150</u>	<u>\$ 559</u>	<u>\$ (137)</u>	<u>\$ 422</u>	<u>\$ 630</u>	<u>\$ 81</u>	<u>\$ 711</u>

Principal reconciling items from the U.S. statutory income tax rate to the effective tax rate (provision for income taxes as a percentage of income before income taxes) are as follows:

	For Years Ended December 31,		
	2021	2020	2019
U.S. statutory income tax rate	21.0 %	21.0 %	21.0 %
U.S. tax benefit for foreign derived intangible income	(6.1)	(6.1)	(4.9)
U.S. excess tax benefit for stock compensation	(1.5)	(2.5)	(3.1)
U.S. R&D tax credit	(0.9)	(1.3)	(1.4)
Impact of changes in uncertain tax positions	(0.2)	(4.0)	(0.1)
Other	0.6	(0.1)	0.9
Effective tax rate	<u>12.9 %</u>	<u>7.0 %</u>	<u>12.4 %</u>

The earnings represented by non-cash operating assets, such as fixed assets and inventory, will continue to be permanently reinvested outside the United States. Provisions of the U.S. Tax Cuts and Jobs Act (the Tax Act), such as the one-time tax on indefinitely reinvested earnings and the global intangible low-taxed income (GILTI) tax for years beginning in 2018, eliminate any additional U.S. taxation resulting from repatriation of earnings of non-U.S. subsidiaries to the United States. Consequently, no U.S. tax provision has been made for the future remittance of these earnings. However, withholding or distribution taxes in certain non-U.S. jurisdictions will be incurred upon repatriation of available cash to the United States. A provision has been made for deferred taxes on these undistributed earnings to the extent that repatriation of the available cash to the United States is expected to result in a tax liability. As of December 31, 2021, we have no basis differences that would result in material unrecognized deferred tax liabilities.

We have made an allowable policy election to account for the effects of GILTI as a component of income tax expense in the period in which the tax is incurred.

The primary components of deferred tax assets and liabilities are as follows:

	December 31,	
	2021	2020
Deferred tax assets:		
Accrued expenses	\$ 209	\$ 180
Deferred loss and tax credit carryforwards	207	207
Stock compensation	110	106
Inventories and related reserves	74	105
Retirement costs for defined benefit and retiree health care	—	44
Other	40	3
Total deferred tax assets, before valuation allowance	640	645
Valuation allowance	(188)	(179)
Total deferred tax assets, after valuation allowance	452	466
Deferred tax liabilities:		
Property, plant and equipment	(197)	(116)
International earnings	(38)	(44)
Retirement costs for defined benefit and retiree health care	(15)	—
Acquisition-related intangibles and fair-value adjustments	(12)	(40)
Other	(14)	(13)
Total deferred tax liabilities	(276)	(213)
Net deferred tax asset	\$ 176	\$ 253

The deferred tax assets and liabilities based on tax jurisdictions are presented on our Consolidated Balance Sheets as follows:

	December 31,	
	2021	2020
Deferred tax assets	\$ 263	\$ 343
Deferred tax liabilities	(87)	(90)
Net deferred tax asset	\$ 176	\$ 253

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. Valuation allowances increased \$9 million in 2021, decreased \$1 million in 2020 and increased \$8 million in 2019. These changes had no impact to net income in 2021, 2020 or 2019.

We have no material tax loss carryforwards as of December 31, 2021.

Cash payments made for income taxes, net of refunds, were \$1.20 billion, \$720 million and \$570 million in 2021, 2020 and 2019, respectively.

Uncertain tax positions

We operate in a number of tax jurisdictions, and our income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the matters challenged by authorities are typically complex, their ultimate outcome is uncertain. Before any benefit can be recorded in our financial statements, we must determine that it is “more likely than not” that a tax position will be sustained by the appropriate tax authorities. We recognize accrued interest related to uncertain tax positions and penalties as components of OI&E.

The changes in the total amounts of uncertain tax positions are as follows:

	2021	2020	2019
Balance, January 1	\$ 89	\$ 303	\$ 286
Additions based on tax positions related to the current year	2	3	3
Additions for tax positions of prior years	7	35	63
Reductions for tax positions of prior years	(6)	(249)	(41)
Settlements with tax authorities	(23)	—	(8)
Expiration of the statute of limitations for assessing taxes	—	(3)	—
Balance, December 31	<u>\$ 69</u>	<u>\$ 89</u>	<u>\$ 303</u>
Interest income (expense) recognized in the year ended December 31	<u>\$ (5)</u>	<u>\$ 39</u>	<u>\$ 9</u>
Interest payable as of December 31	<u>\$ 13</u>	<u>\$ 8</u>	<u>\$ 44</u>

The liability for uncertain tax positions is a component of other long-term liabilities on our Consolidated Balance Sheets.

All of the \$69 million and \$89 million liabilities for uncertain tax positions as of December 31, 2021 and 2020, respectively, are comprised of positions that, if recognized, would lower the effective tax rate. If these liabilities are ultimately realized, \$2 million of existing deferred tax assets in 2020 would also be realized. Reductions for tax positions of prior years in 2020 include a \$249 million tax benefit for the effective settlement of a depreciation-related uncertain tax position. Accrued interest of \$46 million related to this uncertain tax position was reversed and included in OI&E.

As of December 31, 2021, the statute of limitations remains open for U.S. federal tax returns for 2017 and following years. Certain tax treaty procedures for relief from double taxation remain pending for U.S. federal tax returns for the years 2011 through 2020.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the United States, our subsidiaries are no longer subject to income tax audits for years before 2012.

5. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts, the fair value of which was not material as of December 31, 2021. Our forward foreign currency exchange contracts outstanding as of December 31, 2021, had a notional value of \$313 million to hedge our non-U.S. dollar net balance sheet exposures, including \$127 million to sell Japanese yen, \$82 million to sell British pounds and \$42 million to sell euros.

Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. Our postretirement plan assets are carried at fair value or net asset value per share. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. As of December 31, 2021, the carrying value of long-term debt, including the

current portion, was \$7.74 billion, and the estimated fair value was \$8.38 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 6 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

We are subject to counterparty risks from financial institutions, customers and issuers of debt securities. Financial instruments that could subject us to concentrations of credit risk are primarily cash deposits, cash equivalents, short-term investments and accounts receivable. To manage our credit risk exposure, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on cash deposits and financial derivative contracts to financial institutions with investment-grade ratings.

Concentrations of credit risk with respect to accounts receivable are limited due to our large number of customers and their dispersion across different industries and geographic areas. We maintain allowances for expected returns, disputes, adjustments, incentives and credit losses. These allowances are deducted from accounts receivable on our Consolidated Balance Sheets.

Accounts receivable allowances changed to reflect amounts charged (credited) to operating results by (\$3) million, \$3 million and (\$11) million in 2021, 2020 and 2019, respectively.

6. Valuation of debt and equity investments and certain liabilities

Investments measured at fair value

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

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

Other investments

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

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

Details of our investments are as follows:

	December 31, 2021			December 31, 2020		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Measured at fair value:						
Money market funds	\$ 1,824	\$ —	\$ —	\$ 886	\$ —	\$ —
Corporate obligations	1,060	1,070	—	256	257	—
U.S. government and agency securities	642	3,388	—	1,340	3,054	—
Non-U.S. government and agency securities	300	650	—	—	150	—
Mutual funds	—	—	16	—	—	18
Total	3,826	5,108	16	2,482	3,461	18
Other measurement basis:						
Equity-method investments	—	—	42	—	—	27
Non-marketable equity investments	—	—	4	—	—	4
Cash on hand	805	—	—	625	—	—
Total	\$ 4,631	\$ 5,108	\$ 62	\$ 3,107	\$ 3,461	\$ 49

As of December 31, 2021 and 2020, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments in 2021, 2020 or 2019. All of our debt securities classified as available for sale as of December 31, 2021, have maturities within one year.

In 2021, 2020 and 2019, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$8.48 billion, \$5.29 billion and \$2.31 billion, respectively. Gross realized gains and losses from these sales were not material.

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

Fair-value considerations

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

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

- *Level 1* – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.

- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of December 31, 2021 and 2020, we had no Level 3 assets or liabilities.

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

	December 31, 2021			December 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 1,824	\$ —	\$ 1,824	\$ 886	\$ —	\$ 886
Corporate obligations	—	2,130	2,130	—	513	513
U.S. government and agency securities	3,629	401	4,030	4,394	—	4,394
Non-U.S. government and agency securities	—	950	950	—	150	150
Mutual funds	16	—	16	18	—	18
Total assets	<u>\$ 5,469</u>	<u>\$ 3,481</u>	<u>\$ 8,950</u>	<u>\$ 5,298</u>	<u>\$ 663</u>	<u>\$ 5,961</u>
Liabilities:						
Deferred compensation	\$ 395	\$ —	\$ 395	\$ 350	\$ —	\$ 350
Total liabilities	<u>\$ 395</u>	<u>\$ —</u>	<u>\$ 395</u>	<u>\$ 350</u>	<u>\$ —</u>	<u>\$ 350</u>

7. Postretirement benefit plans

Plan descriptions

We have various employee retirement plans, including defined contribution, defined benefit and retiree health care benefit plans. For qualifying employees, we offer deferred compensation arrangements.

U.S. retirement plans

Our principal retirement plans in the United States are a defined contribution plan, an enhanced defined contribution plan and qualified and non-qualified defined benefit pension plans. The defined benefit plans were closed to new participants in 1997, and then current participants were allowed to make a one-time election to continue accruing a benefit in the plans or to cease accruing a benefit and instead to participate in the enhanced defined contribution plan.

Both defined contribution plans offer an employer-matching savings option that allows employees to make pretax and post-tax contributions to various investment choices. Employees who elected to continue accruing a benefit in the qualified defined benefit pension plans may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2% of the employee's annual eligible earnings. Employees who elected not to continue accruing a benefit in the defined benefit pension plans and employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2% of the employee's annual eligible earnings, plus an employer-matching contribution of up to 4% of the employee's annual eligible earnings. Employees hired after December 31, 2003, do not receive the fixed employer contribution of 2% of the employee's annual eligible earnings.

As of December 31, 2021 and 2020, as a result of employees' elections, TI's U.S. defined contribution plans held shares of TI common stock totaling 6 million shares and 7 million shares valued at \$1.16 billion and \$1.12 billion, respectively. Dividends paid on these shares in both 2021 and 2020 were \$27 million. Effective April 1, 2016, the TI common stock fund was frozen to new contributions or transfers into the fund.

Our aggregate expense for the U.S. defined contribution plans was \$63 million in 2021 and \$61 million in 2020 and 2019.

The defined benefit pension plans include employees still accruing benefits, as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan. Benefits under the qualified defined benefit pension plan are determined using a formula based on years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

U.S. retiree health care benefit plan

U.S. employees who meet eligibility requirements are offered medical coverage during retirement. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee's date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the plan's participants. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement.

Non-U.S. retirement plans

We provide retirement coverage for non-U.S. employees, as required by local laws or to the extent we deem appropriate, through a number of defined benefit and defined contribution plans. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

As of December 31, 2021 and 2020, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at \$38 million and \$36 million, respectively. Dividends paid on these shares of TI common stock in 2021 and 2020 were not material.

Effects on our Consolidated Statements of Income and Balance Sheets

Expenses related to defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit			U.S. Retiree Health Care			Non-U.S. Defined Benefit		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Service cost	\$ 21	\$ 18	\$ 18	\$ 3	\$ 3	\$ 3	\$ 36	\$ 34	\$ 31
Interest cost	30	31	38	10	13	14	37	38	43
Expected return on plan assets	(31)	(36)	(41)	(9)	(12)	(14)	(81)	(78)	(86)
Amortization of prior service cost (credit)	—	—	—	(2)	(2)	(1)	1	1	1
Recognized net actuarial loss	15	7	9	—	—	—	7	14	29
Net periodic benefit costs	35	20	24	2	2	2	—	9	18
Settlement losses	13	16	10	—	—	—	2	1	3
Total, including other postretirement losses	<u>\$ 48</u>	<u>\$ 36</u>	<u>\$ 34</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 21</u>

All defined benefit and retiree health care benefit plan expense components other than service cost are recognized in OI&E in our Consolidated Statements of Income. Service cost is recognized within operating profit.

For the U.S. qualified pension and retiree health care plans, the expected return on plan assets component of net periodic benefit cost is based upon a market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets is the fair value adjusted by a smoothing technique whereby certain gains and losses are phased in over a period of three years.

Changes in the benefit obligations and plan assets for defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2021	2020	2021	2020	2021	2020
Change in plan benefit obligation						
Benefit obligation at beginning of year:	\$ 1,097	\$ 960	\$ 389	\$ 359	\$ 2,868	\$ 2,581
Service cost	21	18	3	3	36	34
Interest cost	30	31	10	13	37	38
Participant contributions	—	—	14	13	9	7
Benefits paid	(12)	(12)	(38)	(39)	(101)	(95)
Settlements	(162)	(94)	—	—	(12)	(8)
Actuarial loss (gain)	(79)	194	(18)	40	(111)	143
Plan amendments	—	—	—	—	—	1
Effects of exchange rate changes	—	—	—	—	(152)	167
Benefit obligation at end of year	\$ 895	\$ 1,097	\$ 360	\$ 389	\$ 2,574	\$ 2,868
Change in plan assets						
Fair value of plan assets at beginning of year:	\$ 1,061	\$ 987	\$ 389	\$ 356	\$ 3,008	\$ 2,661
Actual return on plan assets	37	164	19	58	75	260
Employer contributions (qualified plans)	—	—	1	1	7	11
Employer contributions (non-qualified plans)	10	16	—	—	—	—
Participant contributions	—	—	14	13	9	7
Benefits paid	(12)	(12)	(38)	(39)	(101)	(95)
Settlements	(162)	(94)	—	—	(12)	(8)
Effects of exchange rate changes	—	—	—	—	(173)	172
Fair value of plan assets at end of year	\$ 934	\$ 1,061	\$ 385	\$ 389	\$ 2,813	\$ 3,008
Funded status at end of year	\$ 39	\$ (36)	\$ 25	\$ —	\$ 239	\$ 140

Changes in actuarial gains and losses in the projected benefit obligations are generally driven by discount rate movement.

Amounts recognized on our Consolidated Balance Sheets as of December 31, are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
2021				
Overfunded retirement plans	\$ 73	\$ 28	\$ 291	\$ 392
Accrued expenses and other liabilities & other long-term liabilities	(5)	—	(5)	(10)
Underfunded retirement plans	(29)	(3)	(47)	(79)
Funded status at end of 2021	\$ 39	\$ 25	\$ 239	\$ 303
2020				
Overfunded retirement plans	\$ 9	\$ 3	\$ 234	\$ 246
Accrued expenses and other liabilities & other long-term liabilities	(6)	—	(5)	(11)
Underfunded retirement plans	(39)	(3)	(89)	(131)
Funded status at end of 2020	\$ (36)	\$ —	\$ 140	\$ 104

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about \$10 million to our retirement benefit plans in 2022.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were \$820 million and \$992 million as of December 31, 2021 and 2020, respectively, for the U.S. defined benefit plans, and \$2.47 billion and \$2.72 billion as of December 31, 2021 and 2020, respectively, for the non-U.S. defined benefit plans.

The change in AOCI is as follows:

	U.S. Defined Benefit			U.S. Retiree Health Care		Non-U.S. Defined Benefit		Total	
	Net Actuarial Loss	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit
AOCI balance, net of taxes, December 31, 2020	\$ 125	\$ (8)	\$ (2)	\$ 242	\$ 1	\$ 359	\$ (1)		
Changes in AOCI by category:									
Adjustments	(84)	(28)	—	(119)	—	(231)	—		
Recognized within net income	(28)	—	2	(9)	(1)	(37)	1		
Tax effect	23	6	(1)	35	1	64	—		
Total change to AOCI	(89)	(22)	1	(93)	—	(204)	1		
AOCI balance, net of taxes, December 31, 2021	\$ 36	\$ (30)	\$ (1)	\$ 149	\$ 1	\$ 155	\$ —		

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets using the same three-level hierarchy

of fair-value inputs described in Note 6.

	December 31, 2021			
	Level 1	Level 2	Other (a)	Total
Assets of U.S. defined benefit plan:				
Fixed income securities and cash equivalents	\$ —	\$ —	\$ 655	\$ 655
Equity securities	—	—	279	279
Total	\$ —	\$ —	\$ 934	\$ 934
Assets of U.S. retiree health care plan:				
Fixed income securities and cash equivalents	\$ 10	\$ —	\$ 238	\$ 248
Equity securities	—	—	137	137
Total	\$ 10	\$ —	\$ 375	\$ 385
Assets of non-U.S. defined benefit plans:				
Fixed income securities and cash equivalents	\$ 71	\$ 104	\$ 2,045	\$ 2,220
Equity securities	49	2	542	593
Total	\$ 120	\$ 106	\$ 2,587	\$ 2,813

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

December 31, 2020				
	Level 1	Level 2	Other (a)	Total
Assets of U.S. defined benefit plan:				
Fixed income securities and cash equivalents	\$ —	\$ —	\$ 743	\$ 743
Equity securities	—	—	318	318
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,061</u>	<u>\$ 1,061</u>
Assets of U.S. retiree health care plan:				
Fixed income securities and cash equivalents	\$ 29	\$ —	\$ 222	\$ 251
Equity securities	—	—	138	138
Total	<u>\$ 29</u>	<u>\$ —</u>	<u>\$ 360</u>	<u>\$ 389</u>
Assets of non-U.S. defined benefit plans:				
Fixed income securities and cash equivalents	\$ 69	\$ 146	\$ 2,063	\$ 2,278
Equity securities	43	2	685	730
Total	<u>\$ 112</u>	<u>\$ 148</u>	<u>\$ 2,748</u>	<u>\$ 3,008</u>

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

The investments in our major benefit plans largely consist of low-cost, broad-market index funds to mitigate risks of concentration within market sectors. Our investment policy is designed to better match the interest rate sensitivity of the plan assets and liabilities. The appropriate mix of equity and bond investments is determined primarily through the use of detailed asset-liability modeling studies that look to balance the impact of changes in the discount rate against the need to provide asset growth to cover future service cost. Most of our plans around the world have a greater proportion of fixed income securities with return characteristics that are more closely aligned with changes in the liabilities caused by discount rate volatility.

Assumptions and investment policies

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2021	2020	2021	2020	2021	2020
Weighted average assumptions used to determine benefit obligations:						
Discount rate	2.74%	2.81%	3.05%	2.74%	1.57%	1.31%
Long-term pay progression	3.70%	3.70%	n/a	n/a	3.15%	3.15%
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	2.95%	3.42%	2.74%	3.63%	1.31%	1.46%
Long-term rate of return on plan assets	3.50%	4.00%	3.10%	3.50%	2.82%	2.93%
Long-term pay progression	3.70%	3.30%	n/a	n/a	3.15%	3.06%

We utilize a variety of methods to select an appropriate discount rate depending on the depth of the corporate bond market in the country in which the benefit plan operates. In the United States, we use a settlement approach whereby a portfolio of bonds is selected from the universe of actively traded high-quality U.S. corporate bonds. The selected portfolio is designed to provide cash flows sufficient to pay the plan's expected benefit payments when due. The resulting discount rate reflects the rate of return of the selected portfolio of bonds. For our non-U.S. locations with a sufficient number of actively traded high-quality bonds, an analysis is performed in which the projected cash flows from the defined benefit plans are discounted against a yield curve constructed with an appropriate universe of high-quality corporate bonds available in each country. In this manner, a present value is developed. The discount rate selected is the single equivalent rate that produces the same present value. For countries that lack a sufficient corporate bond market, a government bond index is used to establish the discount rate.

Assumptions for the expected long-term rate of return on plan assets are based on future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. We adjust the results for the payment of reasonable expenses of the plan from plan assets. We believe our assumptions are appropriate based on the investment mix and long-term nature of the plans' investments. Assumptions used for the non-U.S. defined benefit plans reflect the different economic environments within the various countries.

The target allocation ranges for the plans that hold a substantial majority of the defined benefit assets are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
Fixed income securities and cash equivalents	65% – 80%	65% – 80%	60% – 100%
Equity securities	20% – 35%	20% – 35%	0% – 40%

We rebalance the plans' investments when they are outside the target allocation ranges.

Weighted average asset allocations as of December 31 are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2021	2020	2021	2020	2021	2020
Fixed income securities and cash equivalents	70%	70%	64%	65%	79%	76%
Equity securities	30%	30%	36%	35%	21%	24%

None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock.

The following assumed future benefit payments to plan participants in the next 10 years are used to measure our benefit obligations. Almost all of the payments, which may vary significantly from these assumptions, will be made from plan assets and not from company assets.

	2022	2023	2024	2025	2026	2027 – 2031
U.S. Defined Benefit	\$ 89	\$ 96	\$ 87	\$ 87	\$ 87	\$ 391
U.S. Retiree Health Care	28	27	26	25	24	108
Non-U.S. Defined Benefit	99	101	103	105	107	566

Assumed health care cost trend rates for the U.S. retiree health care benefit plan as of December 31 are as follows:

	2021	2020
Assumed health care cost trend rate for next year	6.50%	6.75%
Ultimate trend rate	5.00%	5.00%
Year in which ultimate trend rate is reached	2028	2028

Deferred compensation plans

We have deferred compensation plans that allow U.S. employees whose base salary and management responsibility exceed a certain level to defer receipt of a portion of their cash compensation. Payments under these plans are made based on the participant's distribution election and plan balance. Participants can earn a return on their deferred compensation based on notional investments in the same investment funds that are offered in our defined contribution plans.

As of December 31, 2021, our liability to participants of the deferred compensation plans was \$395 million and is recorded in other long-term liabilities on our Consolidated Balance Sheets. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. We utilize total return swaps and investments in mutual funds that serve as economic hedges of our exposure to changes in the fair value of these liabilities. We record changes in the fair value of the liability and the related total return swaps and mutual funds in SG&A, as discussed in Note 6. As of December 31, 2021, we held \$16 million in mutual funds related to these plans that are recorded in long-term investments on our Consolidated Balance Sheets.

8. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of December 31, 2021, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion until March 2024. As of December 31, 2021, our credit facility was undrawn, and we had no commercial paper outstanding.

Long-term debt

In February 2021, we retired \$550 million of maturing debt.

In September 2021, we issued three series of senior unsecured notes for an aggregate principal amount of \$1.5 billion, consisting of \$500 million of 1.125% notes due in 2026, \$500 million of 1.90% notes due in 2031 and \$500 million of 2.70% notes due in 2051. We incurred \$10 million of issuance costs. The proceeds of the offering were \$1.5 billion, net of the original issuance discounts, which will be used for general corporate purposes.

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

In April 2020, we retired \$500 million of maturing debt.

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

In March 2019, we issued a principal amount of \$750 million of fixed-rate, long-term debt due in 2039. We incurred \$7 million of issuance costs. The proceeds of the offering were \$743 million, net of the original issuance discount, and were used for general corporate purposes.

In August 2019, we retired \$750 million of maturing debt.

In September 2019, we issued a principal amount of \$750 million of fixed-rate, long-term debt due in 2029. We incurred \$5 million of issuance costs. The proceeds of the offering were \$748 million, net of the original issuance discount, and were used for general corporate purposes.

Long-term debt outstanding is as follows:

	December 31,	
	2021	2020
Notes due 2021 at 2.75%	\$ —	\$ 550
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	300
Notes due 2025 at 1.375%	750	750
Notes due 2026 at 1.125%	500	—
Notes due 2027 at 2.90%	500	500
Notes due 2029 at 2.25%	750	750
Notes due 2030 at 1.75%	750	750
Notes due 2031 at 1.90%	500	—
Notes due 2039 at 3.875%	750	750
Notes due 2048 at 4.15%	1,500	1,500
Notes due 2051 at 2.70%	500	—
Total debt	7,800	6,850
Net unamortized discounts, premiums and issuance costs	(59)	(52)
Total debt, including net unamortized discounts, premiums and issuance costs	7,741	6,798
Current portion of long-term debt	(500)	(550)
Long-term debt	<u>\$ 7,241</u>	<u>\$ 6,248</u>

Interest and debt expense was \$184 million, \$190 million and \$170 million in 2021, 2020 and 2019, respectively. This was net of the amortized discounts, premiums and issuance costs. Cash payments for interest on long-term debt were \$181 million, \$182 million and \$156 million in 2021, 2020 and 2019, respectively. Capitalized interest was not material.

9. Leases

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

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

	December 31,	
	2021	2020
Other long-term assets	\$ 465	\$ 319
Accrued expenses and other liabilities	\$ 82	\$ 72
Other long-term liabilities	383	249

Details of our operating leases are as follows:

	For Years Ended December 31,		
	2021	2020	2019
Lease cost related to lease liabilities	\$ 69	\$ 70	\$ 66
Variable lease cost	56	36	41
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for lease cost	\$ 61	\$ 59	\$ 60
Lease assets obtained in exchange for new lease liabilities	\$ 210	\$ 59	\$ 167

As of December 31, 2021, we had committed to make the following minimum payments under our non-cancellable operating leases:

	2022	2023	2024	2025	2026	Thereafter	Total
Lease payments	\$ 84	\$ 72	\$ 60	\$ 50	\$ 45	\$ 214	\$ 525
Imputed lease interest							(60)
Total lease liabilities							\$ 465

The weighted-average remaining lease term was 9.2 years and 8.9 years as of December 31, 2021 and 2020, respectively. The weighted-average discount rate was 2.51% and 3.02% as of December 31, 2021 and 2020, respectively.

10. Commitments and contingencies

Purchase commitments

Our purchase commitments include payments for software licenses and contractual arrangements with suppliers when there is a fixed, non-cancellable payment schedule or when minimum payments are due with a reduced delivery schedule.

As of December 31, 2021, we had committed to make the following minimum payments under our purchase commitments:

	2022	2023	2024	2025	2026	Thereafter	Total
Purchase commitments	\$ 564	\$ 436	\$ 433	\$ 43	\$ 26	\$ 74	\$ 1,576

Indemnification guarantees

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

Warranty costs/product liabilities

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

General

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

11. Supplemental financial information

Restructuring charges/other

Restructuring charges/other are included in Other for segment reporting purposes and are comprised of the following components:

	For Years Ended December 31,		
	2021	2020	2019
Restructuring charges (a)	\$ —	\$ 25	\$ (15)
Integration charges (b)	104	—	—
Gains on sales of assets (c)	(50)	(1)	(21)
Restructuring charges/other	<u>\$ 54</u>	<u>\$ 24</u>	<u>\$ (36)</u>

(a) Includes severance and benefits, accelerated depreciation, changes in estimates and other exit costs.

(b) Includes costs related to our purchase of the Lehi, Utah, manufacturing facility, as well as ongoing costs until production begins in early 2023.

(c) Includes a \$50 million gain from the sale of property in October 2021.

Changes in accrued restructuring balances

	2021	2020	2019
Balance, January 1	\$ 18	\$ —	\$ 28
Restructuring charges	—	25	(15)
Non-cash items (a)	—	1	—
Payments	(13)	(8)	(13)
Balance, December 31	<u>\$ 5</u>	<u>\$ 18</u>	<u>\$ —</u>

(a) Reflects charges for impacts of changes in exchange rates and accelerated depreciation.

The restructuring accrual balances are reported as a component of either accrued expenses and other liabilities or other long-term liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

In 2020, we recognized \$25 million of restructuring charges primarily for severance and benefit costs associated with our Embedded Processing business. As of December 31, 2021, \$21 million of payments have been made.

In 2020, we announced a multiyear plan to close our two remaining factories with 150-millimeter production, located in Sherman and Dallas, Texas. During 2021 we decided not to close a portion of our factory in Dallas. We expect this plan to be completed no later than 2025. Charges for the closures cannot be reasonably estimated at this time.

Other income (expense), net (OI&E)

	For Years Ended December 31,		
	2021	2020	2019
Other income (a)	\$ 145	\$ 327	\$ 201
Other expense (b)	(2)	(14)	(26)
Total	<u>\$ 143</u>	<u>\$ 313</u>	<u>\$ 175</u>

(a) Other income includes royalty and lease income, investment gains and losses, interest income, as well as reversals of tax interest accruals.

(b) Other expense includes a portion of pension and other retiree benefit costs, currency gains and losses and miscellaneous items.

Property, plant and equipment at cost

	Depreciable Lives (Years)	December 31,	
		2021	2020
Land	n/a	\$ 132	\$ 125
Buildings and improvements	5 – 40	3,490	2,571
Machinery and equipment	2 – 10	4,236	3,085
Total		<u>\$ 7,858</u>	<u>\$ 5,781</u>

In October 2021, we completed our purchase of a 300-millimeter semiconductor factory in Lehi, Utah, for cash consideration of \$893 million. The estimated fair value of assets acquired was determined based on market comparable information to purchase or build comparable assets and allocated on a relative basis to purchase consideration. Assets acquired included \$28 million of land, \$305 million of buildings and improvements and \$526 million of machinery and equipment.

Goodwill

Goodwill by segment as of December 31, 2021 and 2020, is as follows:

	Goodwill
Analog	\$ 4,158
Embedded Processing	172
Other	32
Total	<u>\$ 4,362</u>

We perform our annual goodwill impairment test in the fourth quarter and determine whether the fair value of each of our reporting units is in excess of its carrying value. In 2021, we elected to perform a qualitative analysis to assess impairment of goodwill rather than to perform the quantitative goodwill impairment test. The key qualitative factors considered in the assessment included the change in the industry and

competitive environment, market capitalization and overall financial performance. Based on this qualitative analysis, we determined that it was more likely than not that the fair value of each reporting unit exceeded its carrying value. In 2021, 2020 and 2019, we determined no impairment was indicated.

Other long-term liabilities

	December 31,	
	2021	2020
Long-term portion of transition tax on indefinitely reinvested earnings	\$ 403	\$ 457
Deferred compensation plans	395	350
Operating lease liabilities	383	249
Other	186	249
Total	<u>\$ 1,367</u>	<u>\$ 1,305</u>

Accumulated other comprehensive income (loss), net of taxes (AOCI)

	December 31,	
	2021	2020
Postretirement benefit plans:		
Net actuarial loss	\$ (155)	\$ (359)
Prior service credit	—	1
Cash flow hedge derivative instruments	(2)	(2)
Total	<u>\$ (157)</u>	<u>\$ (360)</u>

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within net income in 2021, 2020 and 2019. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Years Ended December 31,			Impact to Related Statement of Income Lines
	2021	2020	2019	
Net actuarial losses of defined benefit plans:				
Recognized net actuarial loss and settlement losses (a)	\$ 37	\$ 38	\$ 51	Decrease to OI&E
Tax effect	(8)	(9)	(13)	Decrease to provision for income taxes
Recognized within net income, net of taxes	<u>\$ 29</u>	<u>\$ 29</u>	<u>\$ 38</u>	Decrease to net income
Prior service credit of defined benefit plans:				
Amortization of prior service credit (a)	\$ (1)	\$ (1)	\$ —	Increase to OI&E
Tax effect	—	—	—	Increase to provision for income taxes
Recognized within net income, net of taxes	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ —</u>	Increase to net income

(a) Detailed in Note 7.

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 4, 2022, expressed an unqualified opinion thereon.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Description of the matter

As discussed in Note 4 to the consolidated financial statements, the Company operates in the United States and multiple international tax jurisdictions, and its income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any tax position on the returns. Uncertainty in a tax position may arise because tax laws are subject to interpretation. The Company uses significant judgment to (1) determine whether, based on the technical merits, a tax position is more likely than not to be sustained, and (2) measure the amount of tax benefit that qualifies for recognition. Auditing management's estimate of the amount of tax benefit that qualifies for recognition involved auditor judgment because management's estimate is complex, requiring a degree of judgment and is based on interpretation of tax laws and legal rulings.

How we addressed the matter in our audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting process for uncertain tax positions. For example, this included controls over the Company's assessment of the technical merits of tax positions and management's process to measure the benefit of those tax positions. Among other procedures performed, we involved our tax professionals to assess the technical merits of the Company's tax positions, which included assessing the Company's correspondence with the relevant tax authorities and evaluating income tax opinions or other third-party advice obtained by the Company. We also evaluated the appropriateness of the Company's accounting for tax positions taking into consideration relevant international and local income tax laws and legal rulings. We analyzed the Company's assumptions and data used to determine the amount of tax benefit to recognize and tested the accuracy of the calculations. We also evaluated the adequacy of the Company's financial statement disclosures related to the consolidated financial statements regarding these tax matters.

Uncertain tax positions

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1952.

Dallas, Texas
February 4, 2022

ITEM 9. Changes in and disagreements with accountants on accounting and financial disclosure

Not applicable.

ITEM 9A. Controls and procedures

Disclosure 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.

Internal control over financial reporting

Report by management on internal control over financial reporting

The management of TI is responsible for establishing and maintaining effective internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles. 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 fourth quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2021. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2021, our internal control over financial reporting is effective based on the COSO criteria.

TI's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which immediately follows this report.

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on internal control over financial reporting

We have audited Texas Instruments Incorporated's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Texas Instruments Incorporated (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes, and our report dated February 4, 2022, expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report by management on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas
February 4, 2022

ITEM 9B. Other information

Section 13(r) of the Securities Exchange Act of 1934 disclosure

During the period covered by this report and as permitted by General License 1B from the U.S. Office of Foreign Assets Control, we engaged with the Russian Federal Security Service (FSB) solely to permit the import, distribution and use of certain of our catalog semiconductor products in Russia. No gross revenue or net profit is directly attributable to these engagements with the FSB, and we intend to continue them to the extent permitted by law.

ITEM 9C. Disclosure regarding foreign jurisdictions that prevent inspections

Not applicable.

PART III

ITEM 10. Directors, executive officers and corporate governance

The information with respect to directors' names, ages, positions, term of office, periods of service and business experience, which is contained under the caption "Election of directors" in our proxy statement for the 2022 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

A list of our executive officers and their biographical information appears in Part I, Item 1 of this report.

Code of ethics

We have adopted the Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. A copy of the Code can be found on our website at www.ti.com/corporategovernance. We intend to satisfy the disclosure requirements of the SEC regarding amendments to, or waivers from, the Code by posting such information on the same website.

Audit committee

The information contained under the caption "Committees of the board" with respect to the audit committee and the audit committee financial expert in our proxy statement for the 2022 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 11. Executive compensation

The information contained under the captions "Director compensation" and "Executive compensation" in our proxy statement for the 2022 annual meeting of stockholders is incorporated herein by reference to such proxy statement, provided that the Compensation Committee report shall not be deemed filed with this Form 10-K.

The information contained under the caption "Compensation committee interlocks and insider participation" in our proxy statement for the 2022 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security ownership of certain beneficial owners and management and related stockholder matters

Equity compensation plan information

The following table sets forth information about the company's equity compensation plans as of December 31, 2021.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (1)) (3)
Equity compensation plans approved by security holders	29,280,162 (a)	\$ 91.92 (b)	69,842,569 (c)
Equity compensation plans not approved by security holders	—	—	—
Total	29,280,162 (d)	\$ 91.92	69,842,569

- (a) Includes shares of TI common stock to be issued under the Texas Instruments 2003 Director Compensation Plan, the Texas Instruments 2009 Long-Term Incentive Plan (the "2009 LTIP") and its predecessor stockholder-approved plans, the Texas Instruments 2009 Director Compensation Plan, the TI Employees 2014 Stock Purchase Plan (the "2014 ESPP") and the Texas Instruments 2018 Director Compensation Plan (the "2018 Director Plan").
- (b) Restricted stock units and stock units credited to directors' deferred compensation accounts are settled in shares of TI common stock on a one-for-one basis. Accordingly, such units have been excluded for purposes of computing the weighted-average exercise price.
- (c) Shares of TI common stock available for future issuance under the 2009 LTIP, the 2014 ESPP and the 2018 Director Plan. 35,385,153 shares remain available for future issuance under the 2009 LTIP and 1,843,134 shares remain available for future issuance under the 2018 Director Plan. Under the 2009 LTIP and the 2018 Director Plan, awards may be granted in the form of restricted stock units, options or other stock-based awards such as restricted stock.
- (d) Includes 24,981,728 shares for issuance upon exercise of outstanding grants of options, 4,085,972 shares for issuance upon vesting of outstanding grants of restricted stock units, 121,844 shares for issuance under the 2014 ESPP and 90,618 shares for issuance in settlement of directors' deferred compensation accounts.

Security ownership of certain beneficial owners and management

The information that is contained under the captions "Security ownership of certain beneficial owners" and "Security ownership of directors and management" in our proxy statement for the 2022 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 13. Certain relationships and related transactions, and director independence

The information contained under the captions “Related person transactions” and “Director independence” in our proxy statement for the 2022 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 14. Principal accountant fees and services

The information with respect to principal accountant fees and services contained under the caption “Proposal to ratify appointment of independent registered public accounting firm” in our proxy statement for the 2022 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

PART IV

ITEM 15. Exhibits, financial statement schedules

The financial statements are listed in the index included in Item 8, "Financial statements and supplementary data."

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended	10-K	001-3761	February 24, 2015	3(a)	
3(b)	By-Laws of the Registrant	8-K	001-3761	January 26, 2022	3	
4(a)	Indenture	8-K	001-3761	May 23, 2011	4.2	
4(b)	Officer's Certificate	8-K	001-3761	May 8, 2013	4.2	
4(c)	Officers' Certificate	8-K	001-3761	March 12, 2014	4.2	
4(d)	Officers' Certificate	8-K	001-3761	May 6, 2016	4.1	
4(e)	Officers' Certificate	8-K	001-3761	May 4, 2017	4.1	
4(f)	Officers' Certificate	8-K	001-3761	November 3, 2017	4.1	
4(g)	Officers' Certificate	8-K	001-3761	May 7, 2018	4.1	
4(h)	Officers' Certificate	8-K	001-3761	June 8, 2018	4.1	
4(i)	Officers' Certificate	8-K	001-3761	March 11, 2019	4.1	
4(j)	Officers' Certificate	8-K	001-3761	September 4, 2019	4.1	
4(k)	Officers' Certificate	8-K	001-3761	March 12, 2020	4.1	
4(l)	Officers' Certificate	8-K	001-3761	May 4, 2020	4.1	
4(m)	Description of Securities	10-K	001-3761	February 20, 2020	4(l)	
4(n)	Officers' Certificate	8-K	001-3761	September 15, 2021	4.1	
10(a)	TI Deferred Compensation Plan, as amended*	10-K	001-3761	February 24, 2016	10(a)	
10(b)	TI Employees Non-Qualified Pension Plan, effective January 1, 2009, as amended*	10-K	001-3761	February 24, 2016	10(b)	
10(c)	TI Employees Non-Qualified Pension Plan II*	10-K	001-3761	February 24, 2016	10(c)	
10(d)	Texas Instruments Long-Term Incentive Plan, adopted April 15, 1993*	10-K	001-3761	February 24, 2012	10(c)	
10(e)	Texas Instruments 2003 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 24, 2015	10(j)	
10(f)	Form of Non-Qualified Stock Option Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(k)	
10(g)	Form of Restricted Stock Unit Award Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(l)	
10(h)	Texas Instruments 2009 Long-Term Incentive Plan as amended April 21, 2016*	DEF 14A	001-3761	March 9, 2016	Appendix B	
10(i)	Texas Instruments 2009 Director Compensation Plan as amended	10-K	001-3761	February 23, 2017	10(n)	

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
10(j)	Texas Instruments 2018 Director Compensation Plan as amended December 5, 2019	10-K	001-3761	February 20, 2020	10(k)	
21	List of Subsidiaries of the Registrant					X
23	Consent of Independent Registered Public Accounting Firm					X
31(a)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer					X
31(b)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer					X
32(a)	Section 1350 Certification of Chief Executive Officer					X
32(b)	Section 1350 Certification of Chief Financial Officer					X
101.ins	Instance Document					X
101.sch	XBRL Taxonomy Schema					X
101.cal	XBRL Taxonomy Calculation Linkbase					X
101.def	XBRL Taxonomy Definitions Document					X
101.lab	XBRL Taxonomy Labels Linkbase					X
101.pre	XBRL Taxonomy Presentation Linkbase					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					X

* Management compensation plans and arrangements

Notice regarding forward-looking statements

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

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

- The duration and scope of the COVID-19 pandemic, government and other third-party responses to it and the consequences for the global economy, including to our business and the businesses of our suppliers, customers and distributors;
- Economic, social and political conditions, and natural events in the countries in which we, our customers or our suppliers operate, including global trade policies;
- Market demand for semiconductors, particularly in the industrial and automotive markets, and customer demand that differs from forecasts;
- Our ability to compete in products and prices in an intensely competitive industry;
- Evolving cybersecurity and other threats relating to our information technology systems or those of our customers, vendors and other third parties;
- Our ability to successfully implement and realize opportunities from strategic, business and organizational changes, or our ability to realize our expectations regarding the amount and timing of associated restructuring charges and cost savings;
- Our ability to develop, manufacture and market innovative products in a rapidly changing technological environment, our timely implementation of new manufacturing technologies and installation of manufacturing equipment, and our ability to realize expected returns on significant investments in manufacturing capacity;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Product liability, warranty or other claims relating to our products, software, manufacturing, delivery, services, design or communications, or recalls by our customers for a product containing one of our parts;
- Compliance with or changes in the complex laws, rules and regulations to which we are or may become subject, or actions of enforcement authorities, that restrict our ability to operate our business or subject us to fines, penalties or other legal liability;
- Changes in tax law and accounting standards that impact the tax rate applicable to us, the jurisdictions in which profits are determined to be earned and taxed, adverse resolution of tax audits, increases in tariff rates, and the ability to realize deferred tax assets;
- Financial difficulties of our distributors or semiconductor distributors’ promotion of competing product lines to our detriment; or disputes with current or former distributors;
- Losses or curtailments of purchases from key customers or the timing and amount of customer inventory adjustments;

- Our ability to maintain or improve profit margins, including our ability to utilize our manufacturing facilities at sufficient levels to cover our fixed operating costs, in an intensely competitive and cyclical industry and changing regulatory environment;
- Our ability to maintain and enforce a strong intellectual property portfolio and maintain freedom of operation in all jurisdictions where we conduct business; or our exposure to infringement claims;
- Instability in the global credit and financial markets;
- Our ability to recruit and retain skilled personnel, and effectively manage key employee succession; and

- Impairments of our non-financial assets.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Rafael R. Lizardi

Rafael R. Lizardi, Senior Vice President
and Chief Financial Officer

Date: February 4, 2022

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Rafael R. Lizardi, Julie C. Knecht and Cynthia Hoff Trochu, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2021, to sign any and all amendments to the Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 4th day of February 2022.

<div style="text-align: center;">/s/ Mark A. Blinn</div> <hr/> <div style="text-align: center;">Mark A. Blinn, Director</div>	<div style="text-align: center;">/s/ Todd M. Bluedorn</div> <hr/> <div style="text-align: center;">Todd M. Bluedorn, Director</div>
<div style="text-align: center;">/s/ Janet F. Clark</div> <hr/> <div style="text-align: center;">Janet F. Clark, Director</div>	<div style="text-align: center;">/s/ Carrie S. Cox</div> <hr/> <div style="text-align: center;">Carrie S. Cox, Director</div>
<div style="text-align: center;">/s/ Martin S. Craighead</div> <hr/> <div style="text-align: center;">Martin S. Craighead, Director</div>	<div style="text-align: center;">/s/ Jean M. Hobby</div> <hr/> <div style="text-align: center;">Jean M. Hobby, Director</div>
<div style="text-align: center;">/s/ Michael D. Hsu</div> <hr/> <div style="text-align: center;">Michael D. Hsu, Director</div>	<div style="text-align: center;">/s/ Haviv Ilan</div> <hr/> <div style="text-align: center;">Haviv Ilan, Director, Executive Vice President and Chief Operating Officer</div>
<div style="text-align: center;">/s/ Ronald Kirk</div> <hr/> <div style="text-align: center;">Ronald Kirk, Director</div>	<div style="text-align: center;">/s/ Pamela H. Patsley</div> <hr/> <div style="text-align: center;">Pamela H. Patsley, Director</div>
<div style="text-align: center;">/s/ Robert E. Sanchez</div> <hr/> <div style="text-align: center;">Robert E. Sanchez, Director</div>	<div style="text-align: center;">/s/ Richard K. Templeton</div> <hr/> <div style="text-align: center;">Richard K. Templeton, Director, Chairman of the Board, President and Chief Executive Officer</div>
<div style="text-align: center;">/s/ Rafael R. Lizardi</div> <hr/> <div style="text-align: center;">Rafael R. Lizardi, Senior Vice President and Chief Financial Officer</div>	<div style="text-align: center;">/s/ Julie C. Knecht</div> <hr/> <div style="text-align: center;">Julie C. Knecht, Vice President and Chief Accounting Officer</div>

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

FORM 10-K

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

For the fiscal year ended December 31, 2020

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

For the transition period from _____ to _____

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware

75-0289970

(State of Incorporation)

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

12500 TI Boulevard, Dallas, Texas

75243

(Address of principal executive
offices)

(Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$116,120,360,680 as of June 30, 2020.

920,239,191 (Number of shares of common stock outstanding as of January 27, 2021)

Part III hereof incorporates information by reference to the Registrant’s proxy statement for the 2021 annual meeting of stockholders.

PART I

ITEM 1. Business

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. Our operations began in 1930, and we are incorporated in Delaware. With headquarters in Dallas, Texas, we have design, manufacturing or sales operations in more than 30 countries. Our two reportable segments are Analog and Embedded Processing, and we report the results of our remaining business activities in Other. In 2020, we generated \$14.46 billion of revenue.

For decades, we have operated with a passion to create a better world by making electronics more affordable through semiconductors. We were pioneers in the transition from vacuum tubes to transistors and then to integrated circuits. As each generation became more reliable, more affordable and lower in power, semiconductors were used by a growing number of customers and markets. This passion is alive today as we help our customers develop electronics and new applications, particularly in industrial and automotive markets.

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

As engineers, we are fortunate to work on exciting technology which helps our customers innovate to create a better world. Technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share.

Our strategy to maximize free cash flow per share growth has three elements:

The first element of our strategy is a business model that is focused on analog and embedded processing products and built around four competitive advantages. This business model is the result of a series of strategic decisions made over the years and that continue today. The four sustainable competitive advantages are a strong foundation of manufacturing and technology, a broad portfolio of analog and embedded processing products, the reach of our market channels, and diversity and longevity of our products, markets and customer positions. In combination, these four competitive advantages provide tangible benefits, are difficult to replicate and ultimately separate us from our best peers. Together, these competitive advantages help position TI in a unique class of companies capable of generating and returning significant amounts of cash for our owners. We make our investments with an eye towards long-term strengthening and leveraging of these advantages.

The second element of our strategy to maximize free cash flow per share growth is disciplined allocation of capital. This spans how we select R&D projects, develop new capabilities like TI.com, invest in new manufacturing capacity or how we think about acquisitions and returning cash to our owners. Over a 10-year period from 2011 to 2020, we allocated \$83 billion, which reinforces the importance of discipline in capital allocation. The largest allocation over this period was to drive organic growth, which includes investments in R&D, sales and marketing, capital expenditures and working capital for inventory. Beyond that, we also allocated capital to dividends and share repurchases. Dividends are designed to appeal to a broad set of investors, and share repurchases are made with the goal of the accretive capture of future free cash flow for long-term investors. Lastly, we allocate to acquisitions for inorganic growth, which we last did in 2011 when we acquired National Semiconductor.

The third element of our strategy is efficiency, which we think of as constantly striving for more output for every dollar spent. This is about getting our investments in the most impactful areas to maximize the growth of long-term

free cash flow per share; it is not just about optimizing cost-cutting to get to the last dollar of expense. We bring this philosophy of efficiency and continuous improvement to all areas of the company, and this focus on efficiency contributes to revenue growth, improved gross margins, disciplined R&D and SG&A expense, free cash flow margins and ultimately to free cash flow per share growth.

We believe that our business model with the combined effect of our four competitive advantages sets TI apart from our peers and will for a long time to come. We will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies. Finally, we will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as “chips,” combine multiple transistors to form a complete electronic circuit. We have a diverse product portfolio that is used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes approximately 80,000 products that are integral to almost every type of electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels. Our segments also reflect how management allocates resources and measures results.

Analog

Our Analog segment generated \$10.89 billion of revenue in 2020. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or using a battery. As the digitization of electronics continues, there is a growing need and opportunity for analog chips to provide the power to run devices and the critical interfaces with human beings, the real world and other electronic devices. Our Analog products are used in many markets, particularly industrial, automotive and personal electronics.

Sales of our Analog products generated about 75% of our revenue in 2020.

Our Analog segment includes the following major product lines: Power and Signal Chain.

Power

Power includes products that help customers manage power in electronic systems in all end markets. Our broad portfolio is designed to manage power requirements across different voltage levels, including battery-management solutions, DC/DC switching regulators, AC/DC and isolated controllers and converters, power switches, linear regulators, voltage supervisors, voltage references and lighting products.

Signal Chain

Signal Chain includes products that sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control. Our Signal Chain products, which serve a variety of end markets, include amplifiers, data converters, interface products, motor drives, clocks, logic and sensing products.

Embedded Processing

Our Embedded Processing segment generated \$2.57 billion of revenue in 2020. Embedded Processing products are the digital “brains” of many types of electronic equipment. They are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. Our devices vary from simple, low-cost microcontrollers used in applications such as electric toothbrushes to highly specialized, complex devices such as motor control. Our Embedded Processing products are used in many markets, particularly industrial and automotive.

An important characteristic of our Embedded Processing products is that our customers often invest their own research and development (R&D) to write software that operates on our products. This investment tends to increase

the length of our customer relationships because many customers prefer to reuse software from one product generation to the next.

Sales of Embedded Processing products generated about 18% of our revenue in 2020.

Our Embedded Processing segment includes microcontrollers, digital signal processors (DSPs) and applications processors. Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors are designed for specific computing activity.

Other

We report the results of our remaining business activities in Other, which includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other generated \$1.01 billion of revenue in 2020 and includes revenue from DLP® products (primarily used to project high-definition images), calculators and certain custom semiconductors known as application-specific integrated circuits (ASICs).

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges, restructuring charges and certain corporate-level items, such as litigation expenses, environmental costs and gains and losses from other activities, including asset dispositions.

Markets for our products

The table below lists the major markets for our products in 2020 and the estimated percentage of our 2020 revenue that the market represented. The chart also lists, in declining order of our revenue, the sectors within each market.

Market	Sector
Industrial (37% of TI revenue)	Factory automation & control
	Medical
	Building automation
	Grid infrastructure
	Aerospace & defense
	Appliances
	Test & measurement
	Motor drives
	Power delivery
	Pro audio, video & signage
	Retail automation & payment
	Industrial transport
	Lighting
Automotive (20% of TI revenue)	Infotainment & cluster
	Advanced driver assistance systems (ADAS)
	Hybrid, electric & powertrain systems
	Passive safety
	Body electronics & lighting
Personal electronics (27% of TI revenue)	Mobile phones
	PC & notebooks
	Portable electronics
	Connected peripherals & printers
	TV
	Home theater & entertainment
	Tablets
	Wearables (non-medical)
	Data storage
	Gaming
Communications equipment (8% of TI revenue)	Wireless infrastructure
	Wired networking
	Broadband fixed line access
	Datacom module
Enterprise systems (6% of TI revenue)	Data center & enterprise computing
	Enterprise projectors
	Enterprise machine
Other (calculators and other) (2% of TI revenue)	

Market characteristics

Competitive landscape

Despite recent consolidation, the analog and embedded processing markets remain highly fragmented. As a result, we face significant global competition from dozens of large and small companies, including both broad-based suppliers and niche suppliers. Our competitors also include emerging companies, particularly in Asia.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and reach of its channels to market, technological innovation, product development execution, technical support, customer service, quality, reliability, price and manufacturing capacity and capabilities. In addition, manufacturing process and package technologies that provide differentiated levels of performance and a structural cost advantage are competitive factors for our analog products, and customers' prior investments in software development is a competitive factor for our embedded processing products.

Market cycle

The "semiconductor cycle" refers to the ebb and flow of supply and demand and the building and depleting of inventories. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. These are typically referred to as upturns and downturns in the semiconductor cycle. A semiconductor cycle could be affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

We employ several strategies which have many benefits, including dampening the effect of the semiconductor cycle on TI. As an example, we are focused on building closer direct relationships with customers. When it comes to market cycles, these relationships provide improved insight into customer demand and allow us to more accurately and efficiently manage factory loadings and inventory levels, which lead to more stable lead times and higher product availability. Finally, we focus our resources on analog and embedded processing products and industrial and automotive markets. Generally, our products serve a large and diverse customer base, which reduces our dependence on the performance of any single product, market or customer. In addition, they typically have long shelf lives and low risk of obsolescence. Industrial and automotive markets also benefit from long product life cycles, with revenue often lasting 10 years or more, which help to smooth the impact of cyclicity.

Seasonality

Our revenue is subject to some seasonal variation. Historically, our sequential revenue growth rate tends to be weaker in the first and fourth quarters when compared with the second and third quarters.

Customers, sales and distribution

We sell our products to over 100,000 customers. Our customer base is diverse, with more than one-third of our revenue derived from customers outside our largest 100.

We market and sell our products through direct sales channels, including our website and broad sales and applications team, and through distributors. Over the past several years, we have been investing in new capabilities and evolving our distribution network to better align with our strategy to establish closer direct relationships with our customers. With less business flowing through the distribution channel, we require fewer distributors. During 2020, we completed our transition to a single worldwide distributor, coupled with a few region-specific distributors, for order fulfillment. Building closer direct customer relationships strengthens our reach of market channel advantage, which gives us access to more customers and more of their design projects, leading to the opportunity to sell more of

our products into each design. Additionally, broader and deeper access gives us better insight and knowledge of customer needs.

Our investments in new and improved capabilities to directly support our customers include website and e-commerce enhancements as well as inventory consignment programs and order fulfillment services.

Manufacturing

Semiconductor manufacturing begins with a sequence of photolithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is packaged and tested. The entire process takes place in highly specialized facilities that require substantial investments.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities.

We invest in manufacturing technologies and do most of our manufacturing in-house. This strategic decision to make manufacturing and technology a core competitive advantage delivers tangible benefits of lower manufacturing costs and greater control of our supply chain. We have focused on creating a competitive manufacturing structural cost advantage by investing in our advanced analog 300-millimeter capacity. An unpackaged chip built on 300-millimeter wafers costs about 40% less than an unpackaged chip built on 200-millimeter wafers. To strengthen this advantage, construction is underway on our new 300-millimeter wafer fabrication facility in Richardson, Texas, as 300-millimeter wafers will continue to support the majority of our Analog growth.

We assess and are careful to address potential health, safety, and environmental risks presented by our operations, including our manufacturing operations. We care for our environment and work to prevent pollution and the potential risks related to climate change by implementing practices such as recycling and reusing materials, controlling harmful emissions, and properly handling hazardous and restricted substances.

We expect to continue to maintain sufficient internal manufacturing capacity to meet the majority of our production needs and to obtain manufacturing equipment to support new technology developments and revenue growth. To supplement our manufacturing capacity and maximize our responsiveness to customer demand, we selectively use the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2020, we sourced about 20% of our total wafers from external foundries and about 40% of our assembly/test services from subcontractors.

Inventory

Our objectives for inventory are to maintain high levels of customer service, maintain stable and competitive lead times, minimize inventory obsolescence and improve manufacturing asset utilization. To meet these objectives and to allow greater flexibility in periods of high demand, we build ahead of demand our broad-based products that are used across a diverse set of applications and customers and have low risk of obsolescence. Inventory levels will vary based on market conditions and seasonality.

Raw materials

We purchase materials, parts and supplies from a number of suppliers. In some cases we purchase such items from sole-source suppliers. The materials, parts and supplies essential to our business are generally available at present, and we believe that such materials, parts and supplies will be available in the foreseeable future.

Intellectual property

We own many patents and have many patent applications pending in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and continually add patents to that portfolio. We also have license agreements, which vary in duration, involving rights to our portfolio or those of other companies. We do not consider our business materially dependent upon any one patent or patent license.

Executive officers of the Registrant

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

Name	Age	Position
Ahmad S. Bahai	58	Senior Vice President
Kyle M. Flessner	50	Senior Vice President
Mark S. Gary	46	Senior Vice President
Haviv Ilan	52	Executive Vice President and Chief Operating Officer
Hagop H. Kozanian	38	Senior Vice President
Rafael R. Lizardi	48	Senior Vice President, Chief Financial Officer and Chief Accounting Officer
Amichai Ron	43	Senior Vice President
Richard K. Templeton	62	Director, Chairman of the Board, President and Chief Executive Officer
Cynthia Hoff Trochu	57	Senior Vice President, Secretary and General Counsel
Julie M. Van Haren	51	Senior Vice President
Darla H. Whitaker	55	Senior Vice President

The term of office of these officers is from the date of their election until their successor shall have been elected and qualified. All have been employees of the company for more than five years. Mr. Templeton and Ms. Trochu and Whitaker have served as executive officers of the company for more than five years. Messrs. Ilan and Lizardi and Ms. Van Haren became executive officers of the company in 2017. Messrs. Bahai, Flessner and Kozanian became executive officers of the company in 2018. Mr. Ron became an executive officer in 2019. Mr. Gary became an executive officer in 2020.

Human capital management

At December 31, 2020, we had about 30,000 employees worldwide. Of those, about 85% were in Sales, R&D or manufacturing. Our objective for human capital management is to recruit, develop and retain the best talent possible. As a technology and manufacturing company, our success is grounded in having strong engineering talent and a reliable factory workforce. We have a promote-from-within culture and offer training and rotation programs that provide the opportunity to quickly gain experience in different areas. In 2020, our turnover rate was 7.1%.

It is important that our employees represent a mix of experiences and backgrounds in order to make our company stronger, more innovative and more inclusive. Inclusion is one of our core values, and we have programs in place to promote diversity and inclusion. To learn more, review our Corporate Citizenship Report. Information in our Corporate Citizenship Report is not part of this report.

Available information

Our internet address is www.ti.com. Information on our website is not part of this report. We make available free of charge through our Investor Relations website our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. Also available through the TI Investor Relations website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports.

Available on our website at www.ti.com/corporategovernance: (i) our Corporate Governance Guidelines; (ii) charters for the Audit, Compensation, and Governance and Stockholder Relations Committees of our board of directors; (iii) our Code of Conduct; and (iv) our Code of Ethics for TI Chief Executive Officer and Senior Finance Officers.

Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, Attention: Investor Relations, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199.

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 into 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 TI, a company with broad international operations. Like many companies, we are susceptible to a potential downturn associated with macroeconomic weakness, which may affect 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 results, dividends or share repurchases, and other factors, many of which are beyond our control.

Risks related to our business and industry

The extent to which the COVID-19 pandemic will adversely affect our business, results of operations and financial condition is uncertain.

The global spread of the novel coronavirus, severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), and the coronavirus disease, COVID-19, has created significant uncertainty and economic disruption, both near-term and potentially long-term. We have modified, and might further modify, our business practices in response to the COVID-19 pandemic, related third-party responses, including from government authorities and our suppliers, customers and distributors, and the economic and social ramifications of the disease and societal responses across the markets in which TI operates. The extent to which the COVID-19 pandemic will continue to affect our business, results of operation and financial condition is difficult to predict and depends on numerous evolving factors including: the duration and scope of the pandemic; government, social, business and other actions that have been and will be taken in response to the pandemic; and the effect of the pandemic on short- and long-term general economic conditions. We might experience short- or long-term constrained supply or volatility in customer demand, which could materially and adversely affect our business and financial results in future periods.

Our global operations subject us to risks associated with domestic or international political, social, economic or other conditions.

We have facilities in more than 30 countries. About 90% of our revenue comes from shipments to locations outside the United States; shipments of products to China-based customers represent about 20% of our revenue. Certain countries where we operate have experienced, and other countries may experience, trade tension that affects global trade and macroeconomic conditions through the enactment of tariffs, import or export restrictions, trade embargoes and sanctions, restrictions on cross-border investment and other trade barriers. Trade tensions impact our ability to deliver products and product support into China, cause Chinese customers to seek alternate suppliers and could otherwise adversely affect our operations and financial results.

We are exposed to political, social and economic conditions, security risks, terrorism or other hostile acts, health conditions and epidemics, labor conditions, and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate. In addition, our global operations expose us to periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business. The remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

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 this competition will continue to increase from large competitors and from small competitors serving niche markets, and also from emerging companies, particularly in Asia, that sell products into the same markets in which we operate. For example, we may face increased competition as a result of China actively promoting and reshaping its domestic semiconductor industry through policy changes and investment. These actions, in conjunction with trade tensions, may restrict us from participating in the China market or may prevent us from competing effectively. Certain competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products, and consolidation among our competitors may allow them to compete more effectively. 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.

Changes in expected demand for our products could have a material adverse effect on our results of operations.

Our customers include companies in a wide range of end markets and sectors within those markets. If demand in one or more sectors within our end markets declines or the rate of growth slows, our results of operations may be adversely affected. The cyclical nature of the semiconductor market occasionally leads to significant and rapid increases and decreases in product demand. Additionally, the loss or significant curtailment of purchases by one or more of our large customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, the timing of customer or distributor inventory adjustments, changes in demand for customer products, or trade restrictions, may adversely affect our results of operations and financial condition.

Our results of operations also might suffer because of a general decline in customer demand resulting from, for example: uncertainty regarding the stability of global credit and financial markets; natural events, epidemics or domestic or international political, social, economic or other conditions; breaches of customer information technology systems that disrupt customer operations; or a customer's inability to access credit markets and other sources of needed liquidity.

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. We manufacture products based on forecasts of customers' demands. These forecasts are based on multiple assumptions, and if inaccurate, could cause us to hold inadequate, excess or obsolete inventory that would reduce our profit margins and adversely affect our results of operations and financial condition.

Our operating results and our reputation could be adversely affected by breaches, disruptions or other incidents relating to our information technology systems.

Breaches, disruptions or other incidents relating to our information technology systems or the systems of our customers, vendors and other third parties could be caused by factors such as computer viruses, system failures, restricted network access, unauthorized access, terrorism, employee malfeasance, or human error. These events could, among other things, compromise our information technology networks; result in corrupt or lost data or the unauthorized release of our, our customers' or our suppliers' confidential or proprietary information; cause a disruption to our manufacturing and other operations; result in the release of personal data; or cause us to incur costs associated with increased protection, remediation, regulatory inquiries or penalties, or claims for damages, any of which could adversely affect our operating results and our reputation. Cybersecurity or other threats to our information technology systems or the systems of our customers, vendors and other third parties are frequent and constantly evolving, thereby increasing the difficulty of defending against them.

Our ability to successfully implement strategic, business and organizational changes could affect our business plans and results of operations.

From time to time, we undertake strategic, business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our objectives. If we do not successfully implement these changes, our business plans and operating results could be adversely affected. We may not achieve or sustain the expected growth, cost savings or other benefits of strategic, business and organizational changes, and charges associated with these actions could differ materially in amount and timing from our expectations.

Our results of operations could be affected by natural events in the locations in which we operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as severe weather, geological events or epidemics that could disrupt operations. A natural disaster that results in a prolonged disruption, particularly where we have principal manufacturing and design operations, as listed in the Properties section in Item 2, may adversely affect our results and financial condition.

Rapid technological change in markets we serve requires us to develop new technologies and products.

Rapid technological change in markets we serve could contribute to shortened product life cycles and a decline in average selling prices of our products. Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a timely and cost-effective manner. We make significant investments in research and development to improve existing technology and products, develop new products to meet changing customer demands, and improve our production processes. In some cases, we might not realize a return or the expected return on our investments because they are generally made before commercial viability can be assured. Further, projects that are commercially viable may not contribute to our operating results until at least a few years after they are completed.

We face supply chain and manufacturing risks.

We rely on third parties to supply us with goods and services in a cost-effective and timely manner. Our access to needed goods and services may be adversely affected by potential disputes with suppliers or disruptions in our suppliers' operations as a result of, for example: quality excursions; uncertainty regarding the stability of global credit and financial markets; domestic or international political, social, economic and other conditions; natural events or epidemics in the locations in which our suppliers operate; or limited or delayed access to key raw materials, natural resources and utilities. Additionally, a breach or other incident relating to our suppliers' information technology systems could result in a release of confidential or proprietary information. If our suppliers are unable to access credit markets and other sources of needed liquidity, we may be unable to obtain needed supplies, collect accounts receivable or access needed technology.

In particular, our manufacturing processes and critical manufacturing equipment require that certain key raw materials, natural resources and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if one or more of our customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Our 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 products, and we depend on third parties to provide advanced logic manufacturing process technology development. We do not have long-term contracts with all of these suppliers, and the number of alternate suppliers is limited. Reliance on these suppliers involves risks, including possible shortages of capacity in periods of high demand, suppliers' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost-effective, and appropriate manner, the possibility of suppliers' imposition of increased costs on us and the unauthorized disclosure or use of our intellectual property.

Our results of operations and our reputation could be affected by warranty claims, product liability claims, product recalls or legal proceedings.

Claims based on warranty, product liability, epidemic or delivery failures, or other grounds relating to our products, manufacturing, services, designs, communications or cybersecurity could lead to significant expenses as we defend the claims or pay damage awards or settlements. In the event of a claim, we would also incur costs if we decide to compensate the affected customer or end consumer. Any such claims may also cause us to write off the value of related inventory. We 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 a customer to recall a product containing a TI part, for example, with respect to products used in automotive applications or handheld electronics, which may cause us to incur costs and expenses relating to the recall. Any of these events could adversely affect our results of operations, financial condition and reputation.

Our results of operations and financial condition could be adversely affected if a customer or a distributor suffers a loss with respect to our inventory.

We have consignment inventory programs in place for some of our largest customers and distributors. If a customer or distributor were to experience a loss with respect to TI-consigned inventory, our results of operations and financial condition would be adversely affected if we do not recover the full value of the lost inventory from the customer, distributor or insurer, or if our recovery is delayed.

Our results of operations could be adversely affected by distributors' promotion of competing product lines or our distributors' financial performance.

In 2020, about half of our revenue was generated from sales of our products through distributors. Our distributors carry competing product lines, and our sales could be affected if semiconductor distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us. Disputes with current or former distributors could be disruptive or harmful to our business.

Our margins vary.

Our profit margins vary due to a number of factors, which may include customer demand and shipment volume; our manufacturing processes; product mix; inventory levels; tariffs; freight costs; and new accounting pronouncements or changes in existing accounting practices or standards. In addition, we operate in a highly competitive market environment that might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these fixed costs do not decline with reductions in customer demand or factory loadings, and can adversely affect profit margins as a result.

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, as well as the effective management of succession for key employees. Skilled and experienced personnel in our industry, including engineering, management, marketing, technical and staff personnel, are in high demand and competition for their talents is intense. There can be no assurance that we will be able to successfully retain and recruit the key engineering, management and technical personnel that we require to execute our business strategy. Our ability to recruit internationally or deploy employees to various locations may be limited by immigration laws.

Legal and regulatory risks

Our operations could be affected by the complex laws, rules and regulations to which our business is subject.

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, the environment and climate change, safety and health; trade; bribery and corruption; financial reporting; tax; data privacy and protection; labor and employment; competition; market access; epidemics; intellectual property ownership and infringement; and the movement of currency. Compliance with these laws, rules and regulations may be onerous and expensive and could restrict our ability to manufacture or ship our products and operate our business. If we do not comply or if we become subject to enforcement activity, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, natural resources, or materials or gases used or emitted into the environment in connection with the manufacture of our products. A substitute for a prohibited raw material or process might not be available, or might not be available at reasonable cost.

Our results of operations could be affected by changes in tax-related matters.

We have facilities in more than 30 countries 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. If our tax rate increases, our results of operations could be adversely affected. A number of factors could cause our tax rate to increase, including a change in the jurisdictions in which our profits are earned and taxed; a change in the mix of profits from those jurisdictions; changes in available tax credits or deductions, including for amounts relating to stock compensation; changes in applicable tax rates; changes in tariff regulations or surcharges; changes in accounting principles; or adverse resolution of audits by taxing authorities. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also affect our results of operations.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. These laws and regulations can be complex and subject to interpretation. Changes in these laws and regulations, including those that align with the Organisation for Economic Cooperation and Development's Base Erosion and Profit Shifting recommendations, could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. Each quarter we forecast our tax expense based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax expense will change.

Our performance depends in part on our ability to enforce our intellectual property rights and to maintain freedom of operation.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio in all jurisdictions where we conduct business. There can be no assurance that, as our business evolves, we will obtain the necessary intellectual property rights, or that 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 technology from others for which a license is required, there can be no assurance that we will be able to obtain such a license at all or on terms we consider reasonable. We, directly and indirectly, face infringement claims from third parties, including non-practicing entities that have acquired patents to pursue enforcement actions against other companies. We also face infringement claims where we or our customers make, use or sell products and where the intellectual property laws may be less established or less predictable. These assertions, whether or not of any merit, expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have a contractual or other legal obligation to indemnify them against damages resulting from infringement claims.

We actively enforce and protect our own intellectual property rights. However, our efforts cannot prevent all misappropriation or improper use of our protected technology and information, including, for example, third parties' use of our patented or copyrighted technology, or our trade secrets in their products without the right to do so, or third parties' sale of counterfeit products bearing our trademark. The risk of unfair copying or cloning may impede our ability to sell our products. The laws of countries where we operate may not protect our intellectual property rights to the same extent as U.S. laws.

Increases in health care and pension benefit costs could affect our results of operations and financial condition.

Federal and state health care reform programs could increase our costs with regard to medical coverage of our employees, which could reduce profitability and affect our results of operations and financial condition. In addition, obligations related to our pension and other postretirement plans reflect assumptions that affect the planned funding and costs of these plans, including the actual return on plan assets, discount rates, plan participant population demographics and changes in pension regulations. Changes in these assumptions may affect plan funding, cash flow and results of operations, and our costs and funding obligations could increase significantly if our plans' actual experience differs from these assumptions.

Risks related to our financing activities and other risks

Our debt could affect our operations and financial condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including our other risk factors, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise might be invested in our operations or returned to shareholders, or could cause us to raise funds by, for example, issuing new debt or equity or selling assets.

Our results of operations and liquidity could be affected by changes in the financial markets.

We maintain bank accounts, one or more multiyear revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our operations, invest in our business, make strategic acquisitions, service our debt obligations and meet our cash return objectives depends upon continuous access to our bank and investment accounts, and may depend on access to our bank credit lines that 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 and our ability to access the capital markets or redeem our investments could be restricted.

Material impairments of our goodwill or intangible assets could adversely affect our results of operations.

We have a significant amount of goodwill and intangible assets on our consolidated balance sheet. Charges associated with impairments of goodwill or intangible assets could adversely affect our financial condition and results of operations.

ITEM 1B. Unresolved staff comments

Not applicable.

ITEM 2. Properties

Our principal executive offices are located at 12500 TI Boulevard, Dallas, Texas. The following table indicates the general location of our principal manufacturing and design operations and the reportable segments that make major use of them. Except as otherwise indicated, we own these facilities.

	Analog	Embedded Processing
North Texas (Dallas, Richardson and Sherman)	X	X
Houston, Texas		X
Tucson, Arizona	X	
Santa Clara, California	X	
South Portland, Maine	X	
Chengdu, China †	X	X
Shanghai, China *	X	X
Freising, Germany	X	X
Bangalore, India †	X	X
Aizu, Japan	X	X
Miho, Japan	X	X
Kuala Lumpur, Malaysia †	X	X
Melaka, Malaysia †	X	
Aguascalientes, Mexico *	X	
Baguio, Philippines †	X	X
Pampanga (Clark), Philippines †	X	X
Taipei, Taiwan †	X	X

* Leased.

† Portions of the facilities are leased and owned. This may include land leases.

Our facilities in the United States contained approximately 12.9 million square feet at December 31, 2020, of which approximately 0.4 million square feet were leased. Our facilities outside the United States contained approximately 9.7 million square feet at December 31, 2020, of which approximately 1.6 million square feet were leased.

At the end of 2020, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates, generally within the next five years. We believe our current properties are suitable and adequate for their intended purpose.

ITEM 3. Legal proceedings

We are involved in various inquiries and proceedings that arise in the ordinary course of our business. We believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

ITEM 4. Mine safety disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's common equity, related stockholder matters and issuer purchases of equity securities

TI common stock is quoted on The Nasdaq Global Select Market under the ticker symbol TXN. At December 31, 2020, we had 12,624 stockholders of record.

The following table contains information regarding our purchases of our common stock during the fourth quarter of 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
October 1, 2020 through October 31, 2020	1,323	\$ 146.19	—	\$ 10.65 billion
November 1, 2020 through November 30, 2020	91,680	156.59	91,680	10.63 billion
December 1, 2020 through December 31, 2020	4,513	159.96	4,513	10.63 billion
Total	<u>97,516 (b)</u>	\$ 156.61 (b)	<u>96,193</u>	\$ 10.63 billion (c)

- (a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$12.0 billion of additional shares of TI common stock announced September 20, 2018.
- (b) In addition to open-market purchases, 1,323 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.
- (c) As of December 31, 2020, this amount consisted of the remaining portion of the \$12.0 billion authorized in September 2018. No expiration date has been specified for this authorization.

ITEM 6. Selected financial data

	For Years Ended December 31,				
(Millions of dollars, except share and per-share amounts)	2020	2019	2018	2017	2016
Cash flow data:					
Cash flows from operating activities	\$ 6,139	\$ 6,649	\$ 7,189	\$ 5,363	\$ 4,614
Capital expenditures	649	847	1,131	695	531
Free cash flow (a)	5,490	5,802	6,058	4,668	4,083
Dividends paid	3,426	3,008	2,555	2,104	1,646
Stock repurchases	2,553	2,960	5,100	2,556	2,132
Income statement data:					
Revenue by segment:					
Analog	10,886	10,223	10,801	9,900	8,536
Embedded Processing	2,570	2,943	3,554	3,498	3,023
Other	1,005	1,217	1,429	1,563	1,811
Revenue	14,461	14,383	15,784	14,961	13,370
Gross profit	9,269	9,164	10,277	9,614	8,257
Operating expenses (R&D and SG&A)	3,153	3,189	3,243	3,202	3,098
Acquisition charges	198	288	318	318	319
Restructuring charges/other	24	(36)	3	11	(15)
Operating profit	5,894	5,723	6,713	6,083	4,855
Net income	\$ 5,595	\$ 5,017	\$ 5,580	\$ 3,682	\$ 3,595
A portion of net income is allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents. Diluted earnings per share (EPS) is calculated using the following:					
Net income	\$ 5,595	\$ 5,017	\$ 5,580	\$ 3,682	\$ 3,595
Income allocated to RSUs	(27)	(31)	(42)	(33)	(44)
Income allocated to common shares for diluted EPS	\$ 5,568	\$ 4,986	\$ 5,538	\$ 3,649	\$ 3,551
Average diluted shares outstanding (millions)	933	952	990	1,012	1,021
Diluted EPS	\$ 5.97	\$ 5.24	\$ 5.59	\$ 3.61	\$ 3.48
Cash dividends declared per common share	\$ 3.72	\$ 3.21	\$ 2.63	\$ 2.12	\$ 1.64

- (a) Free cash flow is a non-GAAP measure derived by subtracting capital expenditures from cash flows from operating activities.

(Millions of dollars)	December 31,				
	2020	2019	2018	2017	2016
Balance sheet data:					
Cash, cash equivalents and short-term investments	\$ 6,568	\$ 5,387	\$ 4,233	\$ 4,469	\$ 3,490
Total assets	19,351	18,018	17,137	17,642	16,431
Current portion of long-term debt	550	500	749	500	631
Long-term debt	6,248	5,303	4,319	3,577	2,978

See “Management’s discussion and analysis of financial condition and results of operations” and “Financial statements and supplementary data.”

ITEM 7. Management's discussion and analysis of financial condition and results of operations

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Technology is the foundation of our company, but ultimately, our objective and the best metric to measure progress and generate long-term value for owners is the growth of free cash flow per share.

Our strategy to maximize free cash flow per share growth has three elements:

1. A great business model that is focused on analog and embedded processing products and built around four sustainable competitive advantages. The four sustainable competitive advantages are powerful in combination and provide tangible benefits:
 - i. A strong foundation of manufacturing and technology that provides lower costs and greater control of our supply chain.
 - ii. A broad portfolio of analog and embedded processing products that offers more opportunity per customer and more value for our investments.
 - iii. The reach of our market channels that gives access to more customers and more of their design projects, leading to the opportunity to sell more of our products into each design and gives us better insight and knowledge of customer needs.
 - iv. Diversity and longevity of our products, markets and customer positions that provide less single point dependency and longer returns on our investments.

Together, these competitive advantages help position TI in a unique class of companies capable of generating and returning significant amounts of cash for our owners. We make our investments with an eye towards long-term strengthening and leveraging of these advantages.

2. Discipline in allocating capital to the best opportunities. This spans how we select R&D projects, develop new capabilities like TI.com, invest in new manufacturing capacity or how we think about acquisitions and returning cash to our owners.
3. Efficiency, which means constantly striving for more output for every dollar spent.

We believe that our business model with the combined effect of our four competitive advantages sets TI apart from our peers and will for a long time to come. We will invest to strengthen our competitive advantages, be disciplined in capital allocation and stay diligent in our pursuit of efficiencies. Finally, we will remain focused on the belief that long-term growth of free cash flow per share is the ultimate measure to generate value.

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

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. During 2020, we reorganized the product lines within our Analog segment to simplify our business structure into our Power and Signal Chain product lines. These changes had no impact on our previously reported consolidated financial statements or on our reportable segment results. See Note 1 to the financial statements for more information regarding our segments.
- When we discuss our results:

- Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
- New products do not tend to have a significant impact on our revenue in any given period because we sell such a large number of products.
- From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the “mix” of products shipped.

- Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.
- For an explanation of free cash flow and the term “annual operating tax rate,” see the Non-GAAP financial information section.
- All dollar amounts in the tables are stated in millions of U.S. dollars.

Our results of operations provides details of our financial results for 2020 and 2019 and year-to-year comparisons between 2020 and 2019. Discussion of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Form 10-K can be found in “Management’s discussion and analysis of financial condition and results of operations” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Impact of COVID-19

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

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

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

Results of operations

Our strategic focus is on analog and embedded processing products sold into six end markets: industrial, automotive, personal electronics, communications equipment, enterprise systems and other. While all end markets represent good opportunities, we place additional strategic emphasis on designing and selling those products into the industrial and automotive markets, which we believe represent the best growth opportunities. Gross margin of 64.1% reflected the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

Our focus on analog and embedded processing allows us to generate strong cash flow from operations. Our cash flow from operations of \$6.14 billion underscored the strength of our business model. Free cash flow was \$5.49 billion and represented 38.0% of revenue. During 2020, consistent with our commitment to return free cash flow to owners, we returned \$5.98 billion to shareholders through a combination of dividends and stock repurchases. Our dividend represented 62% of free cash flow, underscoring its sustainability.

Details of financial results – 2020 compared with 2019

Revenue of \$14.46 billion increased \$78 million, or 1%, primarily due to higher revenue from Analog, partially offset by lower revenue from Embedded Processing.

Gross profit of \$9.27 billion was up \$105 million, or 1%, due to higher revenue and increased factory loadings. As a percentage of revenue, gross profit increased to 64.1% from 63.7%.

Operating expenses (R&D and SG&A) were \$3.15 billion compared with \$3.19 billion.

Acquisition charges were \$198 million compared with \$288 million and were non-cash. See Note 7 to the financial statements.

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

Operating profit was \$5.89 billion, or 40.8% of revenue, compared with \$5.72 billion, or 39.8% of revenue.

Other income and expense (OI&E) was \$313 million of income compared with \$175 million of income, which increased primarily due to higher royalty income. See Note 12 to the financial statements.

Interest and debt expense of \$190 million increased \$20 million due to the issuance of additional long-term debt.

Our provision for income taxes was \$422 million compared with \$711 million. The decrease was due to higher discrete tax benefits, which included a \$249 million benefit from the settlement of a depreciation-related uncertain tax position and, to a lesser extent, higher U.S. tax benefits, partially offset by higher income before income taxes.

Our annual operating tax rate, which does not include discrete tax items, was 14% compared with 16% in 2019. We use “annual operating tax rate” to describe the estimated annual effective tax rate. Our effective tax rate, which includes discrete tax items, was 7% in 2020 compared with 12% in 2019. See Note 4 to the financial statements for a reconciliation of the U.S. statutory corporate tax rate to our effective tax rate.

Net income was \$5.60 billion compared with \$5.02 billion. EPS was \$5.97 compared with \$5.24.

Segment results – 2020 compared with 2019

Analog (includes Power and Signal Chain product lines)

	2020	2019	Change
Revenue	\$ 10,886	\$ 10,223	6 %
Operating profit	4,912	4,477	10 %
Operating profit % of revenue	45.1 %	43.8 %	

Analog revenue increased in both product lines about evenly. Operating profit increased due to higher revenue and associated gross profit.

Embedded Processing (includes microcontrollers and processors)

	2020	2019	Change
Revenue	\$ 2,570	\$ 2,943	(13)%
Operating profit	743	907	(18)%
Operating profit % of revenue	28.9 %	30.8 %	

Embedded Processing revenue decreased. Operating profit decreased due to lower revenue and associated gross profit.

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

	2020	2019	Change
Revenue	\$ 1,005	\$ 1,217	(17)%
Operating profit *	239	339	(29)%
Operating profit % of revenue	23.8 %	27.9 %	

* Includes acquisition charges and restructuring charges/other

Other revenue decreased \$212 million, and operating profit decreased \$100 million.

Financial condition

At the end of 2020, total cash (cash and cash equivalents plus short-term investments) was \$6.57 billion, an increase of \$1.18 billion from the end of 2019.

Accounts receivable were \$1.41 billion, an increase of \$340 million compared with the end of 2019. Days sales outstanding at the end of 2020 were 31 compared with 29 at the end of 2019.

Inventory was \$1.96 billion, a decrease of \$46 million from the end of 2019. Days of inventory at the end of 2020 were 123 compared with 144 at the end of 2019.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and a variable rate, revolving credit facility. Cash flows from operating activities for 2020 were \$6.14 billion, a decrease of \$510 million primarily due to an increase in cash used for working capital, partially offset by higher net income.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2024. This credit facility also serves as support for the issuance of commercial paper. As of December 31, 2020, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for 2020 used \$922 million compared with \$1.92 billion in 2019. Capital expenditures were \$649 million compared with \$847 million in 2019 and were primarily for semiconductor manufacturing equipment and facilities in both periods. Short-term investments used cash of \$241 million in 2020 compared with \$1.14 billion in 2019.

Financing activities for 2020 used \$4.55 billion compared with \$4.73 billion in 2019. In 2020, we received net proceeds of \$1.50 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$500 million. In 2019, we received net proceeds of \$1.49 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$750 million. Dividends paid in 2020 were \$3.43 billion compared with \$3.01 billion in 2019, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used \$2.55 billion to repurchase 23.4 million shares of our common stock compared with \$2.96 billion used in 2019 to repurchase 27.4 million shares. Employee exercises of stock options provided cash proceeds of \$470 million compared with \$539 million in 2019.

We had \$3.11 billion of cash and cash equivalents and \$3.46 billion of short-term investments as of December 31, 2020. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments and other business requirements for at least the next 12 months.

Non-GAAP financial information

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

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

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

	For Years Ended December 31,	
	2020	2019
Cash flow from operations (GAAP)	\$ 6,139	\$ 6,649
Capital expenditures	(649)	(847)
Free cash flow (non-GAAP)	\$ 5,490	\$ 5,802
Revenue	\$ 14,461	\$ 14,383
Cash flow from operations as a percentage of revenue (GAAP)	42.5 %	46.2 %
Free cash flow as a percentage of revenue (non-GAAP)	38.0 %	40.3 %

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

Long-term contractual obligations

Contractual Obligations	Payments Due by Period				
	2021	2022/2023	2024/2025	Thereafter	Total
Long-term debt (a)	\$ 726	\$ 1,326	\$ 1,337	\$ 6,172	\$ 9,561
Purchase commitments (b)	400	196	55	96	747
Transition tax on indefinitely reinvested earnings (c)	44	155	302	—	501
Operating leases (d)	76	98	59	138	371
Deferred compensation plans (e)	25	68	66	154	313
Total (f)	\$ 1,271	\$ 1,843	\$ 1,819	\$ 6,560	\$ 11,493

- (a) Principal and related interest payments for our long-term debt obligations, including amounts classified as the current portion of long-term debt.
- (b) Includes payments for software licenses and contractual arrangements with suppliers when there is a fixed, non-cancellable payment schedule or when minimum payments are due with a reduced delivery schedule. Excludes cancellable arrangements. See Note 11 to the financial statements.
- (c) Includes payments for the one-time transition tax on our indefinitely reinvested earnings related to the 2017 enactment of the U.S. Tax Cuts and Jobs Act.
- (d) Includes minimum payments for leased facilities and equipment and purchases of industrial gases under contracts accounted for as operating leases. See Note 10 to the financial statements.
- (e) Estimated payments for certain liabilities that existed as of December 31, 2020.
- (f) Excludes \$89 million of uncertain tax liabilities under ASC 740, as well as any planned future funding contributions to retirement benefit plans. Amounts associated with uncertain tax liabilities have been excluded because of the difficulty in making reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Regarding future funding of retirement benefit plans, we plan to contribute about \$10 million in 2021, but funding projections beyond 2021 are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plans' asset performance, interest rates and potential U.S. and non-U.S. legislation.

Critical accounting policies

Our accounting policies are more fully described in Note 2 of the consolidated financial statements. As disclosed in Note 2, the preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other estimates and assumptions would have a material impact on the financial statements. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require a higher degree of judgment.

Income taxes

In determining net income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the interpretation and application of complex tax laws, and significant judgment is necessary to (i) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (ii) measure the amount of tax benefit that qualifies for recognition. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different from what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. Our judgment regarding future recoverability of our deferred tax assets may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require adjustments to the deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work in process and finished goods. Statistical allowances are determined quarterly for raw materials and work in process based on historical disposals of inventory for salability and obsolescence reasons. For finished goods, quarterly statistical allowances are determined by comparing inventory levels of individual parts to historical shipments, current backlog and estimated future sales in order to identify inventory considered unlikely to be sold. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance, such as an end-of-life part or demand with imminent risk of cancellation. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of the net realizable value for those products. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Changes in accounting standards

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

Off-balance sheet arrangements

As of December 31, 2020, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Commitments and contingencies

See Note 11 to the financial statements for a discussion of our commitments and contingencies.

ITEM 7A. Quantitative and qualitative disclosures about market risk

Foreign exchange risk

The U.S. dollar is our functional currency for financial reporting. Our non-U.S. entities own assets or liabilities denominated in U.S. dollars or other currencies. Exchange rate fluctuations impact taxable income in those jurisdictions and consequently impact our effective tax rate.

Our balance sheet also reflects amounts remeasured from non-U.S. dollar currencies. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by forward currency exchange contracts, which are based on year-end 2020 balances and currency exchange rates, a hypothetical 10% plus or minus fluctuation in non-U.S. currency exchange rates relative to the U.S. dollar would result in a pretax currency exchange gain or loss of approximately \$3 million.

We use these forward currency exchange contracts to reduce the earnings impact that exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. As of December 31, 2020, we had forward currency exchange contracts outstanding with a notional value of \$416 million to hedge net balance sheet exposures (including \$147 million to sell Japanese yen, \$85 million to sell euros and \$82 million to sell British pounds). Similar hedging activities existed at year-end 2019.

Interest rate risk

We have the following potential exposure to changes in interest rates: (i) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (ii) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2020, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by about \$9 million and decrease the fair value of our long-term debt by \$650 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2020 include the following:

- *Investments in mutual funds* – includes mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.
- *Investments in venture capital funds* – includes investments in limited partnerships (accounted for under either the equity method or at cost as non-marketable equity securities).
- *Equity investments* – includes non-marketable (non-publicly traded) equity securities.

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in certain deferred compensation liabilities. Non-marketable equity securities and certain venture capital funds are stated at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Investments in the remaining venture capital funds are stated using the equity method. See Note 6 to the financial statements for details of equity and other long-term investments.

We also utilize total return swaps to economically hedge exposure to changes in liabilities related to the equity market risks of certain deferred compensation arrangements with employees. Gains or losses from changes in the fair value of these total return swaps generally offset the related losses or gains on the deferred compensation liabilities.

ITEM 8. Financial statements and supplementary data

List of financial statements:

- Income for each of the three years in the period ended December 31, 2020
- Comprehensive income for each of the three years in the period ended December 31, 2020
- Balance sheets as of December 31, 2020 and 2019
- Cash flows for each of the three years in the period ended December 31, 2020
- Stockholders' equity for each of the three years in the period ended December 31, 2020

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

Consolidated Statements of Income**For Years Ended December 31,****(Millions of dollars, except share and per-share amounts)**

	2020	2019	2018
Revenue	\$ 14,461	\$ 14,383	\$ 15,784
Cost of revenue (COR)	5,192	5,219	5,507
Gross profit	9,269	9,164	10,277
Research and development (R&D)	1,530	1,544	1,559
Selling, general and administrative (SG&A)	1,623	1,645	1,684
Acquisition charges	198	288	318
Restructuring charges/other	24	(36)	3
Operating profit	5,894	5,723	6,713
Other income (expense), net (OI&E)	313	175	98
Interest and debt expense	190	170	125
Income before income taxes	6,017	5,728	6,686
Provision for income taxes	422	711	1,106
Net income	\$ 5,595	\$ 5,017	\$ 5,580
Earnings per common share (EPS):			
Basic	\$ 6.05	\$ 5.33	\$ 5.71
Diluted	\$ 5.97	\$ 5.24	\$ 5.59
Average shares outstanding (millions):			
Basic	921	936	970
Diluted	933	952	990

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

Net income	\$ 5,595	\$ 5,017	\$ 5,580
Income allocated to RSUs	(27)	(31)	(42)
Income allocated to common stock for diluted EPS	\$ 5,568	\$ 4,986	\$ 5,538

See accompanying notes.

Consolidated Statements of Comprehensive Income**For Years Ended December 31,****(Millions of dollars)****2020****2019****2018**

Net income	\$ 5,595	\$ 5,017	\$ 5,580
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Other comprehensive income (loss)

Net actuarial losses of defined benefit plans:

Adjustments, net of tax effect of \$3, (\$37) and \$35	(41)	88	(98)
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Recognized within net income, net of tax effect of (\$9), (\$13) and (\$15)	29	38	50
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Prior service credit of defined benefit plans:

Adjustments, net of tax effect of \$0, \$0 and \$1	—	—	(6)
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Recognized within net income, net of tax effect of \$0, \$0 and \$1	(1)	—	(3)
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Derivative instruments:

Change in fair value, net of tax effect of \$0, \$0 and \$1	—	—	(2)
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Other comprehensive income (loss), net of taxes	(13)	126	(59)
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Total comprehensive income	\$ 5,582	\$ 5,143	\$ 5,521
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See accompanying notes.

Consolidated Balance Sheets**December 31,****(Millions of dollars, except share amounts)****2020****2019****Assets**

Current assets:

Cash and cash equivalents	\$ 3,107	\$ 2,437
Short-term investments	3,461	2,950
Accounts receivable, net of allowances of (\$11) and (\$8)	1,414	1,074
Raw materials	180	176
Work in process	964	916
Finished goods	811	909
Inventories	1,955	2,001
Prepaid expenses and other current assets	302	299
Total current assets	10,239	8,761
Property, plant and equipment at cost	5,781	5,740
Accumulated depreciation	(2,512)	(2,437)
Property, plant and equipment	3,269	3,303
Long-term investments	49	300
Goodwill	4,362	4,362
Acquisition-related intangibles	152	340
Deferred tax assets	343	197
Capitalized software licenses	122	69
Overfunded retirement plans	246	218
Other long-term assets	569	468
Total assets	\$ 19,351	\$ 18,018

Liabilities and stockholders' equity

Current liabilities:

Current portion of long-term debt	\$ 550	\$ 500
Accounts payable	415	388
Accrued compensation	767	714
Income taxes payable	134	46
Accrued expenses and other liabilities	524	475
Total current liabilities	2,390	2,123
Long-term debt	6,248	5,303
Underfunded retirement plans	131	93
Deferred tax liabilities	90	78
Other long-term liabilities	1,305	1,514
Total liabilities	10,164	9,111

Stockholders' equity:

Preferred stock, \$25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred – None issued	—	—
Common stock, \$1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	2,333	2,110
Retained earnings	42,051	39,898
Treasury common stock at cost		
Shares: 2020 – 821,461,787; 2019 – 808,784,381	(36,578)	(34,495)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(360)	(347)

See accompanying notes.

Consolidated Statements of Cash Flows**For Years Ended December 31,****(Millions of dollars)****2020****2019****2018****Cash flows from operating activities**

Net income \$ 5,595 \$ 5,017 \$ 5,580

Adjustments to net income:

Depreciation 733 708 590

Amortization of acquisition-related intangibles 198 288 318

Amortization of capitalized software 61 54 46

Stock compensation 224 217 232

Gains on sales of assets (4) (23) (3)

Deferred taxes (137) 81 (105)

Increase (decrease) from changes in:

Accounts receivable (340) 133 71

Inventories 46 216 (282)

Prepaid expenses and other current assets (79) 265 669

Accounts payable and accrued expenses 63 (93) (7)

Accrued compensation 63 (15) (7)

Income taxes payable (181) (193) 158

Changes in funded status of retirement plans (9) 29 36

Other (94) (35) (107)

Cash flows from operating activities 6,139 6,649 7,189

Cash flows from investing activities

Capital expenditures (649) (847) (1,131)

Proceeds from asset sales 4 30 9

Purchases of short-term investments (5,786) (3,444) (5,641)

Proceeds from short-term investments 5,545 2,309 6,708

Other (36) 32 (23)

Cash flows from investing activities (922) (1,920) (78)

Cash flows from financing activities

Proceeds from issuance of long-term debt 1,498 1,491 1,500

Repayment of debt (500) (750) (500)

Dividends paid (3,426) (3,008) (2,555)

Stock repurchases (2,553) (2,960) (5,100)

Proceeds from common stock transactions 470 539 373

Other (36) (42) (47)

Cash flows from financing activities (4,547) (4,730) (6,329)

Net change in cash and cash equivalents 670 (1) 782

Cash and cash equivalents at beginning of period 2,437 2,438 1,656

Cash and cash equivalents at end of period \$ 3,107 \$ 2,437 \$ 2,438

See accompanying notes.

Consolidated Statements of Stockholders' Equity	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
(Millions of dollars, except per-share amounts)					
Balance, December 31, 2017	\$ 1,741	\$ 1,776	\$ 34,662	\$ (27,458)	\$ (384)
2018					
Net income	—	—	5,580	—	—
Dividends declared and paid (\$2.63 per share)	—	—	(2,555)	—	—
Common stock issued for stock-based awards	—	(55)	—	428	—
Stock repurchases	—	—	—	(5,100)	—
Stock compensation	—	232	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(59)
Dividend equivalents on RSUs	—	—	(17)	—	—
Cumulative effect of accounting changes	—	—	236	—	(30)
Other	—	(3)	—	—	—
Balance, December 31, 2018	1,741	1,950	37,906	(32,130)	(473)
2019					
Net income	—	—	5,017	—	—
Dividends declared and paid (\$3.21 per share)	—	—	(3,008)	—	—
Common stock issued for stock-based awards	—	(55)	—	594	—
Stock repurchases	—	—	—	(2,960)	—
Stock compensation	—	217	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	126
Dividend equivalents on RSUs	—	—	(17)	—	—
Other	—	(2)	—	1	—
Balance, December 31, 2019	1,741	2,110	39,898	(34,495)	(347)
2020					
Net income	—	—	5,595	—	—
Dividends declared and paid (\$3.72 per share)	—	—	(3,426)	—	—
Common stock issued for stock-based awards	—	—	—	470	—
Stock repurchases	—	—	—	(2,553)	—
Stock compensation	—	224	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(13)
Dividend equivalents on RSUs	—	—	(16)	—	—
Other	—	(1)	—	—	—
Balance, December 31, 2020	\$ 1,741	\$ 2,333	\$ 42,051	\$ (36,578)	\$ (360)

See accompanying notes.

Notes to financial statements

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

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. We have two reportable segments, Analog and Embedded Processing, each of which represents groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels.

- 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or using a battery. Our Analog segment consists of two major product lines: Power and Signal Chain.
- Embedded Processing products are the digital “brains” of many types of electronic equipment. They are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application.

During 2020, we reorganized the product lines within our Analog segment to simplify our business structure into our Power and Signal Chain product lines. These changes had no effect on either our previously reported consolidated financial statements or our reportable segment results.

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

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges (see Note 7); restructuring charges (see Note 12); and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

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

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. We have no material intersegment revenue. The accounting policies of the segments are consistent with those described in the summary of significant accounting policies and practices.

Segment information

	For Years Ended December 31,		
	2020	2019	2018
Revenue:			
Analog	\$ 10,886	\$ 10,223	\$ 10,801
Embedded Processing	2,570	2,943	3,554
Other	1,005	1,217	1,429
Total revenue	<u>\$ 14,461</u>	<u>\$ 14,383</u>	<u>\$ 15,784</u>
Operating profit:			
Analog	\$ 4,912	\$ 4,477	\$ 5,109
Embedded Processing	743	907	1,205
Other	239	339	399
Total operating profit	<u>\$ 5,894</u>	<u>\$ 5,723</u>	<u>\$ 6,713</u>

Geographic area information

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

	For Years Ended December 31,		
	2020	2019	2018
Revenue:			
United States	\$ 1,547	\$ 1,827	\$ 2,288
Asia (a)	9,541	8,650	9,240
Europe, Middle East and Africa	2,249	2,707	3,047
Japan	734	796	869
Rest of world	390	403	340
Total revenue	<u>\$ 14,461</u>	<u>\$ 14,383</u>	<u>\$ 15,784</u>

- (a) Revenue from products shipped into China was \$8.0 billion, \$7.2 billion and \$7.0 billion in 2020, 2019 and 2018, respectively, which includes shipments to customers that manufacture in China and then export end products to their customers around the world, as well as distributors that transship inventory through China to service other countries.

	December 31,	
	2020	2019
Property, plant and equipment:		
United States	\$ 2,036	\$ 1,998
Asia (a)	1,005	1,046
Europe, Middle East and Africa	52	63
Japan	165	185
Rest of world	11	11
Total property, plant and equipment	<u>\$ 3,269</u>	<u>\$ 3,303</u>

- (a) Property, plant and equipment at our two sites in the Philippines was \$333 million and \$394 million as of December 31, 2020 and 2019, respectively. Property, plant and equipment at our sites in China was \$370 million and \$304 million as of December 31, 2020 and 2019, respectively.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The basis of these financial statements is comparable for all periods presented herein.

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 these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated. We have reclassified certain amounts in the prior periods' financial statements to conform to the 2020 presentation.

The preparation of financial statements requires the use of estimates from which final results may vary.

Significant accounting policies and practices

Revenue recognition

We generate revenue primarily from the sale of semiconductor products, either directly to a customer or to a distributor. We have a variety of types of contracts with our customers and distributors. In determining whether a contract exists, we evaluate the terms of the arrangement, the relationship with the customer or distributor and their ability to pay.

We recognize revenue from sales of our products, including sales to our distributors, when control is transferred. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where required, when the customer has accepted the products. This transfer generally occurs at a point in time upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Payment for sales to customers and distributors is generally due on our standard commercial terms. For sales to distributors, payment is not contingent upon resale of the products.

Revenue from sales of our products that are subject to inventory consignment agreements is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that we store at designated locations. Delivery and transfer of control occur at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, we retain control over the products' disposition, including the right to pull back or relocate the products.

The revenue recognized is adjusted based on allowances, which are prepared on a portfolio basis using a most likely amount methodology based on analysis of historical data and contractual terms. These allowances, which are not material, generally include adjustments for pricing arrangements, product returns and incentives. The length of time between invoicing and payment is not significant under any of our payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

In addition, we record an allowance for credit losses on accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for credit losses and, if necessary, record a charge in the period such determination is made.

We recognize shipping fees, if any, received from customers in revenue. We include the related shipping and handling costs in cost of revenue. The majority of our customers pay these fees directly to third parties.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was \$28 million, \$30 million and \$34 million in 2020, 2019 and 2018, respectively.

Income taxes

We account for income taxes using an asset and liability approach. We record the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences related to events that have been recognized in the financial statements or tax returns. We record a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Other assessed taxes

Some transactions require us to collect taxes such as sales, value-added and excise taxes from our customers. These transactions are presented in our Consolidated Statements of Income on a net (excluded from revenue) basis.

Leases

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

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

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

Earnings per share (EPS)

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

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

	For Years Ended December 31,								
	2020			2019			2018		
	Net Income	Shares	EPS	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:									
Net income	\$ 5,595			\$ 5,017			\$ 5,580		
Income allocated to RSUs	(27)			(32)			(43)		
Income allocated to common stock	<u>\$ 5,568</u>	<u>921</u>	<u>\$ 6.05</u>	<u>\$ 4,985</u>	<u>936</u>	<u>\$ 5.33</u>	<u>\$ 5,537</u>	<u>970</u>	<u>\$ 5.71</u>
Dilutive effect of stock compensation plans		12			16			20	
Diluted EPS:									
Net income	\$ 5,595			\$ 5,017			\$ 5,580		
Income allocated to RSUs	(27)			(31)			(42)		
Income allocated to common stock	<u>\$ 5,568</u>	<u>933</u>	<u>\$ 5.97</u>	<u>\$ 4,986</u>	<u>952</u>	<u>\$ 5.24</u>	<u>\$ 5,538</u>	<u>990</u>	<u>\$ 5.59</u>

Potentially dilutive securities representing 4 million, 6 million and 4 million shares of common stock that were outstanding in 2020, 2019 and 2018 respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

Investments

We present investments on our Consolidated Balance Sheets as cash equivalents, short-term investments or long-term investments, which are detailed below. See Note 6 for additional information.

- *Cash equivalents and short-term investments* – We consider investments in available-for-sale debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in available-for-sale debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments. The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns.

- *Long-term investments* – Long-term investments consist of mutual funds, venture capital funds and non-marketable equity securities.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in, first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory.

We review inventory quarterly for salability and obsolescence. A statistical allowance is provided for inventory considered unlikely to be sold. The statistical allowance is based on an analysis of historical disposal activity, historical customer shipments, as well as estimated future sales. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. We write off inventory in the period in which disposal occurs.

Property, plant and equipment; acquisition-related intangibles; and other capitalized costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

We regularly review whether facts or circumstances exist that indicate the carrying values of property, plant and equipment or other long-lived assets, including intangible assets, are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Any impairment charge is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise. We perform our annual goodwill impairment test as of October 1 for our reporting units, which compares the fair value for each reporting unit to its associated carrying value, including goodwill. See Note 7 for additional information.

Foreign currency

The functional currency for our non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than the U.S. dollar are remeasured into the functional currency. Current assets (except inventories), deferred taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Property, plant and equipment with associated depreciation and inventories are valued at historical exchange rates. Revenue and expense accounts other than depreciation for each month are remeasured at the appropriate daily rate of exchange. Currency exchange gains and losses from remeasurement are credited or charged to OI&E.

Derivatives and hedging

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

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

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

We do not use derivatives for speculative or trading purposes.

Changes in accounting standards – adopted standards for current period

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

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

3. Stock compensation

We have stock options outstanding to participants under long-term incentive plans. The option price per share may not be less than the fair market value of our common stock on the date of the grant. The options have a 10-year term, generally vest ratably over four years and continue to vest after the option recipient retires.

We also have RSUs outstanding to participants under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock, issued on the vesting date, which is generally four years after the date of grant. RSUs continue to vest after the recipient retires. Holders of RSUs receive an annual cash payment equivalent to the dividends paid on our common stock.

We have options and RSUs outstanding to non-employee directors under director compensation plans. The plans generally provide for annual grants of stock options and RSUs, a one-time grant of RSUs to each new non-employee director and the issuance of TI common stock upon the distribution of stock units credited to director deferred compensation accounts.

We also have an employee stock purchase plan (ESPP) under which options are offered to all eligible employees in amounts based on a percentage of the employee’s compensation, subject to a cap. Under the plan, the option price per share is 85% of the fair market value on the exercise date.

Total stock compensation expense recognized is as follows:

	For Years Ended December 31,		
	2020	2019	2018
COR	\$ 21	\$ 21	\$ 25
R&D	68	66	69
SG&A	135	130	138
Total	<u>\$ 224</u>	<u>\$ 217</u>	<u>\$ 232</u>

These amounts include expenses related to non-qualified stock options, RSUs and stock options offered under our ESPP and are net of estimated forfeitures.

We recognize compensation expense for non-qualified stock options and RSUs on a straight-line basis over the minimum service period required for vesting of the award, adjusting for estimated forfeitures based on historical activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis. Options issued under our ESPP are expensed over a three-month period.

Fair-value methods and assumptions

We account for all awards granted under our various stock compensation plans at fair value. We estimate the fair values for non-qualified stock options using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	For Years Ended December 31,		
	2020	2019	2018
Weighted average grant date fair value, per share	\$ 25.55	\$ 22.08	\$ 23.20
Weighted average assumptions used:			
Expected volatility	26 %	26 %	23 %
Expected lives (in years)	6.8	7.1	7.2
Risk-free interest rates	1.53 %	2.66 %	2.57 %
Expected dividend yields	2.76 %	2.95 %	2.25 %

We determine expected volatility on all options granted using available implied volatility rates. We believe that market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates.

We determine expected lives of options based on the historical option exercise experience of our optionees using a rolling 10-year average. We believe the historical experience method is the best estimate of future exercise patterns currently available.

Risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

Expected dividend yields are based on the annualized approved quarterly dividend rate and the current market price of our common stock at the time of grant. No assumption for a future dividend rate change is included unless there is an approved plan to change the dividend in the near term.

The fair value per share of RSUs is determined based on the closing price of our common stock on the date of grant.

Our ESPP is a discount-purchase plan and consequently the Black-Scholes-Merton option-pricing model is not used to determine the fair value per share of these awards. The fair value per share under this plan equals the amount of the discount.

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans are as follows:

	Stock Options		RSUs	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding grants, December 31, 2019	32,493,944	\$ 66.57	5,897,800	\$ 79.62
Granted	4,253,606	130.48	1,005,778	130.59
Stock options exercised/RSUs vested	(8,392,354)	53.28	(2,034,933)	53.88
Forfeited and expired	(359,919)	111.06	(157,021)	103.90
Outstanding grants, December 31, 2020	27,995,277	79.69	4,711,624	100.80

The weighted average grant date fair values per share of RSUs granted in 2020, 2019 and 2018 were \$130.59, \$106.58 and \$110.05, respectively. In 2020, 2019 and 2018, the total grant date fair values of shares vested from RSU grants were \$110 million, \$125 million and \$123 million, respectively.

As of December 31, 2020, the number of shares remaining available for future issuance under these plans was 40,334,683.

Summarized information about stock options outstanding as of December 31, 2020, is as follows:

Exercise Price Range	Stock Options Outstanding			Options Exercisable	
	Number Outstanding (Shares)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable (Shares)	Weighted Average Exercise Price per Share
\$ 28.13 to 161.98	27,995,277	5.8	\$ 79.69	17,221,451	\$ 59.33

In 2020, 2019 and 2018, the aggregate intrinsic values (i.e., the difference in the closing market price on the date of exercise and the exercise price paid by the optionee) of options exercised were \$681 million, \$819 million and \$561 million, respectively.

Summarized information as of December 31, 2020, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, is as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest) (a)	Options Exercisable
Number of outstanding (shares)	27,596,705	17,221,451
Weighted average remaining contractual life (in years)	5.8	4.4
Weighted average exercise price per share	\$ 79.13	\$ 59.33
Intrinsic value (millions of dollars)	\$ 2,346	\$ 1,805

(a) Includes effects of expected forfeitures. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was \$2.36 billion.

As of December 31, 2020, total future compensation related to equity awards not yet recognized in our Consolidated Statements of Income was \$237 million, consisting of \$103 million related to unvested stock options and \$134 million related to unvested RSUs. The \$237 million is expected to be recognized as follows: \$115 million in 2021, \$77 million in 2022, \$40 million in 2023 and \$5 million in 2024.

Employee stock purchase plan

Options outstanding under the ESPP as of December 31, 2020, had an exercise price equal to 85% of the fair market value of TI common stock on the date of automatic exercise. The automatic exercise occurred on January 4, 2021, resulting in an exercise price of \$137.89 per share. Of the total outstanding options, none were exercisable as of December 31, 2020.

ESPP transactions are as follows:

	Shares	Exercise Price
Outstanding grants, December 31, 2019	173,849	\$ 110.14
Granted	714,680	108.74
Exercised	(745,483)	103.48
Outstanding grants, December 31, 2020	143,046	137.89

The weighted average grant date fair values per share of options granted under the ESPP in 2020, 2019 and 2018 were \$19.19, \$18.05 and \$15.43, respectively. In 2020, 2019 and 2018, the total intrinsic value of options exercised under these plans was \$14 million, \$13 million and \$13 million, respectively.

As of December 31, 2020, the number of shares remaining available for future issuance under this plan was 33,097,602.

Effect on shares outstanding and treasury shares

Treasury shares were acquired in connection with the board-authorized stock repurchase program. As of December 31, 2020, \$10.63 billion of stock repurchase authorizations remain, and no expiration date has been specified.

Our current practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. The following table reflects the changes in our treasury shares:

	Stock Options	RSUs	Treasury Shares
Balance, December 31, 2017			757,657,217
Repurchases			49,482,220
Shares used for:			
Stock options/RSUs	(8,432,458)	(2,769,994)	
Stock applied to taxes	—	553,720	
ESPP	(819,878)	—	
Director deferred stock units	—	—	(5,181)
Total issued	<u>(9,252,336)</u>	<u>(2,216,274)</u>	(11,468,610)
Balance, December 31, 2018			795,665,646
Repurchases			27,398,701
Shares used for:			
Stock options/RSUs	(11,529,174)	(2,370,762)	
Stock applied to taxes	—	490,347	
ESPP	(798,806)	—	
Director deferred stock units	—	—	(71,571)
Total issued	<u>(12,327,980)</u>	<u>(1,880,415)</u>	(14,208,395)
Balance, December 31, 2019			808,784,381
Repurchases			23,430,215
Shares used for:			
Stock options/RSUs	(8,392,354)	(2,034,933)	
Stock applied to taxes	—	421,518	
ESPP	(745,483)	—	
Director deferred stock units	—	—	(1,557)
Total issued	<u>(9,137,837)</u>	<u>(1,613,415)</u>	(10,751,252)
Balance, December 31, 2020			821,461,787

The effects on cash flows are as follows:

	For Years Ended December 31,		
	2020	2019	2018
Proceeds from common stock transactions (a)	\$ 470	\$ 539	\$ 373
Tax benefit realized from stock compensation	\$ 195	\$ 224	\$ 179
Reduction to deferred tax asset	(44)	(49)	(43)
Excess tax benefit for stock compensation	\$ 151	\$ 175	\$ 136

(a) Net of taxes paid for employee shares withheld of \$53 million, \$52 million and \$60 million in 2020, 2019 and 2018, respectively.

4. Income taxes

Income before income taxes is comprised of the following components:

	For Years Ended December 31,		
	2020	2019	2018
U.S.	\$ 5,210	\$ 4,915	\$ 5,672
Non-U.S.	807	813	1,014
Total	<u>\$ 6,017</u>	<u>\$ 5,728</u>	<u>\$ 6,686</u>

Provision for income taxes is comprised of the following components:

	For Years Ended December 31,								
	2020			2019			2018		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
U.S. federal	\$ 357	\$ (122)	\$ 235	\$ 483	\$ 25	\$ 508	\$ 979	\$ (98)	\$ 881
Non-U.S.	192	(15)	177	135	56	191	225	(8)	217
U.S. state	10	—	10	12	—	12	7	1	8
Total	<u>\$ 559</u>	<u>\$ (137)</u>	<u>\$ 422</u>	<u>\$ 630</u>	<u>\$ 81</u>	<u>\$ 711</u>	<u>\$ 1,211</u>	<u>\$ (105)</u>	<u>\$ 1,106</u>

Principal reconciling items from the U.S. statutory income tax rate to the effective tax rate (provision for income taxes as a percentage of income before income taxes) are as follows:

	For Years Ended December 31,		
	2020	2019	2018
U.S. statutory income tax rate	21.0 %	21.0 %	21.0 %
U.S. tax benefit for foreign derived intangible income	(6.1)	(4.9)	(5.3)
Impact of changes in uncertain tax positions	(4.0)	(0.1)	—
U.S. excess tax benefit for stock compensation	(2.5)	(3.1)	(2.0)
U.S. R&D tax credit	(1.3)	(1.4)	(1.3)
U.S. Tax Act transitional non-cash expense	—	—	4.2
Other	(0.1)	0.9	(0.1)
Effective tax rate	<u>7.0 %</u>	<u>12.4 %</u>	<u>16.5 %</u>

The earnings represented by non-cash operating assets, such as fixed assets and inventory, will continue to be permanently reinvested outside the United States. Provisions of the U.S. Tax Cuts and Jobs Act (the Tax Act), such as the one-time tax on indefinitely reinvested earnings and the global intangible low-taxed income (GILTI) tax for years beginning in 2018, eliminate any additional U.S. taxation resulting from repatriation of earnings of non-U.S. subsidiaries to the United States. Consequently, no U.S. tax provision has been made for the future remittance of

these earnings. However, withholding or distribution taxes in certain non-U.S. jurisdictions will be incurred upon repatriation of available cash to the United States. A provision has been made for deferred taxes on these undistributed earnings to the extent that repatriation of the available cash to the United States is expected to result in a tax liability. As of December 31, 2020, we have no basis differences that would result in material unrecognized deferred tax liabilities.

We have made an allowable policy election to account for the effects of GILTI as a component of income tax expense in the period in which the tax is incurred.

The primary components of deferred tax assets and liabilities are as follows:

	December 31,	
	2020	2019
Deferred tax assets:		
Deferred loss and tax credit carryforwards	\$ 207	\$ 213
Accrued expenses	180	182
Stock compensation	106	109
Inventories and related reserves	105	109
Retirement costs for defined benefit and retiree health care	44	49
Other	3	—
Total deferred tax assets, before valuation allowance	645	662
Valuation allowance	(179)	(180)
Total deferred tax assets, after valuation allowance	466	482
Deferred tax liabilities:		
Property, plant and equipment	(116)	(164)
International earnings	(44)	(62)
Acquisition-related intangibles and fair-value adjustments	(40)	(82)
Other	(13)	(55)
Total deferred tax liabilities	(213)	(363)
Net deferred tax asset	\$ 253	\$ 119

The deferred tax assets and liabilities based on tax jurisdictions are presented on our Consolidated Balance Sheets as follows:

	December 31,	
	2020	2019
Deferred tax assets	\$ 343	\$ 197
Deferred tax liabilities	(90)	(78)
Net deferred tax asset	\$ 253	\$ 119

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. Valuation allowances decreased \$1 million in 2020 and increased \$8 million and \$7 million in 2019 and 2018, respectively. These changes had no impact to net income in 2020, 2019 or 2018.

We have no tax loss carryforwards as of December 31, 2020.

Cash payments made for income taxes, net of refunds, were \$720 million, \$570 million and \$705 million in 2020, 2019 and 2018, respectively.

Uncertain tax positions

We operate in a number of tax jurisdictions, and our income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the matters challenged by authorities are typically complex, their ultimate outcome is uncertain. Before any benefit can be recorded in our financial statements, we must determine that it is “more likely than not” that a tax position will be sustained by the appropriate tax authorities. We recognize accrued interest related to uncertain tax positions and penalties as components of OI&E.

The changes in the total amounts of uncertain tax positions are as follows:

	2020	2019	2018
Balance, January 1	\$ 303	\$ 286	\$ 300
Additions based on tax positions related to the current year	3	3	3
Additions for tax positions of prior years	35	63	1
Reductions for tax positions of prior years	(249)	(41)	—
Settlements with tax authorities	—	(8)	(18)
Expiration of the statute of limitations for assessing taxes	(3)	—	—
Balance, December 31	<u>\$ 89</u>	<u>\$ 303</u>	<u>\$ 286</u>
Interest income (expense) recognized in the year ended December 31	<u>\$ 39</u>	<u>\$ 9</u>	<u>\$ (15)</u>
Interest payable as of December 31	<u>\$ 8</u>	<u>\$ 44</u>	<u>\$ 49</u>

The liability for uncertain tax positions is a component of other long-term liabilities on our Consolidated Balance Sheets.

All of the \$89 million and \$303 million liabilities for uncertain tax positions as of December 31, 2020 and 2019, respectively, are comprised of positions that, if recognized, would lower the effective tax rate. If these liabilities are ultimately realized, \$2 million of existing deferred tax assets in both 2020 and 2019 would also be realized. Reductions for tax positions of prior years in 2020 include a \$249 million tax benefit for the effective settlement of a depreciation-related uncertain tax position. Accrued interest of \$46 million related to this uncertain tax position was reversed and included in OI&E.

As of December 31, 2020, the statute of limitations remains open for U.S. federal tax returns for 2013 and following years. Audit activities related to our U.S. federal tax returns through 2015 have been completed except for certain pending tax treaty procedures for relief from double taxation and an Internal Revenue Service appeals process related to the 2013 through 2015 audit. The procedures for relief from double taxation pertain to U.S. federal tax returns for the years 2007 through 2012.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the United States, our subsidiaries are no longer subject to income tax audits for years before 2007.

5. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts, the fair value of which was not material as of December 31, 2020. Our forward foreign currency exchange contracts outstanding as of December 31, 2020, had a notional value of \$416 million to hedge our non-U.S. dollar net balance sheet exposures, including \$147 million to sell Japanese yen, \$85 million to sell euros and \$82 million to sell British pounds.

Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. Our postretirement plan assets are carried at fair value or

net asset value per share. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. As of December 31, 2020, the carrying value of long-term debt, including the current portion, was \$6.80 billion, and the estimated fair value was \$7.78 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 6 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

We are subject to counterparty risks from financial institutions, customers and issuers of debt securities. Financial instruments that could subject us to concentrations of credit risk are primarily cash deposits, cash equivalents, short-term investments and accounts receivable. To manage our credit risk exposure, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on cash deposits and financial derivative contracts to financial institutions with investment-grade ratings.

Concentrations of credit risk with respect to accounts receivable are limited due to our large number of customers and their dispersion across different industries and geographic areas. We maintain allowances for expected returns, disputes, adjustments, incentives and credit losses. These allowances are deducted from accounts receivable on our Consolidated Balance Sheets.

Accounts receivable allowances changed to reflect amounts charged (credited) to operating results by \$3 million, (\$11) million and \$11 million in 2020, 2019 and 2018, respectively.

Major customer

One of our end customers accounted for 10%, 8% and 8% of revenue in 2020, 2019 and 2018, respectively, recognized primarily in our Analog segment. No end customer accounted for 10% or more of revenue in 2019 or 2018.

6. Valuation of debt and equity investments and certain liabilities

Investments measured at fair value

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

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

Other investments

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

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

Details of our investments are as follows:

	December 31, 2020			December 31, 2019		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Measured at fair value:						
Money market funds	\$ 886	\$ —	\$ —	\$ 1,213	\$ —	\$ —
Corporate obligations	256	407	—	174	1,216	—
U.S. government agency and Treasury securities	1,340	3,054	—	604	1,734	—
Mutual funds	—	—	18	—	—	272
Total	2,482	3,461	18	1,991	2,950	272
Other measurement basis:						
Equity-method investments	—	—	27	—	—	24
Non-marketable equity investments	—	—	4	—	—	4
Cash on hand	625	—	—	446	—	—
Total	<u>\$ 3,107</u>	<u>\$ 3,461</u>	<u>\$ 49</u>	<u>\$ 2,437</u>	<u>\$ 2,950</u>	<u>\$ 300</u>

As of December 31, 2020 and 2019, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments in 2020, 2019 or 2018. All of our debt securities classified as available for sale as of December 31, 2020, have maturities within one year.

In 2020, 2019 and 2018, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$5.29 billion, \$2.31 billion and \$6.71 billion, respectively. Gross realized gains and losses from these sales were not material.

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

Fair-value considerations

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

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

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

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

	December 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 886	\$ —	\$ 886	\$ 1,213	\$ —	\$ 1,213
Corporate obligations	—	663	663	—	1,390	1,390
U.S. government agency and Treasury securities	4,394	—	4,394	2,338	—	2,338
Mutual funds	18	—	18	272	—	272
Total assets	<u>\$ 5,298</u>	<u>\$ 663</u>	<u>\$ 5,961</u>	<u>\$ 3,823</u>	<u>\$ 1,390</u>	<u>\$ 5,213</u>
Liabilities:						
Deferred compensation	\$ 350	\$ —	\$ 350	\$ 298	\$ —	\$ 298
Total liabilities	<u>\$ 350</u>	<u>\$ —</u>	<u>\$ 350</u>	<u>\$ 298</u>	<u>\$ —</u>	<u>\$ 298</u>

7. Goodwill and acquisition-related intangibles

Goodwill by segment as of December 31, 2020 and 2019, is as follows:

	Goodwill
Analog	\$ 4,158
Embedded Processing	172
Other	32
Total	<u>\$ 4,362</u>

We perform our annual goodwill impairment test as of October 1 and determine whether the fair value of each of our reporting units is in excess of its carrying value. Determination of fair value is based upon management estimates and judgment, using unobservable inputs in discounted cash flow models to calculate the fair value of each reporting unit. These unobservable inputs are considered Level 3 measurements, as described in Note 6. In 2020, 2019 and 2018, we determined no impairment was indicated.

The components of acquisition-related intangibles are as follows:

		December 31, 2020			December 31, 2019		
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	8 – 10	\$ 1,895	\$ 1,753	\$ 142	\$ 2,000	\$ 1,660	\$ 340
Other intangibles	5	10	—	10	—	—	—
Total		<u>\$ 1,905</u>	<u>\$ 1,753</u>	<u>\$ 152</u>	<u>\$ 2,000</u>	<u>\$ 1,660</u>	<u>\$ 340</u>

Acquisition charges

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

Amortization of acquisition-related intangibles was \$198 million, \$288 million and \$318 million in 2020, 2019 and 2018, respectively. Fully amortized assets are written off against accumulated amortization. The remaining estimated amortization is \$144 million in 2021.

8. Postretirement benefit plans

Plan descriptions

We have various employee retirement plans, including defined contribution, defined benefit and retiree health care benefit plans. For qualifying employees, we offer deferred compensation arrangements.

U.S. retirement plans

Our principal retirement plans in the United States are a defined contribution plan, an enhanced defined contribution plan and qualified and non-qualified defined benefit pension plans. The defined benefit plans were closed to new participants in 1997, and then current participants were allowed to make a one-time election to continue accruing a benefit in the plans or to cease accruing a benefit and instead to participate in the enhanced defined contribution plan.

Both defined contribution plans offer an employer-matching savings option that allows employees to make pretax and post-tax contributions to various investment choices. Employees who elected to continue accruing a benefit in the qualified defined benefit pension plans may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2% of the employee's annual eligible earnings. Employees who elected not to continue accruing a benefit in the defined benefit pension plans and employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2% of the employee's annual eligible earnings, plus an employer-matching contribution of up to 4% of the employee's annual eligible earnings. Employees hired after December 31, 2003, do not receive the fixed employer contribution of 2% of the employee's annual eligible earnings.

As of December 31, 2020 and 2019, as a result of employees' elections, TI's U.S. defined contribution plans held shares of TI common stock totaling 7 million shares and 8 million shares valued at \$1.12 billion and \$988 million, respectively. Dividends paid on these shares in 2020 and 2019 were \$27 million and \$26 million, respectively. Effective April 1, 2016, the TI common stock fund was frozen to new contributions or transfers into the fund.

Our aggregate expense for the U.S. defined contribution plans was \$61 million in 2020, 2019 and 2018.

The defined benefit pension plans include employees still accruing benefits, as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan. Benefits under the qualified defined benefit pension plan are determined using a formula based on years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

U.S. retiree health care benefit plan

U.S. employees who meet eligibility requirements are offered medical coverage during retirement. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee's date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the plan's participants. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement.

Non-U.S. retirement plans

We provide retirement coverage for non-U.S. employees, as required by local laws or to the extent we deem appropriate, through a number of defined benefit and defined contribution plans. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

As of December 31, 2020 and 2019, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at \$36 million and \$28 million, respectively. Dividends paid on these shares of TI common stock in 2020 and 2019 were not material.

Effects on our Consolidated Statements of Income and Balance Sheets

Expenses related to defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit			U.S. Retiree Health Care			Non-U.S. Defined Benefit		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Service cost	\$ 18	\$ 18	\$ 19	\$ 3	\$ 3	\$ 5	\$ 34	\$ 31	\$ 36
Interest cost	31	38	35	13	14	15	38	43	45
Expected return on plan assets	(36)	(41)	(42)	(12)	(14)	(15)	(78)	(86)	(67)
Amortization of prior service cost (credit)	—	—	—	(2)	(1)	(3)	1	1	(1)
Recognized net actuarial loss	7	9	17	—	—	2	14	29	20
Net periodic benefit costs	20	24	29	2	2	4	9	18	33
Settlement losses	16	10	23	—	—	—	1	3	3
Total, including other postretirement losses	\$ 36	\$ 34	\$ 52	\$ 2	\$ 2	\$ 4	\$ 10	\$ 21	\$ 36

All defined benefit and retiree health care benefit plan expense components other than service cost are recognized in OI&E in our Consolidated Statements of Income. Service cost is recognized within operating profit.

For the U.S. qualified pension and retiree health care plans, the expected return on plan assets component of net periodic benefit cost is based upon a market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets is the fair value adjusted by a smoothing technique whereby certain gains and losses are phased in over a period of three years.

Changes in the benefit obligations and plan assets for defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2020	2019	2020	2019	2020	2019
Change in plan benefit obligation						
Benefit obligation at beginning of year:	\$ 960	\$ 874	\$ 359	\$ 361	\$ 2,581	\$ 2,411
Service cost	18	18	3	3	34	31
Interest cost	31	38	13	14	38	43
Participant contributions	—	—	13	13	7	7
Benefits paid	(12)	(11)	(39)	(41)	(95)	(103)
Settlements	(94)	(66)	—	—	(8)	(12)
Curtailments	—	—	—	—	—	(1)
Actuarial loss (gain)	194	107	40	9	143	193
Plan amendments	—	—	—	—	1	—
Effects of exchange rate changes	—	—	—	—	167	12
Benefit obligation at end of year	\$ 1,097	\$ 960	\$ 389	\$ 359	\$ 2,868	\$ 2,581
Change in plan assets						
Fair value of plan assets at beginning of year:	\$ 987	\$ 869	\$ 356	\$ 330	\$ 2,661	\$ 2,410
Actual return on plan assets	164	185	58	53	260	337
Employer contributions (qualified plans)	—	—	1	1	11	9
Employer contributions (non-qualified plans)	16	10	—	—	—	—
Participant contributions	—	—	13	13	7	7
Benefits paid	(12)	(11)	(39)	(41)	(95)	(103)
Settlements	(94)	(66)	—	—	(8)	(12)
Effects of exchange rate changes	—	—	—	—	172	13
Fair value of plan assets at end of year	\$ 1,061	\$ 987	\$ 389	\$ 356	\$ 3,008	\$ 2,661
Funded status at end of year	\$ (36)	\$ 27	\$ —	\$ (3)	\$ 140	\$ 80

The actuarial loss (gain) for all pension plans was primarily related to a change in the discount rate used to measure the benefit obligations of those plans in 2020 and 2019.

Amounts recognized on our Consolidated Balance Sheets as of December 31, are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
2020				
Overfunded retirement plans	\$ 9	\$ 3	\$ 234	\$ 246
Accrued expenses and other liabilities & other long-term liabilities	(6)	—	(5)	(11)
Underfunded retirement plans	(39)	(3)	(89)	(131)
Funded status at end of 2020	\$ (36)	\$ —	\$ 140	\$ 104
2019				
Overfunded retirement plans	\$ 73	\$ —	\$ 145	\$ 218
Accrued expenses and other liabilities & other long-term liabilities	(17)	—	(4)	(21)
Underfunded retirement plans	(29)	(3)	(61)	(93)
Funded status at end of 2019	\$ 27	\$ (3)	\$ 80	\$ 104

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about \$10 million to our retirement benefit plans in 2021.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were \$992 million and \$878 million as of December 31, 2020 and 2019, respectively, for the U.S. defined benefit plans, and \$2.72 billion and \$2.46 billion as of December 31, 2020 and 2019, respectively, for the non-U.S. defined benefit plans.

The change in AOCI is as follows:

	U.S. Defined Benefit			U.S. Retiree Health Care		Non-U.S. Defined Benefit		Total	
	Net Actuarial Loss	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit
AOCI balance, net of taxes, December 31, 2019	\$ 91	\$ (3)	\$ (4)	\$ 259	\$ 2	\$ 347	\$ (2)		
Changes in AOCI by category:									
Adjustments	66	(6)	—	(16)	—	44	—		
Recognized within net income	(23)	—	2	(15)	(1)	(38)	1		
Tax effect	(9)	1	—	14	—	6	—		
Total change to AOCI	34	(5)	2	(17)	(1)	12	1		
AOCI balance, net of taxes, December 31, 2020	\$ 125	\$ (8)	\$ (2)	\$ 242	\$ 1	\$ 359	\$ (1)		

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets using the same three-level hierarchy of fair-value inputs described in Note 6.

December 31, 2020				
	Level 1	Level 2	Other (a)	Total
Assets of U.S. defined benefit plan:				
Fixed income securities and cash equivalents	\$ —	\$ —	\$ 743	\$ 743
Equity securities	—	—	318	318
Total	\$ —	\$ —	\$ 1,061	\$ 1,061
Assets of U.S. retiree health care plan:				
Fixed income securities and cash equivalents	\$ 29	\$ —	\$ 222	\$ 251
Equity securities	—	—	138	138
Total	\$ 29	\$ —	\$ 360	\$ 389
Assets of non-U.S. defined benefit plans:				
Fixed income securities and cash equivalents	\$ 69	\$ 146	\$ 2,063	\$ 2,278
Equity securities	43	2	685	730
Total	\$ 112	\$ 148	\$ 2,748	\$ 3,008

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

December 31, 2019				
	Level 1	Level 2	Other (a)	Total
Assets of U.S. defined benefit plan:				
Fixed income securities and cash equivalents	\$ —	\$ —	\$ 640	\$ 640
Equity securities	—	—	347	347
Total	\$ —	\$ —	\$ 987	\$ 987
Assets of U.S. retiree health care plan:				
Fixed income securities and cash equivalents	\$ 62	\$ —	\$ 168	\$ 230
Equity securities	—	—	126	126
Total	\$ 62	\$ —	\$ 294	\$ 356
Assets of non-U.S. defined benefit plans:				
Fixed income securities and cash equivalents	\$ 59	\$ 126	\$ 1,762	\$ 1,947
Equity securities	41	2	671	714
Total	\$ 100	\$ 128	\$ 2,433	\$ 2,661

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

The investments in our major benefit plans largely consist of low-cost, broad-market index funds to mitigate risks of concentration within market sectors. Our investment policy is designed to better match the interest rate sensitivity of the plan assets and liabilities. The appropriate mix of equity and bond investments is determined primarily through the use of detailed asset-liability modeling studies that look to balance the impact of changes in the discount rate against the need to provide asset growth to cover future service cost. Most of our plans around the world have a greater proportion of fixed income securities with return characteristics that are more closely aligned with changes in the liabilities caused by discount rate volatility.

Assumptions and investment policies

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2020	2019	2020	2019	2020	2019
Weighted average assumptions used to determine benefit obligations:						
Discount rate	2.81%	3.62%	2.74%	3.63%	1.31%	1.46%
Long-term pay progression	3.70%	3.30%	n/a	n/a	3.15%	3.06%
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	3.42%	4.35%	3.63%	4.30%	1.46%	1.85%
Long-term rate of return on plan assets	4.00%	4.90%	3.50%	4.40%	2.93%	3.62%
Long-term pay progression	3.30%	3.30%	n/a	n/a	3.06%	3.03%

We utilize a variety of methods to select an appropriate discount rate depending on the depth of the corporate bond market in the country in which the benefit plan operates. In the United States, we use a settlement approach whereby a portfolio of bonds is selected from the universe of actively traded high-quality U.S. corporate bonds. The selected portfolio is designed to provide cash flows sufficient to pay the plan's expected benefit payments when due. The resulting discount rate reflects the rate of return of the selected portfolio of bonds. For our non-U.S. locations with a sufficient number of actively traded high-quality bonds, an analysis is performed in which the projected cash flows from the defined benefit plans are discounted against a yield curve constructed with an appropriate universe of high-quality corporate bonds available in each country. In this manner, a present value is developed. The discount rate selected is the single equivalent rate that produces the same present value. For countries that lack a sufficient corporate bond market, a government bond index is used to establish the discount rate.

Assumptions for the expected long-term rate of return on plan assets are based on future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. We adjust the results for the payment of reasonable expenses of the plan from plan assets. We believe our assumptions are appropriate based on the investment mix and long-term nature of the plans' investments. Assumptions used for the non-U.S. defined benefit plans reflect the different economic environments within the various countries.

The target allocation ranges for the plans that hold a substantial majority of the defined benefit assets are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
Fixed income securities and cash equivalents	65% – 80%	65% – 80%	60% – 100%
Equity securities	20% – 35%	20% – 35%	0% – 40%

We rebalance the plans' investments when they are outside the target allocation ranges.

Weighted average asset allocations as of December 31 are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2020	2019	2020	2019	2020	2019
Fixed income securities and cash equivalents	70%	65%	65%	65%	76%	73%
Equity securities	30%	35%	35%	35%	24%	27%

None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock.

The following assumed future benefit payments to plan participants in the next 10 years are used to measure our benefit obligations. Almost all of the payments, which may vary significantly from these assumptions, will be made from plan assets and not from company assets.

	2021	2022	2023	2024	2025	2026 – 2030
U.S. Defined Benefit	\$ 95	\$ 137	\$ 102	\$ 100	\$ 102	\$ 490
U.S. Retiree Health Care	29	28	27	26	25	113
Non-U.S. Defined Benefit	99	102	102	105	106	558

Assumed health care cost trend rates for the U.S. retiree health care benefit plan as of December 31 are as follows:

	2020	2019
Assumed health care cost trend rate for next year	6.75%	7.00%
Ultimate trend rate	5.00%	5.00%
Year in which ultimate trend rate is reached	2028	2028

Deferred compensation plans

We have deferred compensation plans that allow U.S. employees whose base salary and management responsibility exceed a certain level to defer receipt of a portion of their cash compensation. Payments under these plans are made based on the participant's distribution election and plan balance. Participants can earn a return on their deferred compensation based on notional investments in the same investment funds that are offered in our defined contribution plans.

As of December 31, 2020, our liability to participants of the deferred compensation plans was \$350 million and is recorded in other long-term liabilities on our Consolidated Balance Sheets. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. We utilize total return swaps and investments in mutual funds that serve as economic hedges of our exposure to changes in the fair value of these liabilities. We record changes in the fair value of the liability and the related total return swaps and mutual funds in SG&A, as discussed in Note 6. As of December 31, 2020, we held \$18 million in mutual funds related to these plans that are recorded in long-term investments on our Consolidated Balance Sheets.

9. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of December 31, 2020, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion until March 2024. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of December 31, 2020, our credit facility was undrawn, and we had no commercial paper outstanding.

Long-term debt

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

In April 2020, we retired \$500 million of maturing debt.

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

In March 2019, we issued a principal amount of \$750 million of fixed-rate, long-term debt due in 2039. We incurred \$7 million of issuance costs. The proceeds of the offering were \$743 million, net of the original issuance discount, and were used for general corporate purposes.

In August 2019, we retired \$750 million of maturing debt.

In September 2019, we issued a principal amount of \$750 million of fixed-rate, long-term debt due in 2029. We incurred \$5 million of issuance costs. The proceeds of the offering were \$748 million, net of the original issuance discount, and were used for general corporate purposes.

In May 2018, we retired \$500 million of maturing debt.

In the second quarter of 2018, we issued an aggregate principal amount of \$1.5 billion of fixed-rate, long-term debt due in 2048, comprised of the issuance of \$1.3 billion in May 2018 and an additional \$200 million in June 2018. We incurred \$16 million of issuance and other related costs. The proceeds of the offering were \$1.5 billion, net of the original issuance discount and premium, and were used for general corporate purposes.

Long-term debt outstanding is as follows:

	December 31,	
	2020	2019
Notes due 2020 at 1.75%	\$ —	\$ 500
Notes due 2021 at 2.75%	550	550
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	300
Notes due 2025 at 1.375%	750	—
Notes due 2027 at 2.90%	500	500
Notes due 2029 at 2.25%	750	750
Notes due 2030 at 1.75%	750	—
Notes due 2039 at 3.875%	750	750
Notes due 2048 at 4.15%	1,500	1,500
Total debt	6,850	5,850
Net unamortized discounts, premiums and issuance costs	(52)	(47)
Total debt, including net unamortized discounts, premiums and issuance costs	6,798	5,803
Current portion of long-term debt	(550)	(500)
Long-term debt	<u>\$ 6,248</u>	<u>\$ 5,303</u>

Interest and debt expense was \$190 million, \$170 million and \$125 million in 2020, 2019 and 2018, respectively. This was net of the amortized discounts, premiums and issuance costs. Cash payments for interest on long-term debt were \$182 million, \$156 million and \$114 million in 2020, 2019 and 2018, respectively. Capitalized interest was not material.

10. Leases

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

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

	December 31,	
	2020	2019
Other long-term assets	\$ 319	\$ 337
Accrued expenses and other liabilities	\$ 72	\$ 73
Other long-term liabilities	249	259

Details of our operating leases are as follows:

	For Years Ended December 31,	
	2020	2019
Lease cost related to lease liabilities	\$ 70	\$ 66
Variable lease cost	36	41
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for lease cost	\$ 59	\$ 60
Lease assets obtained in exchange for new lease liabilities	\$ 59	\$ 167
Weighted average remaining lease term	8.9 years	8.2 years
Weighted average discount rate	3.02 %	3.37 %

As of December 31, 2020, we had committed to make the following minimum payments under our non-cancellable operating leases:

	2021	2022	2023	2024	2025	Thereafter	Total
Lease payments	\$ 76	\$ 60	\$ 38	\$ 33	\$ 26	\$ 138	\$ 371
Imputed lease interest							(50)
Total lease liabilities							\$ 321

11. Commitments and contingencies

Purchase commitments

Our purchase commitments include payments for software licenses and contractual arrangements with suppliers when there is a fixed, non-cancellable payment schedule or when minimum payments are due with a reduced delivery schedule.

As of December 31, 2020, we had committed to make the following minimum payments under our purchase commitments:

	2021	2022	2023	2024	2025	Thereafter	Total
Purchase commitments	\$ 400	\$ 127	\$ 69	\$ 31	\$ 24	\$ 96	\$ 747

Indemnification guarantees

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

Warranty costs/product liabilities

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

General

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

12. Supplemental financial information

Restructuring charges/other

Restructuring charges/other are included in Other for segment reporting purposes and are comprised of the following components:

	For Years Ended December 31,		
	2020	2019	2018
Restructuring charges (a)	\$ 25	\$ (15)	\$ 6
Gains on sales of assets	(1)	(21)	(3)
Restructuring charges/other	<u>\$ 24</u>	<u>\$ (36)</u>	<u>\$ 3</u>

(a) Includes severance and benefits, accelerated depreciation, changes in estimates and other exit costs.

Changes in accrued restructuring balances

	2020	2019	2018
Balance, January 1	\$ —	\$ 28	\$ 29
Restructuring charges	25	(15)	6
Non-cash items (a)	1	—	(3)
Payments	(8)	(13)	(4)
Balance, December 31	<u>\$ 18</u>	<u>\$ —</u>	<u>\$ 28</u>

(a) Reflects charges for impacts of accelerated depreciation and changes in exchange rates.

The restructuring accrual balances are reported as a component of either accrued expenses and other liabilities or other long-term liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

In 2020, we recognized \$25 million of restructuring charges primarily for severance and benefit costs associated with our Embedded Processing business. As of December 31, 2020, \$8 million of payments have been made.

In January 2020, we announced a multiyear plan to close our two remaining factories with 150-millimeter production, which are more than 50 years old and located in Sherman and Dallas, Texas. Production will be transitioned from these sites to our more advanced and cost-effective 300-millimeter wafer fabrication facilities in North Texas. We expect this transition to be completed in the next two to four years. Charges for these closures cannot be reasonably estimated until a later phase of the transition.

Other income (expense), net (OI&E)

	For Years Ended December 31,		
	2020	2019	2018
Other income (a)	\$ 327	\$ 201	\$ 135
Other expense (b)	(14)	(26)	(37)
Total	<u>\$ 313</u>	<u>\$ 175</u>	<u>\$ 98</u>

- (a) Other income includes royalty income, reversals of tax interest accruals, interest and lease income, as well as investment gains and losses.
- (b) Other expense includes a portion of pension and other retiree benefit costs, currency gains and losses and miscellaneous items.

Property, plant and equipment at cost

	Depreciable Lives (Years)	December 31,	
		2020	2019
Land	n/a	\$ 125	\$ 126
Buildings and improvements	5 – 40	2,571	2,504
Machinery and equipment	2 – 10	3,085	3,110
Total		<u>\$ 5,781</u>	<u>\$ 5,740</u>

Other long-term liabilities

	December 31,	
	2020	2019
Long-term portion of transition tax on indefinitely reinvested earnings	\$ 457	\$ 506
Deferred compensation plans	350	298
Operating lease liabilities	249	259
Uncertain tax positions	89	303
Other	160	148
Total	<u>\$ 1,305</u>	<u>\$ 1,514</u>

Accumulated other comprehensive income (loss), net of taxes (AOCI)

	December 31,	
	2020	2019
Postretirement benefit plans:		
Net actuarial loss	\$ (359)	\$ (347)
Prior service credit	1	2
Cash flow hedge derivative instruments	(2)	(2)
Total	<u>\$ (360)</u>	<u>\$ (347)</u>

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within net income in 2020, 2019 and 2018. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Years Ended December 31,			Impact to Related Statement of Income Lines
	2020	2019	2018	
Net actuarial losses of defined benefit plans:				
Recognized net actuarial loss and settlement losses (a)	\$ 38	\$ 51	\$ 65	Decrease to OI&E
Tax effect	(9)	(13)	(15)	Decrease to provision for income taxes
Recognized within net income, net of taxes	<u>\$ 29</u>	<u>\$ 38</u>	<u>\$ 50</u>	Decrease to net income
Prior service credit of defined benefit plans:				
Amortization of prior service credit (a)	\$ (1)	\$ —	\$ (4)	Increase to OI&E
Tax effect	—	—	1	Increase to provision for income taxes
Recognized within net income, net of taxes	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ (3)</u>	Increase to net income

(a) Detailed in Note 8.

13. Quarterly financial data (unaudited)

	2020 Quarters				2019 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Revenue	\$ 4,076	\$ 3,817	\$ 3,239	\$ 3,329	\$ 3,350	\$ 3,771	\$ 3,668	\$ 3,594
Gross profit	2,646	2,453	2,082	2,088	2,097	2,446	2,360	2,261
Included in operating profit:								
Acquisition charges	47	51	50	50	50	79	80	79
Restructuring charges/other	—	—	24	—	—	—	(36)	—
Operating profit	1,813	1,609	1,228	1,244	1,249	1,589	1,506	1,379
Net income	1,688	1,353	1,380	1,174	1,070	1,425	1,305	1,217
Basic EPS	\$ 1.83	\$ 1.47	\$ 1.50	\$ 1.25	\$ 1.14	\$ 1.51	\$ 1.38	\$ 1.29
Diluted EPS	\$ 1.80	\$ 1.45	\$ 1.48	\$ 1.24	\$ 1.12	\$ 1.49	\$ 1.36	\$ 1.26

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 5, 2021, expressed an unqualified opinion thereon.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Uncertain tax positions

Description of the matter

As discussed in Note 4 to the consolidated financial statements, the Company operates in the United States and multiple international tax jurisdictions, and its income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any tax position on these returns. Uncertainty in a tax position may arise because tax laws are subject to interpretation. The Company uses significant judgment to (1) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (2) measure the amount of tax benefit that qualifies for recognition. Auditing management's estimate of the amount of tax benefit that qualifies for recognition involved auditor judgment because management's estimate is complex, requires a high degree of judgment and is based on interpretations of tax laws and legal rulings.

How we addressed the matter in our audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting process for uncertain tax positions. For example, this included controls over the Company's assessment of the technical merits of tax positions and management's process to measure the benefit of those tax positions. Among other procedures performed, we involved our tax professionals to assess the technical merits of the Company's tax positions. This included assessing the Company's correspondence with the relevant tax authorities and evaluating income tax opinions or other third-party advice obtained by the Company. We also evaluated the appropriateness of the Company's accounting for its tax positions taking into consideration relevant international and local income tax laws and legal rulings. We analyzed the Company's assumptions and data used to determine the amount of tax benefit to recognize and tested the accuracy of the calculations. We also evaluated the adequacy of the Company's financial statement disclosures in Note 4 to the consolidated financial statements related to these tax matters.

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We have served as the Company's auditor since 1952.
Dallas, Texas
February 5, 2021

ITEM 9. Changes in and disagreements with accountants on accounting and financial disclosure

Not applicable.

ITEM 9A. Controls and procedures

Disclosure 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.

Internal control over financial reporting

Report by management on internal control over financial reporting

The management of TI is responsible for establishing and maintaining effective internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles. 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 fourth quarter of 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2020. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2020, our internal control over financial reporting is effective based on the COSO criteria.

TI's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which immediately follows this report.

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on internal control over financial reporting

We have audited Texas Instruments Incorporated's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Texas Instruments Incorporated (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes, and our report dated February 5, 2021, expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report by management on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Dallas, Texas
February 5, 2021

ITEM 9B. Other information

Not applicable.

PART III**ITEM 10. Directors, executive officers and corporate governance**

The information with respect to directors' names, ages, positions, term of office, periods of service and business experience, which is contained under the caption "Election of directors" in our proxy statement for the 2021 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

A list of our executive officers and their biographical information appears in Part I, Item 1 of this report.

Code of ethics

We have adopted the Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. A copy of the Code can be found on our website at www.ti.com/corporategovernance. We intend to satisfy the disclosure requirements of the SEC regarding amendments to, or waivers from, the Code by posting such information on the same website.

Audit committee

The information contained under the caption "Committees of the board" with respect to the audit committee and the audit committee financial expert in our proxy statement for the 2021 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 11. Executive compensation

The information contained under the captions "Director compensation" and "Executive compensation" in our proxy statement for the 2021 annual meeting of stockholders is incorporated herein by reference to such proxy statement, provided that the Compensation Committee report shall not be deemed filed with this Form 10-K.

The information contained under the caption "Compensation committee interlocks and insider participation" in our proxy statement for the 2021 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security ownership of certain beneficial owners and management and related stockholder matters**Equity compensation plan information**

The following table sets forth information about the company's equity compensation plans as of December 31, 2020.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (1)) (3)
Equity compensation plans approved by security holders	32,946,484 (a)	\$ 79.99 (b)	73,432,285 (c)
Equity compensation plans not approved by security holders	—	—	—
Total	32,946,484 (d)	\$ 79.99	73,432,285

- (a) Includes shares of TI common stock to be issued under the Texas Instruments 2003 Director Compensation Plan, the Texas Instruments 2009 Long-Term Incentive Plan (the "2009 LTIP") and predecessor stockholder-approved plans, the Texas Instruments 2009 Director Compensation Plan, the TI Employees 2014 Stock Purchase Plan (the "2014 ESPP") and the Texas Instruments 2018 Director Compensation Plan (the "2018 Director Plan").
- (b) Restricted stock units and stock units credited to directors' deferred compensation accounts are settled in shares of TI common stock on a one-for-one basis. Accordingly, such units have been excluded for purposes of computing the weighted-average exercise price.
- (c) Shares of TI common stock available for future issuance under the 2009 LTIP, the 2014 ESPP and the 2018 Director Plan. 38,457,158 shares remain available for future issuance under the 2009 LTIP and 1,877,525 shares remain available for future issuance under the 2018 Director Plan. Under the 2009 LTIP and the 2018 Director Plan, awards may be granted in the form of restricted stock units, options or other stock-based awards such as restricted stock.
- (d) Includes 27,995,277 shares for issuance upon exercise of outstanding grants of options, 4,711,624 shares for issuance upon vesting of outstanding grants of restricted stock units, 143,046 shares for issuance under the 2014 ESPP and 96,537 shares for issuance in settlement of directors' deferred compensation accounts.

Security ownership of certain beneficial owners and management

The information that is contained under the captions "Security ownership of certain beneficial owners" and "Security ownership of directors and management" in our proxy statement for the 2021 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 13. Certain relationships and related transactions, and director independence

The information contained under the captions “Related person transactions” and “Director independence” in our proxy statement for the 2021 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 14. Principal accountant fees and services

The information with respect to principal accountant fees and services contained under the caption “Proposal to ratify appointment of independent registered public accounting firm” in our proxy statement for the 2021 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

PART IV

ITEM 15. Exhibits, financial statement schedules

The financial statements are listed in the index included in Item 8, “Financial statements and supplementary data.”

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended	10-K	001-3761	February 24, 2015	3(a)	
3(b)	By-Laws of the Registrant	8-K	001-3761	July 16, 2020	3	
4(a)	Indenture	8-K	001-3761	May 23, 2011	4.2	
4(b)	Officer's Certificate	8-K	001-3761	May 8, 2013	4.2	
4(c)	Officer's Certificate	8-K	001-3761	March 12, 2014	4.2	
4(d)	Officer's Certificate	8-K	001-3761	May 6, 2016	4.1	
4(e)	Officer's Certificate	8-K	001-3761	May 4, 2017	4.1	
4(f)	Officer's Certificate	8-K	001-3761	November 3, 2017	4.1	
4(g)	Officer's Certificate	8-K	001-3761	May 7, 2018	4.1	
4(h)	Officer's Certificate	8-K	001-3761	June 8, 2018	4.1	
4(i)	Officer's Certificate	8-K	001-3761	March 11, 2019	4.1	
4(j)	Officer's Certificate	8-K	001-3761	September 4, 2019	4.1	
4(k)	Officer's Certificate	8-K	001-3761	March 12, 2020	4.1	
4(l)	Officer's Certificate	8-K	001-3761	May 4, 2020	4.1	
4(m)	Description of Securities	10-K	001-3761	February 20, 2020	4(l)	
10(a)	TI Deferred Compensation Plan, as amended*	10-K	001-3761	February 24, 2016	10(a)	
10(b)	TI Employees Non-Qualified Pension Plan, effective January 1, 2009, as amended*	10-K	001-3761	February 24, 2016	10(b)	
10(c)	TI Employees Non-Qualified Pension Plan II*	10-K	001-3761	February 24, 2016	10(c)	
10(d)	Texas Instruments	10-K	001-3761	February 24, 2012	10(c)	

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
32(b)	Section 1350 Certification of Chief Financial Officer					X
101.ins	Instance Document					X
101.sch	XBRL Taxonomy Schema					X
101.cal	XBRL Taxonomy Calculation Linkbase					X
101.def	XBRL Taxonomy Definitions Document					X
101.lab	XBRL Taxonomy Labels Linkbase					X
101.pre	XBRL Taxonomy Presentation Linkbase					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					X

* Management compensation plans and arrangements

Notice regarding forward-looking statements

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

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

- The duration and scope of the COVID-19 pandemic, government and other third-party responses to it and the consequences for the global economy, including to our business and the businesses of our suppliers, customers and distributors;
- Economic, social and political conditions, and natural events in the countries in which we, our customers or our suppliers operate, including global trade policies;
- Market demand for semiconductors, particularly in the industrial and automotive markets, and customer demand that differs from forecasts;
- Our ability to compete in products and prices in an intensely competitive industry;
- Evolving cybersecurity and other threats relating to our information technology systems or those of our customers or suppliers;
- Our ability to successfully implement and realize opportunities from strategic, business and organizational changes, or our ability to realize our expectations regarding the amount and timing of associated restructuring charges and cost savings;
- Our ability to develop, manufacture and market innovative products in a rapidly changing technological environment, and our timely implementation of new manufacturing technologies and installation of manufacturing equipment;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Product liability, warranty or other claims relating to our products, manufacturing, delivery, services, design or communications, or recalls by our customers for a product containing one of our parts;
- Compliance with or changes in the complex laws, rules and regulations to which we are or may become subject, or actions of enforcement authorities, that restrict our ability to operate our business or subject us to fines, penalties or other legal liability;
- Changes in tax law and accounting standards that impact the tax rate applicable to us, the jurisdictions in which profits are determined to be earned and taxed, adverse resolution of tax audits, increases in tariff rates, and the ability to realize deferred tax assets;
- A loss suffered by one of our customers or distributors with respect to TI-consigned inventory;
- Financial difficulties of our distributors or semiconductor distributors’ promotion of competing product lines to our detriment; or disputes with current or former distributors;
- Losses or curtailments of purchases from key customers or the timing and amount of distributor and other customer inventory adjustments;

- Our ability to maintain or improve profit margins, including our ability to utilize our manufacturing facilities at sufficient levels to cover our fixed operating costs, in an intensely competitive and cyclical industry and changing regulatory environment;
- Our ability to maintain and enforce a strong intellectual property portfolio and maintain freedom of operation in all jurisdictions where we conduct business; or our exposure to infringement claims;
- Instability in the global credit and financial markets;
- Increases in health care and pension benefit costs;
- Our ability to recruit and retain skilled personnel, and effectively manage key employee succession; and

- Impairments of our non-financial assets.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Rafael R. Lizardi

Rafael R. Lizardi
Senior Vice President,
Chief Financial Officer
and Chief Accounting Officer

Date: February 5, 2021

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Rafael R. Lizardi and Cynthia Hoff Trochu, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2020, to sign any and all amendments to the Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 5th day of February 2021.

Signature	Title
/s/ Mark A. Blinn	
Mark A. Blinn	Director
/s/ Todd M. Bluedorn	
Todd M. Bluedorn	Director
/s/ Janet F. Clark	
Janet F. Clark	Director
/s/ Carrie S. Cox	
Carrie S. Cox	Director
/s/ Martin S. Craighead	
Martin S. Craighead	Director
/s/ Jean M. Hobby	
Jean M. Hobby	Director
/s/ Michael D. Hsu	
Michael D. Hsu	Director
/s/ Ronald Kirk	
Ronald Kirk	Director
/s/ Pamela H. Patsley	
Pamela H. Patsley	Director
/s/ Robert E. Sanchez	
Robert E. Sanchez	Director
/s/ Richard K. Templeton	
Richard K. Templeton	Director, Chairman of the Board, President and Chief Executive Officer
/s/ Rafael R. Lizardi	
Rafael R. Lizardi	Senior Vice President, Chief Financial Officer and Chief Accounting Officer

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

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

For the transition period from _____ to _____
Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

75-0289970
(I.R.S. Employer Identification No.)

12500 TI Boulevard, Dallas, Texas
(Address of principal executive offices)

75243
(Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

☒ No ☐

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$107,187,939,993 as of June 30, 2019.

933,975,619 (Number of shares of common stock outstanding as of February 14, 2020)

Part III hereof incorporates information by reference to the Registrant’s proxy statement for the 2020 annual meeting of stockholders.

PART I

ITEM 1. Business

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. Our operations began in 1930, and we are incorporated in Delaware. With headquarters in Dallas, Texas, we have design, manufacturing or sales operations in more than 30 countries. Our two reportable segments are Analog and Embedded Processing, and we report the results of our remaining business activities in Other. In 2019, we generated \$14.38 billion of revenue.

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

Our business model is designed around four sustainable competitive advantages that we believe, in combination, put us in a unique class of companies. These advantages include (i) a strong foundation of manufacturing and technology, (ii) a broad portfolio of differentiated analog and embedded processing products, (iii) reach of market channels including our sales force and TI.com and (iv) diversity and longevity of our products, markets and customer positions. Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets. We believe these markets represent the best growth opportunities over the next decade or longer, due to increasing semiconductor content. Additionally, analog and embedded processing products sold into industrial and automotive markets provide long product life cycles, intrinsic diversity and less capital-intensive manufacturing, which we believe offer stability, profitability and strong cash generation.

This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth, especially on a per-share basis, is important for maximizing shareholder value over the long term. We also believe that free cash flow (cash flow from operations less capital expenditures) will be valued only if it is productively invested in the business or returned to shareholders. TI's business model puts us in a unique class of companies with the ability to grow, generate cash and return that cash to shareholders.

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

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as “chips,” combine multiple transistors to form a complete electronic circuit. We have tens of thousands of products that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels. Our segments also reflect how management allocates resources and measures results.

Analog

Our Analog segment generated \$10.22 billion of revenue in 2019. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or using a battery. Our Analog products are used in many markets, particularly industrial, automotive and personal electronics.

Sales of our Analog products generated about 71% of our revenue in 2019. According to external sources, the market for analog semiconductors was about \$54 billion in 2019. Our Analog segment's revenue in 2019 was about 19% of this fragmented market, which is the leading position. We believe we are well positioned to increase our market share over time.

Our Analog segment includes the following major product lines: Power, Signal Chain and High Volume.

Power

Power includes products that help customers manage power in electronic systems. Our broad portfolio is designed to manage power requirements across different voltage levels using battery management solutions, portable components, power supply controls, point-of-load products, switches and interfaces, integrated protection devices, high-voltage products and mobile lighting and display products.

Signal Chain

Signal Chain includes products that sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control. Our Signal Chain products, which serve a variety of end markets, include amplifiers, data converters, interface products, motor drives, clocks and sensing products.

High Volume

High Volume includes integrated analog and standard products that are primarily sold into markets such as personal electronics, industrial and automotive. These products support applications like displays and automotive safety systems.

Embedded Processing

Our Embedded Processing segment generated \$2.94 billion of revenue in 2019. Embedded Processing products are the “brains” of many types of electronic equipment. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. Our devices vary from simple, low-cost microcontrollers used in applications such as electric toothbrushes to highly specialized, complex devices used in automotive applications such as infotainment systems and advanced driver assistance systems (ADAS). Our Embedded Processing products are used in many markets, particularly industrial and automotive.

An important characteristic of our Embedded Processing products is that our customers often invest their own research and development (R&D) to write software that operates on our products. This investment tends to increase the length of our customer relationships because many customers prefer to re-use software from one product generation to the next.

Sales of Embedded Processing products generated about 20% of our revenue in 2019. According to external sources, the market for embedded processors was about \$18 billion in 2019. Our Embedded Processing segment’s revenue in 2019 was about 16% of this fragmented market, which is among the leaders. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Connected Microcontrollers and Processors.

Connected Microcontrollers

Connected Microcontrollers includes microcontrollers, microcontrollers with integrated wireless capabilities and stand-alone wireless connectivity solutions. Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment.

Processors

Processors includes digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors are designed for specific computing activity.

Other

We report the results of our remaining business activities in Other, which includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other generated \$1.22 billion of revenue in 2019 and includes revenue from DLP[®] products (primarily used in projectors to create high-definition images), calculators and certain custom semiconductors known as application-specific integrated circuits (ASICs).

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges, restructuring charges, and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements and gains and losses from other activities, including asset dispositions.

Markets for our products

The table below lists the major markets for our products in 2019 and the estimated percentage of our 2019 revenue that the market represented. The chart also lists, in declining order of our revenue, the sectors within each market.

Market	Sector
Industrial (36% of TI revenue)	Factory automation & control Building automation Grid infrastructure Medical Aerospace & defense Test & measurement Appliances Pro audio, video & signage Motor drives Power delivery Retail automation & payments Industrial transport Lighting
Automotive (21% of TI revenue)	Infotainment & cluster Advanced driver assistance systems (ADAS) Passive safety Hybrid, electric & powertrain systems Body electronics & lighting
Personal electronics (23% of TI revenue)	Mobile phones Portable electronics PC & notebooks Connected peripherals & printers Home theatre & entertainment TV Tablets Wearables (non-medical) Data storage Gaming
Communications equipment (11% of TI revenue)	Wireless infrastructure Wired networking Broadband fixed line access Datacom module
Enterprise systems (6% of TI revenue)	Data center & enterprise computing Enterprise projectors Enterprise machine
Other (calculators and other) (3% of TI revenue)	

Market characteristics

Competitive landscape

Despite recent consolidation, the analog and embedded processing markets remain highly fragmented. As a result, we face significant global competition from dozens of large and small companies, including both broad-based suppliers

and niche suppliers. Our competitors also include emerging companies, particularly in Asia, that sell products into the same markets in which we operate.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and depth of its channels to market, technological innovation, product development execution, technical support, customer service, quality, reliability, manufacturing capacity and capabilities and price. In addition, manufacturing process and package technologies that provide differentiated levels of performance and a structural cost advantage are competitive factors for our Analog products, and customers' prior investments in software development is a competitive factor for our Embedded Processing products.

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing processes. Semiconductor prices and manufacturing costs tend to decline over time as manufacturing processes and product life cycles mature.

Market cycle

The "semiconductor cycle" refers to the ebb and flow of supply and demand and the building and depleting of inventories. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. These are typically referred to as upturns and downturns in the semiconductor cycle. The semiconductor cycle could be affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

We employ several strategies to dampen the effect of the semiconductor cycle on TI. We focus our resources on analog and embedded processing products and industrial and automotive markets. These products and markets serve a large and diverse customer base, which reduces our dependence on the performance of a single market or small group of customers. Industrial and automotive markets also benefit from long product life cycles, which help to smooth the impact of cyclicalities. In addition, we plan manufacturing facility and equipment expansion ahead of demand, as well as utilize consignment inventory programs to give us improved insight into customer demand and more accurately manage factory loadings.

Seasonality

Our revenue is subject to some seasonal variation. Historically, our sequential revenue growth rate tends to be weaker in the first and fourth quarters when compared with the second and third quarters.

Customers, sales and distribution

We sell our products to about 100,000 customers. Our customer base is diverse, with more than one-third of our revenue derived from customers outside our largest 100.

We market and sell our products through direct sales channels, including our broad sales force and our website, and through distributors. In 2019, about 65% of our sales were fulfilled through our distributors, and they maintain inventory of our products.

Over the past several years, we have been investing in new capabilities and evolving our distribution network to better align with our strategy to establish closer, more direct relationships with our customers. Closer direct customer relationships give us better insight into customer needs and allow us to provide better service and greater assurance of supply, among other benefits. As we expand these direct customer relationships over the next several years, we will have less business flowing through the distribution channel and therefore will require fewer distributors.

Our investments in new and improved capabilities to directly support our customers include website and e-commerce enhancements as well as inventory consignment programs and order fulfillment services.

Manufacturing

Semiconductor manufacturing begins with a sequence of photolithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is packaged and tested. The entire process takes place in highly specialized facilities, with most products requiring about two to three months for completion.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation.

We invest in manufacturing technologies and do most of our manufacturing in-house. This strategic decision to directly control our manufacturing helps ensure a consistent supply of products for our customers and also allows us to invest in technology that differentiates the features of our products. We have focused on creating a competitive manufacturing cost advantage by investing in our advanced analog 300-millimeter capacity, which has about a 40% cost advantage per unpackaged chip over 200-millimeter. To strengthen this advantage, we are moving forward with our plan to build our new 300-millimeter wafer fabrication facility in Richardson, Texas, as 300-millimeter wafers will continue to support the majority of our Analog growth.

We expect to continue to maintain sufficient internal manufacturing capacity to meet the majority of our production needs and to obtain manufacturing equipment to support new technology developments and revenue growth. To supplement our manufacturing capacity and maximize our responsiveness to customer demand, we use the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2019, we sourced about 20% of our total wafers from external foundries, most of which support our Embedded Processing segment, and about 40% of our assembly/test services from subcontractors.

Inventory

Our objectives for inventory are to maintain high levels of customer service and stable lead times, minimize inventory obsolescence and improve manufacturing asset utilization. To meet these objectives and to allow greater flexibility in periods of high demand, we build ahead of demand long-lived, low-volume products and maintain inventory of other products that have a broad customer base and low risk of obsolescence. Further, we have improved insight into demand and are better able to manage our factory loadings because over time we have increased consignment inventory programs and are building closer, more direct relationships with our customers. In 2019, about 65% of TI revenue was fulfilled from consignment programs. Our strategy and expected customer demand will cause our inventory levels to fluctuate over time.

Backlog

We define backlog as of a particular date as purchase orders with a customer-requested delivery date within a specified length of time. Our backlog at any particular date may not be indicative of revenue for any future period. As customer requirements and industry conditions change, orders may be subject to cancellation or modification of terms such as pricing, quantity or delivery date. Customer order placement practices continually evolve based on customers' individual business needs and capabilities, as well as industry supply and capacity considerations. Further, our consignment programs do not result in backlog because the order occurs at the same time as delivery, i.e., when the customer pulls the product from consigned inventory. Our backlog of orders was \$1.0 billion at December 31, 2019, and \$1.5 billion at December 31, 2018.

Raw materials

We purchase materials, parts and supplies from a number of suppliers. In some cases we purchase such items from sole-source suppliers. The materials, parts and supplies essential to our business are generally available at present, and we believe that such materials, parts and supplies will be available in the foreseeable future.

Intellectual property

We own many patents, and have many patent applications pending, in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and continually add patents to that

portfolio. We also have license agreements, which vary in duration, involving rights to our portfolio or those of other companies. We do not consider our business materially dependent upon any one patent or patent license.

We often participate in industry initiatives to set technical standards. Our competitors may participate in the same initiatives. Participation in these initiatives may require us to license certain of our patents to other companies on reasonable and non-discriminatory terms.

We own trademarks that are used in the conduct of our business. These trademarks are valuable assets, the most important of which are “Texas Instruments” and our corporate monogram.

Executive officers of the Registrant

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

Name	Age	Position
Niels Anderskov	50	Senior Vice President
Ahmad S. Bahai	57	Senior Vice President
Ellen L. Barker	57	Senior Vice President and Chief Information Officer
Kyle M. Flessner	49	Senior Vice President
Haviv Ilan	51	Senior Vice President
Hagop H. Kozanian	37	Senior Vice President
Rafael R. Lizardi	47	Senior Vice President, Chief Financial Officer and Chief Accounting Officer
Amichai Ron	42	Senior Vice President
Richard K. Templeton	61	Director, Chairman of the Board, President and Chief Executive Officer
Cynthia Hoff Trochu	56	Senior Vice President, Secretary and General Counsel
Julie M. Van Haren	51	Senior Vice President
Darla H. Whitaker	54	Senior Vice President
Bing Xie	52	Senior Vice President

The term of office of these officers is from the date of their election until their successor shall have been elected and qualified. All have been employees of the company for more than five years. Messrs. Templeton and Xie and Ms. Whitaker have served as executive officers of the company for more than five years. Ms. Trochu became an executive officer of the company in 2015. Messrs. Anderskov, Ilan and Lizardi and Ms. Barker and Van Haren became executive officers of the company in 2017. Messrs. Bahai, Flessner and Kozanian became executive officers of the company in 2018. Mr. Ron became an executive officer in 2019. Mr. Anderskov was previously an executive officer of the company from 2012 to 2014.

Employees

At December 31, 2019, we had 29,768 employees.

Available information

Our internet address is www.ti.com. Information on our website is not part of this report. We make available free of charge through our Investor Relations website our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. Also available through the TI Investor Relations website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports.

Available on our website at www.ti.com/corporategovernance: (i) our Corporate Governance Guidelines; (ii) charters for the Audit, Compensation, and Governance and Stockholder Relations Committees of our board of directors; (iii) our Code of Conduct; and (iv) our Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199, Attention: Investor Relations.

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 into 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 TI, a company with broad international operations. Like many companies, we are susceptible to a potential downturn associated with macroeconomic weakness, which may affect 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 results, dividends or share repurchases, and other factors, many of which are beyond our control.

Our global operations subject us to risks associated with domestic or international political, social, economic or other conditions.

We have facilities in more than 30 countries. About 85% of our revenue comes from shipments to locations outside the United States; shipments of products into China represent a large portion of our revenue. Certain countries where we operate have experienced, and other countries may experience, increasing protectionism that affects global trade and macroeconomic conditions through the enactment of tariffs, import or export restrictions, trade embargoes and sanctions, restrictions on cross-border investment and other trade barriers. This protectionism impacts our ability to deliver products and product support into China, could cause Chinese customers to seek alternate suppliers and could otherwise adversely affect our operations and financial results.

We are exposed to political, social and economic conditions, security risks, terrorism or other hostile acts, health conditions, labor conditions, and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate. In addition, our global operations expose us to periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business. The remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

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 this competition will continue to increase from large competitors and from small competitors serving niche markets, and also from emerging companies, particularly in Asia, that sell products into the same markets in which we operate. For example, we may face increased competition as a result of China actively promoting and reshaping its domestic semiconductor industry through policy changes and investment. These actions, in conjunction with trade tensions, may restrict us from participating in the China market or may prevent us from competing effectively. Certain competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products, and consolidation among our competitors may allow them to compete more effectively. 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.

Changes in expected demand for our products could have a material adverse effect on our results of operations.

Our customers include companies in a wide range of end markets and sectors within those markets. If demand in one or more sectors within our end markets declines or the rate of growth slows, our results of operations may be adversely affected. The cyclical nature of the semiconductor market occasionally leads to significant and rapid increases and decreases in product demand. Additionally, the loss or significant curtailment of purchases by one or more of our large customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, the timing of customer or distributor inventory adjustments, or trade restrictions, may adversely affect our results of operations and financial condition.

Our results of operations also might suffer because of a general decline in customer demand resulting from, for example: uncertainty regarding the stability of global credit and financial markets; natural events or domestic or international political, social, economic or other conditions; breaches of customer information technology systems that disrupt customer operations; or a customer's inability to access credit markets and other sources of needed liquidity.

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 operating results and our reputation could be adversely affected by breaches, disruptions or other incidents relating to our information technology systems.

Breaches, disruptions or other incidents relating to our information technology systems or the systems of our customers, vendors and other third parties could be caused by factors such as computer viruses, system failures, restricted network access, unauthorized access, terrorism, employee malfeasance, or human error. These events could, among other things, compromise our information technology networks; result in corrupt or lost data or the unauthorized release of our, our customers' or our suppliers' confidential or proprietary information; cause a disruption to our manufacturing and other operations; result in the release of personal data; or cause us to incur costs associated with increased protection, remediation, regulatory inquiries or penalties, or claims for damages, any of which could adversely affect our operating results and our reputation. Cybersecurity or other threats to our information technology systems or the systems of our customers, vendors and other third parties are frequent and constantly evolving, thereby increasing the difficulty of defending against them.

Our ability to successfully implement strategic, business and organizational changes could affect our business plans and results of operations.

From time to time, we undertake strategic, business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our objectives. Our failure to successfully implement these changes could adversely affect our business plans and operating results. We may not achieve or sustain the expected growth, cost savings or other benefits of strategic, business and organizational changes, and restructuring charges could differ materially in amount and timing from our expectations.

Our results of operations could be affected by natural events in the locations in which we operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as severe weather, geological events or health epidemics that could disrupt operations. A natural disaster that results in a prolonged disruption, particularly where we have principal manufacturing and design operations, as listed in Item 2. Properties, may adversely affect our results and financial condition.

Rapid technological change in markets we serve requires us to develop new technologies and products.

Rapid technological change in markets we serve could contribute to shortened product life cycles and a decline in average selling prices of our products. Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a timely manner. We make significant investments in research and development to improve existing technology and products, develop new products to meet changing customer demands, and improve our production processes. In some cases, we might not realize a return or the expected return on our investments because they are generally made before commercial viability can be assured. Further, projects that are commercially viable may not contribute to our operating results until at least a few years after they are completed.

We face supply chain and manufacturing risks.

We rely on third parties to supply us with goods and services in a cost-effective and timely manner. Our access to needed goods and services may be adversely affected by potential disputes with suppliers or disruptions in our suppliers' operations as a result of, for example: quality excursions; uncertainty regarding the stability of global credit and financial markets; domestic or international political, social, economic and other conditions; natural events or health epidemics in the locations in which our suppliers operate; or limited or delayed access to key raw materials, natural resources and utilities. Additionally, a breach or other incident relating to our suppliers' information technology systems could result in a release of confidential or proprietary information. If our suppliers are unable to

access credit markets and other sources of needed liquidity, we may be unable to obtain needed supplies, collect accounts receivable or access needed technology.

In particular, our manufacturing processes and critical manufacturing equipment require that certain key raw materials, natural resources and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if one or more of our customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Our 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 products, and we depend on third parties to provide advanced logic manufacturing process technology development. We do not have long-term contracts with all of these suppliers, and the number of alternate suppliers is limited. Reliance on these suppliers involves risks, including possible shortages of capacity in periods of high demand, suppliers' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost effective, and appropriate manner, the possibility of suppliers' imposition of increased costs on us and the unauthorized disclosure or use of our intellectual property.

Our results of operations and our reputation could be affected by warranty claims, product liability claims, product recalls or legal proceedings.

Claims based on warranty, product liability, epidemic or delivery failures, or other grounds relating to our products, manufacturing, services, designs, communications or cybersecurity could lead to significant expenses as we defend the claims or pay damage awards or settlements. In the event of a claim, we would also incur costs if we decide to compensate the affected customer or end consumer. Any such claims may also cause us to write off the value of related inventory. We 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 a customer to recall a product containing a TI part, for example, with respect to products used in automotive applications or handheld electronics, which may cause us to incur costs and expenses relating to the recall. Any of these events could adversely affect our results of operations, financial condition and reputation.

Our operations could be affected by the complex laws, rules and regulations to which our business is subject.

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, the environment, safety and health; trade; bribery and corruption; financial reporting; tax; data privacy and protection; labor and employment; competition; market access; intellectual property ownership and infringement; and the movement of currency. Compliance with these laws, rules and regulations may be onerous and expensive and could restrict our ability to manufacture or ship our products and operate our business. If we fail to comply or if we become subject to enforcement activity, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, natural resources, or materials or gases used or emitted into the environment in connection with the manufacture of our products. A substitute for a prohibited raw material or process might not be available, or might not be available at reasonable cost.

Our results of operations could be affected by changes in tax-related matters.

We have facilities in more than 30 countries 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. If our tax rate increases, our results of operations could be adversely affected. A number of factors could cause our tax rate to increase, including a change in the jurisdictions in which our profits are earned and taxed; a change in the mix of profits from those jurisdictions; changes in available tax credits or deductions, including for amounts relating to stock compensation; changes in applicable tax rates; changes in tariff regulations or surcharges; changes in accounting principles; or adverse resolution of audits by taxing authorities. We have deferred tax assets on our balance sheet. Changes in applicable tax

laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also affect our results of operations.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. These laws and regulations can be complex and subject to interpretation. Changes in these laws and regulations, including those that align with the Organisation for Economic Cooperation and Development's Base Erosion and Profit Shifting recommendations, could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. Each quarter we forecast our tax expense based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax expense will change.

Our results of operations and financial condition could be adversely affected if a customer or a distributor suffers a loss with respect to our inventory.

We have consignment inventory programs in place for some of our largest customers and distributors. If a customer or distributor were to experience a loss with respect to TI-consigned inventory, our results of operations and financial condition would be adversely affected if we do not recover the full value of the lost inventory from the customer, distributor or insurer, or if our recovery is delayed.

Our results of operations could be adversely affected by our distributors' promotion of competing product lines or our distributors' financial performance.

In 2019, about 65% of our revenue was generated from sales of our products through distributors. Our distributors carry competing product lines, and our sales could be affected if our distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us. Disputes with significant distributors could be disruptive or harmful to our business.

Our margins vary.

Our profit margins vary due to a number of factors, which may include customer demand and shipment volume; our manufacturing processes; product mix; inventory levels; tariffs; and new accounting pronouncements or changes in existing accounting practices or standards. In addition, we operate in a highly competitive market environment that might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these fixed costs do not decline with reductions in customer demand or factory loadings, and can adversely affect profit margins as a result.

Our performance depends in part on our ability to enforce our intellectual property rights and to maintain freedom of operation.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio in all jurisdictions where we conduct business. There can be no assurance that, as our business evolves, we will obtain the necessary intellectual property rights, or that 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. We, directly or indirectly, face infringement claims from third parties, including non-practicing entities that have acquired patents to pursue enforcement actions against other companies. We also face infringement claims where we or our customers make, use or sell products and where the intellectual property laws may be less established or less predictable. These assertions, whether or not of any merit, expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have a contractual or other legal obligation to indemnify them against damages resulting from infringement claims.

We actively enforce and protect our own intellectual property rights. However, our efforts cannot prevent all misappropriation or improper use of our protected technology and information, including, for example, third parties' use of our patented or copyrighted technology, or our trade secrets in their products without the right to do so, or third parties' sale of counterfeit products bearing our trademark. The risk of unfair copying or cloning may impede our ability to sell our products. The laws of countries where we operate may not protect our intellectual property rights to the same extent as U.S. laws.

Our debt could affect our operations and financial condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including our other risk factors, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise would be invested in our operations or returned to shareholders, or could cause us to raise funds by, for example, issuing new debt or equity or selling assets.

Our results of operations and liquidity could be affected by changes in the financial markets.

We maintain bank accounts, one or more multiyear revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our operations, invest in our business, make strategic acquisitions, service our debt obligations and meet our cash return objectives depends upon continuous access to our bank and investment accounts, and may depend on access to our bank credit lines that 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 and our ability to access the capital markets or redeem our investments could be restricted.

Increases in health care and pension benefit costs could affect our results of operations and financial condition.

Federal and state health care reform programs could increase our costs with regard to medical coverage of our employees, which could reduce profitability and affect our results of operations and financial condition. In addition, obligations related to our pension and other postretirement plans reflect assumptions that affect the planned funding and costs of these plans, including the actual return on plan assets, discount rates, plan participant population demographics and changes in pension regulations. Changes in these assumptions may affect plan funding, cash flow and results of operations, and our costs and funding obligations could increase significantly if our plans' actual experience differs from these assumptions.

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, as well as the effective management of succession for key employees. Skilled and experienced personnel in our industry, including engineering, management, marketing, technical and staff personnel, are in high demand and competition for their talents is intense. There can be no assurance that we will be able to successfully retain and recruit the key engineering, management and technical personnel that we require to execute our business strategy. Our ability to recruit internationally or deploy employees to various locations may be limited by immigration laws.

Material impairments of our goodwill or intangible assets could adversely affect our results of operations.

We have a significant amount of goodwill and intangible assets on our consolidated balance sheet. Charges associated with impairments of goodwill or intangible assets could adversely affect our financial condition and results of operations.

ITEM 1B. Unresolved staff comments

Not applicable.

ITEM 2. Properties

Our principal executive offices are located at 12500 TI Boulevard, Dallas, Texas. The following table indicates the general location of our principal manufacturing and design operations and the reportable segments that make major use of them. Except as otherwise indicated, we own these facilities.

	Analog	Embedded Processing
North Texas (Dallas, Richardson and Sherman)	X	X
Houston, Texas		X
Tucson, Arizona *	X	
Santa Clara, California	X	
South Portland, Maine	X	
Chengdu, China †	X	X
Shanghai, China *	X	X
Freising, Germany	X	X
Bangalore, India †	X	X
Aizu, Japan	X	X
Miho, Japan	X	X
Kuala Lumpur, Malaysia †	X	X
Melaka, Malaysia †	X	
Aguascalientes, Mexico *	X	
Baguio, Philippines †	X	X
Pampanga (Clark), Philippines †	X	X
Taipei, Taiwan †	X	X

* Leased.

† Portions of the facilities are leased and owned. This may include land leases.

Our facilities in the United States contained approximately 12.9 million square feet at December 31, 2019, of which approximately 0.5 million square feet were leased. Our facilities outside the United States contained approximately 9.7 million square feet at December 31, 2019, of which approximately 1.4 million square feet were leased.

At the end of 2019, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates, generally within the next five years. We believe our current properties are suitable and adequate for their intended purpose.

ITEM 3. Legal proceedings

We are involved in various inquiries and proceedings that arise in the ordinary course of our business. We believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

ITEM 4. Mine safety disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's common equity, related stockholder matters and issuer purchases of equity securities

TI common stock is quoted on The Nasdaq Global Select Market under the ticker symbol TXN. At December 31, 2019, we had 13,098 stockholders of record.

The following table contains information regarding our purchases of our common stock during the fourth quarter of 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
October 1, 2019 through October 31, 2019	1,420,035	\$ 124.15	1,413,384	\$ 13.50 billion
November 1, 2019 through November 30, 2019	2,013,945	118.57	2,013,945	13.26 billion
December 1, 2019 through December 31, 2019	618,048	120.37	618,048	13.18 billion
Total	4,052,028 (b)	\$ 120.80 (b)	4,045,377	\$ 13.18 billion (c)

- (a) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$6.0 billion of additional shares of TI common stock announced September 21, 2017. On September 20, 2018, our board of directors authorized the purchase of an additional \$12.0 billion of our common stock.
- (b) In addition to open-market purchases, 6,651 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.
- (c) As of December 31, 2019, this amount consisted of the remaining portion of the \$6.0 billion authorized in September 2017 and the \$12.0 billion authorized in September 2018. No expiration date has been specified for these authorizations.

ITEM 6. Selected financial data

(Millions of dollars, except share and per-share amounts)	For Years Ended December 31,				
	2019	2018	2017	2016	2015
Cash flow data:					
Cash flows from operating activities	\$ 6,649	\$ 7,189	\$ 5,363	\$ 4,614	\$ 4,397
Capital expenditures	847	1,131	695	531	551
Free cash flow (a)	5,802	6,058	4,668	4,083	3,846
Dividends paid	3,008	2,555	2,104	1,646	1,444
Stock repurchases	2,960	5,100	2,556	2,132	2,741
Income statement data:					
Revenue by segment:					
Analog	10,223	10,801	9,900	8,536	8,339
Embedded Processing	2,943	3,554	3,498	3,023	2,787
Other	1,217	1,429	1,563	1,811	1,874
Revenue	14,383	15,784	14,961	13,370	13,000
Gross profit	9,164	10,277	9,614	8,257	7,575
Operating expenses (R&D and SG&A)	3,189	3,243	3,202	3,098	2,995
Acquisition charges	288	318	318	319	329
Restructuring charges/other	(36)	3	11	(15)	(71)
Operating profit	5,723	6,713	6,083	4,855	4,322
Net income	\$ 5,017	\$ 5,580	\$ 3,682	\$ 3,595	\$ 2,986

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

Net income	\$ 5,017	\$ 5,580	\$ 3,682	\$ 3,595	\$ 2,986
Income allocated to RSUs	(31)	(42)	(33)	(44)	(42)
Income allocated to common shares for diluted EPS	\$ 4,986	\$ 5,538	\$ 3,649	\$ 3,551	\$ 2,944
Average diluted shares outstanding (millions)	952	990	1,012	1,021	1,043
Diluted EPS	\$ 5.24	\$ 5.59	\$ 3.61	\$ 3.48	\$ 2.82
Cash dividends declared per common share	\$ 3.21	\$ 2.63	\$ 2.12	\$ 1.64	\$ 1.40

- (a) Free cash flow is a non-GAAP measure derived by subtracting capital expenditures from cash flows from operating activities.

(Millions of dollars)	December 31,				
	2019	2018	2017	2016	2015
Balance sheet data:					
Cash, cash equivalents and short-term investments	\$ 5,387	\$ 4,233	\$ 4,469	\$ 3,490	\$ 3,218
Total assets	18,018	17,137	17,642	16,431	16,230
Current portion of long-term debt	500	749	500	631	1,000
Long-term debt	5,303	4,319	3,577	2,978	3,120

See Management's discussion and analysis of financial condition and results of operations and Financial statements and supplementary data.

ITEM 7. Management's discussion and analysis of financial condition and results of operations

Overview

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

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

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

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

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

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

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

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.

- When we discuss our results:
 - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
 - New products do not tend to have a significant impact on our revenue in any given period because we sell such a large number of products.
 - From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the “mix” of products shipped.
 - Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.
- All dollar amounts in the tables are stated in millions of U.S. dollars.

Our results of operations discussed below provides details of our financial results for 2019 and 2018 and year-to-year comparisons between 2019 and 2018. Discussion of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Form 10-K can be found in “Management’s discussion and analysis of financial condition and results of operations” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Results of operations

In 2019, we continued our focus on analog and embedded processing products and the industrial and automotive markets. Together, these products and markets represent highly diverse opportunities with thousands of applications and long-term growth potential. Gross margin of 63.7% reflected the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

Our focus on Analog and Embedded Processing allows us to generate strong cash flow from operations. Our cash flow from operations of \$6.65 billion underscored the strength of our business model. Free cash flow was \$5.80 billion and represented 40.3% of revenue, up from 38.4% a year ago. During 2019, we returned \$5.97 billion to shareholders through a combination of stock repurchases and dividends. Our strategy is to return all free cash flow to shareholders. Our dividends represented 52% of free cash flow, underscoring their sustainability. For an explanation of free cash flow, see the Non-GAAP financial information section.

Details of financial results – 2019 compared with 2018

Revenue of \$14.38 billion decreased \$1.40 billion, or 9%, primarily due to lower revenue from Embedded Processing and Analog.

Gross profit of \$9.16 billion was down \$1.11 billion, or 11%, primarily due to lower revenue. As a percentage of revenue, gross profit decreased to 63.7% from 65.1%.

Operating expenses (R&D and SG&A) were \$3.19 billion compared with \$3.24 billion.

Acquisition charges of \$288 million were non-cash. See Note 7 to the financial statements.

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

Operating profit was \$5.72 billion, or 39.8% of revenue, compared with \$6.71 billion, or 42.5% of revenue.

Other income and expense (OI&E) was \$175 million of income compared with \$98 million of income. See Note 12 to the financial statements.

Interest and debt expense of \$170 million increased \$45 million due to the issuance of additional long-term debt.

Our provision for income taxes was \$711 million compared with \$1.11 billion. The decrease was due to lower income before income taxes and a lower annual operating tax rate. Our annual operating tax rate, which does not include discrete tax items, was 16% compared with 20% in 2018. We use “annual operating tax rate” to describe the estimated annual effective tax rate, as explained further in the Non-GAAP financial information section.

Our effective tax rate, which includes discrete tax items, was 12% in 2019 compared with 17% in 2018. See Note 4 to the financial statements for a reconciliation of the U.S. statutory income tax rate to our effective tax rate.

Net income was \$5.02 billion compared with \$5.58 billion. EPS was \$5.24 compared with \$5.59.

Segment results – 2019 compared with 2018

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

	2019	2018	Change
Revenue	\$ 10,223	\$ 10,801	(5)%
Operating profit	4,477	5,109	(12)%
Operating profit % of revenue	43.8 %	47.3 %	

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

Embedded Processing (includes Connected Microcontrollers and Processors product lines)

	2019	2018	Change
Revenue	\$ 2,943	\$ 3,554	(17)%
Operating profit	907	1,205	(25)%
Operating profit % of revenue	30.8 %	33.9 %	

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

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

	2019	2018	Change
Revenue	\$ 1,217	\$ 1,429	(15)%
Operating profit *	339	399	(15)%
Operating profit % of revenue	27.9 %	27.9 %	

* Includes acquisition charges and restructuring charges/other

Other revenue decreased \$212 million, and operating profit decreased \$60 million.

Financial condition

At the end of 2019, total cash (cash and cash equivalents plus short-term investments) was \$5.39 billion, an increase of \$1.15 billion from the end of 2018.

Accounts receivable were \$1.07 billion, a decrease of \$133 million compared with the end of 2018. Days sales outstanding were 29 at the end of both 2019 and 2018.

Inventory was \$2.00 billion, a decrease of \$216 million from the end of 2018. Days of inventory at the end of 2019 were 144 compared with 152 at the end of 2018.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and a variable rate, revolving credit facility. Cash flows from operating activities for 2019 were \$6.65 billion, a decrease of \$540 million primarily due to lower net income.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2024. This credit facility also serves as support for the issuance of commercial paper. As of December 31, 2019, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for 2019 used \$1.92 billion compared with \$78 million in 2018. Capital expenditures were \$847 million compared with \$1.13 billion in 2018 and were primarily for semiconductor manufacturing equipment in both periods. Short-term investments used cash of \$1.14 billion in 2019 and provided cash proceeds of \$1.07 billion in 2018.

Financing activities for 2019 used \$4.73 billion compared with \$6.33 billion in 2018. In 2019, we received net proceeds of \$1.49 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$750 million. In 2018, we received net proceeds of \$1.50 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$500 million. Dividends paid in 2019 were \$3.01 billion compared with \$2.56 billion in 2018, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used \$2.96 billion to repurchase 27.4 million shares of our common stock compared with \$5.10 billion used in 2018 to repurchase 49.5 million shares. Employee exercises of stock options provided cash proceeds of \$539 million compared with \$373 million in 2018.

We had \$2.44 billion of cash and cash equivalents and \$2.95 billion of short-term investments as of December 31, 2019. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

Non-GAAP financial information

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

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

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

	For Years Ended December 31,	
	2019	2018
Cash flow from operations (GAAP)	\$ 6,649	\$ 7,189
Capital expenditures	(847)	(1,131)
Free cash flow (non-GAAP)	\$ 5,802	\$ 6,058
Revenue	\$ 14,383	\$ 15,784
Cash flow from operations as a percentage of revenue (GAAP)	46.2 %	45.5 %
Free cash flow as a percentage of revenue (non-GAAP)	40.3 %	38.4 %

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

Long-term contractual obligations

Contractual Obligations	Payments Due by Period				
	2020	2021/2022	2023/2024	Thereafter	Total
Long-term debt (a)	\$ 669	\$ 1,349	\$ 1,060	\$ 5,488	\$ 8,566
Purchase commitments (b)	452	407	97	109	1,065
Transition tax on indefinitely reinvested earnings (c)	—	100	237	169	506
Operating leases (d)	75	114	66	131	386
Deferred compensation plans (e)	23	63	54	135	275
Total (f)	\$ 1,219	\$ 2,033	\$ 1,514	\$ 6,032	\$ 10,798

- (a) Principal and related interest payments for our long-term debt obligations, including amounts classified as the current portion of long-term debt.
- (b) Includes payments for software licenses and contractual arrangements with suppliers when there is a fixed, non-cancellable payment schedule or when minimum payments are due with a reduced delivery schedule. Excludes cancellable arrangements. See Note 11 to the financial statements.
- (c) Includes payments for the one-time transition tax on our indefinitely reinvested earnings related to the 2017 enactment of the U.S. Tax Cuts and Jobs Act. See Note 4 to the financial statements.
- (d) Includes minimum payments for leased facilities and equipment and purchases of industrial gases under contracts accounted for as operating leases. See Note 10 to the financial statements.
- (e) Estimated payments for certain liabilities that existed as of December 31, 2019.
- (f) Excludes \$303 million of uncertain tax liabilities under ASC 740, as well as any planned future funding contributions to retirement benefit plans. Amounts associated with uncertain tax liabilities have been excluded because of the difficulty in making reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Regarding future funding of retirement benefit plans, we plan to contribute about \$20 million in 2020, but funding projections beyond 2020 are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plans' asset performance, interest rates and potential U.S. and non-U.S. legislation.

Critical accounting policies

Our accounting policies are more fully described in Note 2 of the consolidated financial statements. As disclosed in Note 2, the preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other estimates and assumptions would have a material impact on the financial statements. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require a higher degree of judgment.

Revenue recognition

Based on management's assessment of the revenue recognition criteria, we generally recognize revenue from sales of our products to distributors upon shipment or delivery to the distributors. For our consignment arrangements with distributors, delivery occurs and revenue is recognized when the distributor pulls product from consignment

inventory that we store at designated locations. Recognition is not contingent upon resale of the products to the distributors' customers in either scenario.

Revenue is recognized net of allowances, which are management's estimates of future credits to be granted to distributors under programs common in the semiconductor industry. These allowances are not material and generally include special pricing arrangements, product returns due to quality issues, and incentives designed to maximize growth opportunities.

Allowances are based on analysis of historical data and contractual terms and are recorded when revenue is recognized. We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

Income taxes

In determining net income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the interpretation and application of complex tax laws, and significant judgment is necessary to (i) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (ii) measure the amount of tax benefit that qualifies for recognition. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different from what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. Our judgment regarding future recoverability of our deferred tax assets may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require adjustments to the deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. Statistical allowances are determined quarterly for raw materials and work-in-process based on historical disposals of inventory for salability and obsolescence reasons. For finished goods, quarterly statistical allowances are determined by comparing inventory levels of individual parts to historical shipments, current backlog and estimated future sales in order to identify inventory considered unlikely to be sold. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance, such as an end-of-life part or demand with imminent risk of cancellation. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of the net realizable value for those products. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Changes in accounting standards

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

Off-balance sheet arrangements

As of December 31, 2019, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Commitments and contingencies

See Note 11 to the financial statements for a discussion of our commitments and contingencies.

ITEM 7A. Quantitative and qualitative disclosures about market risk

Foreign exchange risk

The U.S. dollar is our functional currency for financial reporting. Our non-U.S. entities own assets or liabilities denominated in U.S. dollars or other currencies. Exchange rate fluctuations impact taxable income in those jurisdictions and consequently impact our effective tax rate.

Our balance sheet also reflects amounts remeasured from non-U.S. dollar currencies. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by forward currency exchange contracts, based on year-end 2019 balances and currency exchange rates, a hypothetical 10% plus or minus fluctuation in non-U.S. currency exchange rates relative to the U.S. dollar would result in a pretax currency exchange gain or loss of less than \$1 million.

We use these forward currency exchange contracts to reduce the earnings impact that exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. As of December 31, 2019, we had forward currency exchange contracts outstanding with a notional value of \$458 million to hedge net balance sheet exposures (including \$136 million to sell Japanese yen, \$106 million to sell Indian rupees and \$74 million to sell British pounds). Similar hedging activities existed at year-end 2018.

Interest rate risk

We have the following potential exposure to changes in interest rates: (i) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (ii) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2019, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by about \$8 million and decrease the fair value of our long-term debt by \$532 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2019 include the following:

- *Investments in mutual funds* – includes mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.
- *Investments in venture capital funds* – includes investments in limited partnerships (accounted for under either the equity method or at cost as non-marketable equity securities).
- *Equity investments* – includes non-marketable (non-publicly traded) equity securities.

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in deferred compensation liabilities such that a 10% increase or decrease in the investments' fair values would not materially affect operating results. Non-marketable equity securities and certain venture capital funds are stated at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Investments in the remaining venture capital funds are stated using the equity method. See Note 6 to the financial statements for details of equity and other long-term investments.

ITEM 8. Financial statements and supplementary data

List of financial statements

Income for each of the three years in the period ended December 31, 2019

Comprehensive income for each of the three years in the period ended December 31, 2019

Balance sheets as of December 31, 2019 and 2018

Cash flows for each of the three years in the period ended December 31, 2019

Stockholders' equity for each of the three years in the period ended December 31, 2019

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

Consolidated Statements of Income	For Years Ended December 31,		
	2019	2018	2017
(Millions of dollars, except share and per-share amounts)			
Revenue	\$ 14,383	\$ 15,784	\$ 14,961
Cost of revenue (COR)	5,219	5,507	5,347
Gross profit	9,164	10,277	9,614
Research and development (R&D)	1,544	1,559	1,508
Selling, general and administrative (SG&A)	1,645	1,684	1,694
Acquisition charges	288	318	318
Restructuring charges/other	(36)	3	11
Operating profit	5,723	6,713	6,083
Other income (expense), net (OI&E)	175	98	75
Interest and debt expense	170	125	78
Income before income taxes	5,728	6,686	6,080
Provision for income taxes	711	1,106	2,398
Net income	\$ 5,017	\$ 5,580	\$ 3,682
Earnings per common share (EPS):			
Basic	\$ 5.33	\$ 5.71	\$ 3.68
Diluted	\$ 5.24	\$ 5.59	\$ 3.61
Average shares outstanding (millions):			
Basic	936	970	991
Diluted	952	990	1,012

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

Net income	\$ 5,017	\$ 5,580	\$ 3,682
Income allocated to RSUs	(31)	(42)	(33)
Income allocated to common stock for diluted EPS	\$ 4,986	\$ 5,538	\$ 3,649

See accompanying notes.

Consolidated Statements of Comprehensive Income	For Years Ended December 31,		
(Millions of dollars)	2019	2018	2017
Net income	\$ 5,017	\$ 5,580	\$ 3,682
Other comprehensive income (loss)			
Net actuarial losses of defined benefit plans:			
Adjustments, net of tax effect of (\$37), \$35 and (\$26)	88	(98)	92
Recognized within net income, net of tax effect of (\$13), (\$15) and (\$27)	38	50	56
Prior service credit of defined benefit plans:			
Adjustments, net of tax effect of \$0, \$1 and \$1	—	(6)	(2)
Recognized within net income, net of tax effect of \$0, \$1 and \$1	—	(3)	(5)
Derivative instruments:			
Change in fair value, net of tax effect of \$0, \$1 and \$0	—	(2)	—
Recognized within net income, net of tax effect of \$0, \$0 and \$0	—	—	1
Other comprehensive income (loss), net of taxes	126	(59)	142
Total comprehensive income	\$ 5,143	\$ 5,521	\$ 3,824

See accompanying notes.

Consolidated Balance Sheets**December 31,****(Millions of dollars, except share amounts)****2019****2018****Assets**

Current assets:

Cash and cash equivalents	\$ 2,437	\$ 2,438
Short-term investments	2,950	1,795
Accounts receivable, net of allowances of (\$8) and (\$19)	1,074	1,207
Raw materials	176	181
Work in process	916	1,070
Finished goods	909	966
Inventories	2,001	2,217
Prepaid expenses and other current assets	299	440
Total current assets	8,761	8,097
Property, plant and equipment at cost	5,740	5,425
Accumulated depreciation	(2,437)	(2,242)
Property, plant and equipment	3,303	3,183
Long-term investments	300	251
Goodwill	4,362	4,362
Acquisition-related intangibles	340	628
Deferred tax assets	197	295
Capitalized software licenses	69	89
Overfunded retirement plans	218	92
Other long-term assets	468	140
Total assets	\$ 18,018	\$ 17,137

Liabilities and stockholders' equity

Current liabilities:

Current portion of long-term debt	\$ 500	\$ 749
Accounts payable	388	478
Accrued compensation	714	724
Income taxes payable	46	103
Accrued expenses and other liabilities	475	420
Total current liabilities	2,123	2,474
Long-term debt	5,303	4,319
Underfunded retirement plans	93	118
Deferred tax liabilities	78	42
Other long-term liabilities	1,514	1,190
Total liabilities	9,111	8,143

Stockholders' equity:

Preferred stock, \$25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred – None issued	—	—
Common stock, \$1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	2,110	1,950
Retained earnings	39,898	37,906
Treasury common stock at cost		
Shares: 2019 – 808,784,381; 2018 – 795,665,646	(34,495)	(32,130)

See accompanying notes.

Consolidated Statements of Cash Flows**For Years Ended December 31,****(Millions of dollars)****2019****2018****2017****Cash flows from operating activities**

Net income \$ 5,017 \$ 5,580 \$ 3,682

Adjustments to net income:

Depreciation 708 590 539

Amortization of acquisition-related intangibles 288 318 318

Amortization of capitalized software 54 46 47

Stock compensation 217 232 242

Gains on sales of assets (23) (3) —

Deferred taxes 81 (105) 112

Increase (decrease) from changes in:

Accounts receivable 133 71 (7)

Inventories 216 (282) (167)

Prepaid expenses and other current assets 265 669 76

Accounts payable and accrued expenses (93) (7) 51

Accrued compensation (15) (7) (3)

Income taxes payable (193) 158 468

Changes in funded status of retirement plans 29 36 21

Other (35) (107) (16)

Cash flows from operating activities 6,649 7,189 5,363

Cash flows from investing activities

Capital expenditures (847) (1,131) (695)

Proceeds from asset sales 30 9 40

Purchases of short-term investments (3,444) (5,641) (4,555)

Proceeds from short-term investments 2,309 6,708 4,095

Other 32 (23) (12)

Cash flows from investing activities (1,920) (78) (1,127)

Cash flows from financing activities

Proceeds from issuance of long-term debt 1,491 1,500 1,099

Repayment of debt (750) (500) (625)

Dividends paid (3,008) (2,555) (2,104)

Stock repurchases (2,960) (5,100) (2,556)

Proceeds from common stock transactions 539 373 483

Other (42) (47) (31)

Cash flows from financing activities (4,730) (6,329) (3,734)

Net change in cash and cash equivalents (1) 782 502

Cash and cash equivalents at beginning of period 2,438 1,656 1,154

Cash and cash equivalents at end of period \$ 2,437 \$ 2,438 \$ 1,656

See accompanying notes.

Consolidated Statements of Stockholders' Equity	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
(Millions of dollars, except per-share amounts)					
Balance, December 31, 2016	\$ 1,741	\$ 1,674	\$ 33,107	\$ (25,523)	\$ (526)
2017					
Net income	—	—	3,682	—	—
Dividends declared and paid (\$2.12 per share)	—	—	(2,104)	—	—
Common stock issued for stock-based awards	—	(138)	—	621	—
Stock repurchases	—	—	—	(2,556)	—
Stock compensation	—	242	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	142
Dividend equivalents on RSUs	—	—	(17)	—	—
Other	—	(2)	(6)	—	—
Balance, December 31, 2017	1,741	1,776	34,662	(27,458)	(384)
2018					
Net income	—	—	5,580	—	—
Dividends declared and paid (\$2.63 per share)	—	—	(2,555)	—	—
Common stock issued for stock-based awards	—	(55)	—	428	—
Stock repurchases	—	—	—	(5,100)	—
Stock compensation	—	232	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(59)
Dividend equivalents on RSUs	—	—	(17)	—	—
Cumulative effect of accounting changes	—	—	236	—	(30)
Other	—	(3)	—	—	—
Balance, December 31, 2018	1,741	1,950	37,906	(32,130)	(473)
2019					
Net income	—	—	5,017	—	—
Dividends declared and paid (\$3.21 per share)	—	—	(3,008)	—	—
Common stock issued for stock-based awards	—	(55)	—	594	—
Stock repurchases	—	—	—	(2,960)	—
Stock compensation	—	217	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	126
Dividend equivalents on RSUs	—	—	(17)	—	—
Other	—	(2)	—	1	—
Balance, December 31, 2019	\$ 1,741	\$ 2,110	\$ 39,898	\$ (34,495)	\$ (347)

See accompanying notes.

Notes to financial statements

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

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

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

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

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges (see Note 7); restructuring charges (see Note 12); and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

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

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. We have no material intersegment revenue. The accounting policies of the segments are consistent with those described below in the summary of significant accounting policies and practices.

Segment information

	For Years Ended December 31,		
	2019	2018	2017
Revenue:			
Analog	\$ 10,223	\$ 10,801	\$ 9,900
Embedded Processing	2,943	3,554	3,498
Other	1,217	1,429	1,563
Total revenue	<u>\$ 14,383</u>	<u>\$ 15,784</u>	<u>\$ 14,961</u>
Operating profit:			
Analog	\$ 4,477	\$ 5,109	\$ 4,468
Embedded Processing	907	1,205	1,143
Other	339	399	472
Total operating profit	<u>\$ 5,723</u>	<u>\$ 6,713</u>	<u>\$ 6,083</u>

Geographic area information

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

	For Years Ended December 31,		
	2019	2018	2017
Revenue:			
United States	\$ 1,827	\$ 2,288	\$ 1,901
Asia (a)	8,650	9,240	8,824
Europe, Middle East and Africa	2,707	3,047	2,907
Japan	796	869	1,049
Rest of world	403	340	280
Total revenue	<u>\$ 14,383</u>	<u>\$ 15,784</u>	<u>\$ 14,961</u>

- (a) Revenue from products shipped into China was \$7.2 billion, \$7.0 billion and \$6.6 billion in 2019, 2018 and 2017, respectively, which includes shipments to customers that manufacture in China and then export end products to their customers around the world, as well as distributors that transship inventory through China to service other countries.

	December 31,	
	2019	2018
Property, plant and equipment:		
United States	\$ 1,998	\$ 1,812
Asia (a)	1,046	1,116
Europe, Middle East and Africa	63	84
Japan	185	157
Rest of world	11	14
Total property, plant and equipment	<u>\$ 3,303</u>	<u>\$ 3,183</u>

- (a) Property, plant and equipment at our two sites in the Philippines was \$394 million and \$437 million as of December 31, 2019 and 2018, respectively. Property, plant and equipment at our sites in China was \$304 million and \$313 million as of December 31, 2019 and 2018, respectively.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The basis of these financial statements is comparable for all periods presented herein, except for the effects of adopting a new accounting standard in 2019 related to leases.

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 these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated. We have reclassified certain amounts in the prior periods' financial statements to conform to the 2019 presentation.

The preparation of financial statements requires the use of estimates from which final results may vary.

Significant accounting policies and practices

Revenue recognition

We generate revenue primarily from the sale of semiconductor products, either directly to a customer or to a distributor, or at the conclusion of a consignment process. We have a variety of types of contracts with our customers and distributors. In determining whether a contract exists, we evaluate the terms of the arrangement, the relationship with the customer or distributor and their ability to pay.

We recognize revenue from sales of our products, including sales to our distributors, when control is transferred. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where required, when the customer has accepted the products. This transfer generally occurs at a point in time upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Payment for sales to customers and distributors is generally due on our standard commercial terms. For sales to distributors, payment is not contingent upon resale of the products.

Revenue from sales of our products that are subject to inventory consignment agreements is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that we store at designated locations. Delivery and transfer of control occur at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, we retain control over the products' disposition, including the right to pull back or relocate the products.

The revenue recognized is adjusted based on allowances, which are prepared on a portfolio basis using a most likely amount methodology based on analysis of historical data and contractual terms. These allowances, which are not material, generally include adjustments for pricing arrangements, product returns and incentives. The length of time between invoicing and payment is not significant under any of our payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

In addition, we record allowances for accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, record a charge in the period such determination is made.

We recognize shipping fees, if any, received from customers in revenue. We include the related shipping and handling costs in cost of revenue. The majority of our customers pay these fees directly to third parties.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was \$30 million, \$34 million and \$39 million in 2019, 2018 and 2017, respectively.

Income taxes

We account for income taxes using an asset and liability approach. We record the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences of events that have been recognized in the financial statements or tax returns. We record a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Other assessed taxes

Some transactions require us to collect taxes such as sales, value-added and excise taxes from our customers. These transactions are presented in our Consolidated Statements of Income on a net (excluded from revenue) basis.

Leases

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

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

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

Earnings per share (EPS)

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

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

	For Years Ended December 31,								
	2019			2018			2017		
	Net Income	Shares	EPS	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:									
Net income	\$ 5,017			\$ 5,580			\$ 3,682		
Income allocated to RSUs	(32)			(43)			(34)		
Income allocated to common stock	<u>\$ 4,985</u>	<u>936</u>	<u>\$ 5.33</u>	<u>\$ 5,537</u>	<u>970</u>	<u>\$ 5.71</u>	<u>\$ 3,648</u>	<u>991</u>	<u>\$ 3.68</u>
Dilutive effect of stock compensation plans		16			20			21	
Diluted EPS:									
Net income	\$ 5,017			\$ 5,580			\$ 3,682		
Income allocated to RSUs	(31)			(42)			(33)		
Income allocated to common stock	<u>\$ 4,986</u>	<u>952</u>	<u>\$ 5.24</u>	<u>\$ 5,538</u>	<u>990</u>	<u>\$ 5.59</u>	<u>\$ 3,649</u>	<u>1,012</u>	<u>\$ 3.61</u>

Potentially dilutive securities representing 6 million, 4 million and 6 million shares of common stock that were outstanding in 2019, 2018 and 2017 respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

Investments

We present investments on our Consolidated Balance Sheets as cash equivalents, short-term investments or long-term investments, which are detailed below. See Note 6 for additional information.

- *Cash equivalents and short-term investments* – We consider investments in available-for-sale debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in available-for-sale debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments. The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns.

- *Long-term investments* – Long-term investments consist of mutual funds, venture capital funds and non-marketable equity securities.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory.

We review inventory quarterly for salability and obsolescence. A statistical allowance is provided for inventory considered unlikely to be sold. The statistical allowance is based on an analysis of historical disposal activity, historical customer shipments, as well as estimated future sales. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. We write off inventory in the period in which disposal occurs.

Property, plant and equipment; acquisition-related intangibles; and other capitalized costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

We regularly review whether facts or circumstances exist that indicate the carrying values of property, plant and equipment or other long-lived assets, including intangible assets, are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Any impairment charge is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise. We perform our annual goodwill impairment test as of October 1 for our reporting units, which compares the fair value for each reporting unit to its associated carrying value, including goodwill. See Note 7 for additional information.

Foreign currency

The functional currency for our non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than the U.S. dollar are remeasured into the functional currency. Current assets (except inventories), deferred taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Property, plant and equipment with associated depreciation and inventories are valued at historical exchange rates. Revenue and expense accounts other than depreciation for each month are remeasured at the appropriate daily rate of exchange. Currency exchange gains and losses from remeasurement are credited or charged to OI&E.

Derivatives and hedging

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

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

We do not use derivatives for speculative or trading purposes.

Changes in accounting standards – adopted standards for current period

Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842)

We adopted ASU No. 2016-02, *Leases* (ASC 842) effective January 1, 2019, using the modified retrospective transition method applied to leases existing at, or entered into after, the adoption date. The reported results for 2019 reflect the application of the new accounting guidance, while the reported results for prior periods are not adjusted and continue to be reported in accordance with our historical accounting under ASC 840, *Leases*. In addition, we

elected the package of practical expedients permitted under the transition guidance that allowed us to apply prior conclusions related to lease definition, classification and initial direct costs.

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

Other standards

The following standards were also adopted:

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

Changes in accounting standards – standards not yet adopted

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which requires waiting to recognize a loss until it is probable of being incurred. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a reduction to the amortized cost basis of the securities. We are adopting this standard effective January 1, 2020, applying the guidance on a modified retrospective basis. In preparation for adoption of the standard, we have updated certain policies and related processes, but this standard will not have a material impact on our financial position or results of operations.

Other standards

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

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

3. Stock compensation

We have stock options outstanding to participants under long-term incentive plans. The option price per share may not be less than the fair market value of our common stock on the date of the grant. The options have a 10-year term, generally vest ratably over four years, and continue to vest after the option recipient retires.

We also have RSUs outstanding to participants under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock, issued on the vesting date, which is generally four years after the date of grant. RSUs continue to vest after the recipient retires. Holders of RSUs receive an annual cash payment equivalent to the dividends paid on our common stock.

We have options and RSUs outstanding to non-employee directors under director compensation plans. The plans generally provide for annual grants of stock options and RSUs, a one-time grant of RSUs to each new non-employee director and the issuance of TI common stock upon the distribution of stock units credited to director deferred compensation accounts.

We also have an employee stock purchase plan (ESPP) under which options are offered to all eligible employees in amounts based on a percentage of the employee's compensation, subject to a cap. Under the plan, the option price per share is 85% of the fair market value on the exercise date.

Total stock compensation expense recognized is as follows:

	For Years Ended December 31,		
	2019	2018	2017
COR	\$ 21	\$ 25	\$ 36
R&D	66	69	59
SG&A	130	138	147
Total	<u>\$ 217</u>	<u>\$ 232</u>	<u>\$ 242</u>

These amounts include expenses related to non-qualified stock options, RSUs and stock options offered under our ESPP and are net of estimated forfeitures.

We recognize compensation expense for non-qualified stock options and RSUs on a straight-line basis over the minimum service period required for vesting of the award, adjusting for estimated forfeitures based on historical activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis. Options issued under our ESPP are expensed over a three-month period.

Fair-value methods and assumptions

We account for all awards granted under our various stock compensation plans at fair value. We estimate the fair values for non-qualified stock options using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	For Years Ended December 31,		
	2019	2018	2017
Weighted average grant date fair value, per share	\$ 22.08	\$ 23.20	\$ 16.49
Weighted average assumptions used:			
Expected volatility	26 %	23 %	24 %
Expected lives (in years)	7.1	7.2	7.2
Risk-free interest rates	2.66 %	2.57 %	2.36 %
Expected dividend yields	2.95 %	2.25 %	2.52 %

We determine expected volatility on all options granted using available implied volatility rates. We believe that market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates.

We determine expected lives of options based on the historical option exercise experience of our optionees using a rolling 10-year average. We believe the historical experience method is the best estimate of future exercise patterns currently available.

Risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

Expected dividend yields are based on the annualized approved quarterly dividend rate and the current market price of our common stock at the time of grant. No assumption for a future dividend rate change is included unless there is an approved plan to change the dividend in the near term.

The fair value per share of RSUs is determined based on the closing price of our common stock on the date of grant.

Our ESPP is a discount-purchase plan and consequently the Black-Scholes-Merton option-pricing model is not used to determine the fair value per share of these awards. The fair value per share under this plan equals the amount of the discount.

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans are as follows:

	Stock Options		RSUs	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding grants, December 31, 2018	39,905,454	\$ 56.10	7,305,543	\$ 66.72
Granted	4,559,093	104.51	1,142,974	106.58
Stock options exercised/RSUs vested	(11,529,174)	44.68	(2,370,762)	52.74
Forfeited and expired	(441,429)	83.89	(179,955)	81.57
Outstanding grants, December 31, 2019	32,493,944	66.57	5,897,800	79.62

The weighted average grant date fair values per share of RSUs granted in 2019, 2018 and 2017 were \$106.58, \$110.05 and \$79.52, respectively. In 2019, 2018 and 2017, the total grant date fair values of shares vested from RSU grants were \$125 million, \$123 million and \$149 million, respectively.

As of December 31, 2019, the number of shares remaining available for future issuance under these plans was 45,082,425.

Summarized information about stock options outstanding as of December 31, 2019, is as follows:

	Stock Options Outstanding			Options Exercisable	
	Number Outstanding (Shares)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable (Shares)	Weighted Average Exercise Price per Share
Exercise Price Range					
\$ 23.05 to 127.35	32,493,944	5.9	\$ 66.57	19,646,782	\$ 50.82

In 2019, 2018 and 2017, the aggregate intrinsic values (i.e., the difference in the closing market price on the date of exercise and the exercise price paid by the optionee) of options exercised were \$819 million, \$561 million and \$632 million, respectively.

Summarized information as of December 31, 2019, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, is as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest) (a)	Options Exercisable
Number of outstanding (shares)	32,001,396	19,646,782
Weighted average remaining contractual life (in years)	5.8	4.6
Weighted average exercise price per share	\$ 66.03	\$ 50.82
Intrinsic value (millions of dollars)	\$ 1,992	\$ 1,522

(a) Includes effects of expected forfeitures. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was \$2.01 billion.

As of December 31, 2019, total future compensation related to equity awards not yet recognized in our Consolidated Statements of Income was \$226 million, consisting of \$98 million related to unvested stock options and \$128 million related to unvested RSUs. The \$226 million is expected to be recognized as follows: \$113 million in 2020, \$72 million in 2021, \$37 million in 2022 and \$4 million in 2023.

Employee stock purchase plan

Options outstanding under the ESPP as of December 31, 2019, had an exercise price equal to 85% of the fair market value of TI common stock on the date of automatic exercise. The automatic exercise occurred on January 2, 2020, resulting in an exercise price of \$110.14 per share. Of the total outstanding options, none were exercisable as of December 31, 2019.

ESPP transactions are as follows:

	Shares	Exercise Price
Outstanding grants, December 31, 2018	229,836	\$ 80.29
Granted	742,819	102.34
Exercised	(798,806)	94.30
Outstanding grants, December 31, 2019	173,849	110.14

The weighted average grant date fair values per share of options granted under the ESPP in 2019, 2018 and 2017 were \$18.05, \$15.43 and \$12.99, respectively. The total intrinsic value of options exercised under these plans was \$13 million in 2019, 2018 and 2017.

As of December 31, 2019, the number of shares remaining available for future issuance under this plan was 33,812,282.

Effect on shares outstanding and treasury shares

Treasury shares were acquired in connection with the board-authorized stock repurchase program. As of December 31, 2019, \$13.18 billion of stock repurchase authorizations remain, and no expiration date has been specified.

Our current practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. The following table reflects the changes in our treasury shares:

	Stock Options	RSUs	Treasury Shares
Balance, December 31, 2016			744,831,978
Repurchases			30,570,129
Shares used for:			
Stock options/RSUs	(13,313,019)	(4,419,464)	
Stock applied to taxes	—	1,058,100	
ESPP	(1,065,757)	—	
Director deferred stock units	—	—	(4,750)
Total issued	<u>(14,378,776)</u>	<u>(3,361,364)</u>	(17,740,140)
Balance, December 31, 2017			<u>757,657,217</u>
Repurchases			49,482,220
Shares used for:			
Stock options/RSUs	(8,432,458)	(2,769,994)	
Stock applied to taxes	—	553,720	
ESPP	(819,878)	—	
Director deferred stock units	—	—	(5,181)
Total issued	<u>(9,252,336)</u>	<u>(2,216,274)</u>	(11,468,610)
Balance, December 31, 2018			<u>795,665,646</u>
Repurchases			27,398,701
Shares used for:			
Stock options/RSUs	(11,529,174)	(2,370,762)	
Stock applied to taxes	—	490,347	
ESPP	(798,806)	—	
Director deferred stock units	—	—	(71,571)
Total issued	<u>(12,327,980)</u>	<u>(1,880,415)</u>	(14,208,395)
Balance, December 31, 2019			<u>808,784,381</u>

The effects on cash flows are as follows:

	For Years Ended December 31,		
	2019	2018	2017
Proceeds from common stock transactions (a)	\$ 539	\$ 373	\$ 483
Tax benefit realized from stock compensation	\$ 224	\$ 179	\$ 341
Reduction to deferred tax asset	(49)	(43)	(91)
Excess tax benefit for stock compensation	\$ 175	\$ 136	\$ 250

(a) Net of taxes paid for employee shares withheld of \$52 million, \$60 million and \$83 million in 2019, 2018 and 2017, respectively.

4. Income taxes

Income before income taxes is comprised of the following components:

	For Years Ended December 31,		
	2019	2018	2017
U.S.	\$ 4,915	\$ 5,672	\$ 5,130
Non-U.S.	813	1,014	950
Total	<u>\$ 5,728</u>	<u>\$ 6,686</u>	<u>\$ 6,080</u>

Provision for income taxes is comprised of the following components:

	For Years Ended December 31,								
	2019			2018			2017		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
U.S. federal	\$ 483	\$ 25	\$ 508	\$ 979	\$ (98)	\$ 881	\$ 2,101	\$ 51	\$ 2,152
Non-U.S.	135	56	191	225	(8)	217	173	61	234
U.S. state	12	—	12	7	1	8	12	—	12
Total	<u>\$ 630</u>	<u>\$ 81</u>	<u>\$ 711</u>	<u>\$ 1,211</u>	<u>\$ (105)</u>	<u>\$ 1,106</u>	<u>\$ 2,286</u>	<u>\$ 112</u>	<u>\$ 2,398</u>

Principal reconciling items from the U.S. statutory income tax rate to the effective tax rate (provision for income taxes as a percentage of income before income taxes) are as follows:

	For Years Ended December 31,		
	2019	2018	2017
U.S. statutory income tax rate	21.0 %	21.0 %	35.0 %
U.S. tax benefit for foreign derived intangible income	(4.9)	(5.3)	—
U.S. excess tax benefit for stock compensation	(3.1)	(2.0)	(4.1)
U.S. R&D tax credit	(1.4)	(1.3)	(1.1)
Non-U.S. effective tax rates	0.3	0.1	(2.5)
U.S. Tax Act transitional non-cash expense	—	4.2	—
U.S. Tax Act enactment-date effects and measurement period adjustments	—	(0.7)	12.7
U.S. tax benefit for manufacturing	—	—	(1.6)
Other	0.5	0.5	1.0
Effective tax rate	<u>12.4 %</u>	<u>16.5 %</u>	<u>39.4 %</u>

The U.S. Tax Cuts and Jobs Act (the Tax Act) was enacted on December 22, 2017. The Tax Act reduces the U.S. statutory income tax rate from 35% to 21% and requires companies to pay a one-time tax on indefinitely reinvested earnings of certain non-U.S. subsidiaries that were previously tax deferred. We applied the guidance in Staff Accounting Bulletin No. 118 when accounting for the enactment-date effects of the Tax Act in 2017 and throughout 2018. As of December 31, 2018, we completed our accounting for the enactment-date income tax effects of the Tax Act. We booked a provisional amount of \$773 million in 2017 and reduced our provisional amount by \$44 million in 2018, for a net of \$729 million.

The earnings represented by non-cash operating assets, such as fixed assets and inventory, will continue to be permanently reinvested outside the United States. Provisions of the Tax Act, such as the one-time tax on indefinitely reinvested earnings and the global intangible low-taxed income (GILTI) tax for years beginning in 2018, eliminate any additional U.S. taxation resulting from repatriation of earnings of non-U.S. subsidiaries to the United States. Consequently, no U.S. tax provision has been made for the future remittance of these earnings. However, withholding or distribution taxes in certain non-U.S. jurisdictions will be incurred upon repatriation of available cash to the United States. A provision has been made for deferred taxes on these undistributed earnings to the extent that repatriation of the available cash to the United States is expected to result in a tax liability. As of December 31, 2019, we have no basis differences that would result in material unrecognized deferred tax liabilities.

We have made an allowable policy election to account for the effects of GILTI as a component of income tax expense in the period in which the tax is incurred.

The primary components of deferred tax assets and liabilities are as follows:

	December 31,	
	2019	2018
Deferred tax assets:		
Deferred loss and tax credit carryforwards	\$ 213	\$ 247
Accrued expenses	113	129
Stock compensation	109	122
Inventories and related reserves	109	107
Retirement costs for defined benefit and retiree health care	49	80
Total deferred tax assets, before valuation allowance	593	685
Valuation allowance	(180)	(172)
Total deferred tax assets, after valuation allowance	413	513
Deferred tax liabilities:		
Property, plant and equipment	(95)	(10)
Acquisition-related intangibles and fair-value adjustments	(82)	(142)
International earnings	(62)	(43)
Other	(55)	(65)
Total deferred tax liabilities	(294)	(260)
Net deferred tax asset	\$ 119	\$ 253

The deferred tax assets and liabilities based on tax jurisdictions are presented on our Consolidated Balance Sheets as follows:

	December 31,	
	2019	2018
Deferred tax assets	\$ 197	\$ 295
Deferred tax liabilities	(78)	(42)
Net deferred tax asset	\$ 119	\$ 253

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. Valuation allowances increased by \$8 million, \$7 million and \$37 million in 2019, 2018 and 2017, respectively. These changes had no impact to net income in 2019 or 2018.

We have U.S. and non-U.S. tax loss carryforwards of approximately \$6 million, none of which will expire before the year 2029.

Cash payments made for income taxes, net of refunds, were \$570 million, \$705 million and \$1.80 billion in 2019, 2018 and 2017, respectively.

Uncertain tax positions

We operate in a number of tax jurisdictions, and our income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the matters challenged by authorities are typically complex, their ultimate outcome is uncertain. Before any benefit can be recorded in our financial statements, we must determine that it is “more likely than not” that a tax position will be sustained by the appropriate tax authorities. We recognize accrued interest related to uncertain tax positions and penalties as components of OI&E.

The changes in the total amounts of uncertain tax positions are as follows:

	2019	2018	2017
Balance, January 1	\$ 286	\$ 300	\$ 243
Additions based on tax positions related to the current year	3	3	17
Additions for tax positions of prior years	63	1	42
Reductions for tax positions of prior years	(41)	—	(1)
Settlements with tax authorities	(8)	(18)	(1)
Balance, December 31	<u>\$ 303</u>	<u>\$ 286</u>	<u>\$ 300</u>
Interest income (expense) recognized in the year ended December 31	<u>\$ 9</u>	<u>\$ (15)</u>	<u>\$ (19)</u>
Interest payable as of December 31	<u>\$ 44</u>	<u>\$ 49</u>	<u>\$ 38</u>

The liability for uncertain tax positions is a component of other long-term liabilities on our Consolidated Balance Sheets.

All of the \$303 million and \$286 million liabilities for uncertain tax positions as of December 31, 2019 and 2018, respectively, are comprised of positions that, if recognized, would lower the effective tax rate. If these liabilities are ultimately realized, \$2 million and \$30 million of existing deferred tax assets in 2019 and 2018, respectively, would also be realized. It is reasonably possible that the \$303 million liability as of December 31, 2019, could decrease by up to \$249 million in 2020 for the resolution of a tax depreciation-related position.

As of December 31, 2019, the statute of limitations remains open for U.S. federal tax returns for 2013 and following years. Audit activities related to our U.S. federal tax returns through 2012 have been completed except for certain pending tax treaty procedures for relief from double taxation. The procedures for relief from double taxation pertain to U.S. federal tax returns for the years 2007 through 2012. The audit of the U.S. federal tax returns for 2013 through 2015 is underway.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the United States, our subsidiaries are no longer subject to income tax audits for years before 2007.

5. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts, the fair value of which was not material as of December 31, 2019. Our forward foreign currency exchange contracts outstanding as of December 31, 2019, had a notional value of \$458 million to hedge our non-U.S. dollar net balance sheet exposures, including \$136 million to sell Japanese yen, \$106 million to sell Indian rupees and \$74 million to sell British pounds.

Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. Our postretirement plan assets are carried at fair value or net asset value per share. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. As of

December 31, 2019, the carrying value of long-term debt, including the current portion, was \$5.80 billion, and the estimated fair value was \$6.29 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 6 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

We are subject to counterparty risks from financial institutions, customers and issuers of debt securities. Financial instruments that could subject us to concentrations of credit risk are primarily cash deposits, cash equivalents, short-term investments and accounts receivable. To manage our credit risk exposure, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on cash deposits and financial derivative contracts to financial institutions with investment-grade ratings.

Concentrations of credit risk with respect to accounts receivable are limited due to our large number of customers and their dispersion across different industries and geographic areas. We maintain allowances for expected returns, disputes, adjustments, incentives and collectability. These allowances are deducted from accounts receivable on our Consolidated Balance Sheets.

Accounts receivable allowances changed to reflect amounts charged (credited) to operating results by (\$11) million, \$11 million and (\$9) million in 2019, 2018 and 2017, respectively.

Major customer

No end customer accounted for 10% or more of revenue in 2019, 2018 or 2017.

6. Valuation of debt and equity investments and certain liabilities

Debt and equity investments measured at fair value

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

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

Other equity investments

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

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

Details of our investments are as follows:

	December 31, 2019			December 31, 2018		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Measured at fair value:						
Available-for-sale debt securities:						
Money market funds	\$ 1,213	\$ —	\$ —	\$ 747	\$ —	\$ —
Corporate obligations	174	1,216	—	473	748	—
U.S. government agency and Treasury securities	604	1,734	—	988	1,047	—
Trading securities:						
Mutual funds	—	—	272	—	—	226
Total	1,991	2,950	272	2,208	1,795	226
Other measurement basis:						
Equity-method investments	—	—	24	—	—	21
Non-marketable equity investments	—	—	4	—	—	4
Cash on hand	446	—	—	230	—	—
Total	<u>\$ 2,437</u>	<u>\$ 2,950</u>	<u>\$ 300</u>	<u>\$ 2,438</u>	<u>\$ 1,795</u>	<u>\$ 251</u>

As of December 31, 2019 and 2018, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments in 2019, 2018 or 2017.

In 2019, 2018 and 2017, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$2.31 billion, \$6.71 billion and \$4.10 billion, respectively. Gross realized gains and losses from these sales were not material.

The following table presents the aggregate maturities of our available-for-sale debt investments as of December 31, 2019:

	Fair Value
One year or less	\$ 4,921
One to two years	20

There were no other-than-temporary declines and impairments in the values of our debt investments in 2019, 2018 or 2017.

In 2019, 2018 and 2017, net gains and losses associated with our equity investments were \$32 million, \$5 million and \$4 million, respectively. These amounts include realized gains of \$29 million, \$11 million and \$6 million on equity investments sold during 2019, 2018 and 2017, respectively.

Fair-value considerations

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

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

- *Level 1* – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.
- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of December 31, 2019 and 2018, we had no Level 3 assets or liabilities.

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

	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 1,213	\$ —	\$ 1,213	\$ 747	\$ —	\$ 747
Corporate obligations	—	1,390	1,390	—	1,221	1,221
U.S. government agency and Treasury securities	2,338	—	2,338	2,035	—	2,035
Mutual funds	272	—	272	226	—	226
Total assets	<u>\$ 3,823</u>	<u>\$ 1,390</u>	<u>\$ 5,213</u>	<u>\$ 3,008</u>	<u>\$ 1,221</u>	<u>\$ 4,229</u>
Liabilities:						
Deferred compensation	\$ 298	\$ —	\$ 298	\$ 246	\$ —	\$ 246
Total liabilities	<u>\$ 298</u>	<u>\$ —</u>	<u>\$ 298</u>	<u>\$ 246</u>	<u>\$ —</u>	<u>\$ 246</u>

7. Goodwill and acquisition-related intangibles

Goodwill by segment as of December 31, 2019 and 2018, is as follows:

	Goodwill
Analog	\$ 4,158
Embedded Processing	172
Other	32
Total	<u>\$ 4,362</u>

We perform our annual goodwill impairment test as of October 1 and determine whether the fair value of each of our reporting units is in excess of its carrying value. Determination of fair value is based upon management estimates and judgment, using unobservable inputs in discounted cash flow models to calculate the fair value of each reporting unit. These unobservable inputs are considered Level 3 measurements, as described in Note 6. In 2019, 2018 and 2017, we determined no impairment was indicated.

The components of acquisition-related intangibles are as follows:

	Amortization Period (Years)	December 31, 2019			December 31, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 – 10	\$ 2,000	\$ 1,660	\$ 340	\$ 2,125	\$ 1,573	\$ 552
Customer relationships	8	—	—	—	810	734	76
Total		<u>\$ 2,000</u>	<u>\$ 1,660</u>	<u>\$ 340</u>	<u>\$ 2,935</u>	<u>\$ 2,307</u>	<u>\$ 628</u>

Acquisition charges

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

Amortization of acquisition-related intangibles was \$288 million in 2019 and \$318 million in 2018 and 2017. Fully amortized assets are written off against accumulated amortization. The remaining estimated amortization is \$198 million in 2020 and \$142 million in 2021.

8. Postretirement benefit plans

Plan descriptions

We have various employee retirement plans, including defined contribution, defined benefit and retiree health care benefit plans. For qualifying employees, we offer deferred compensation arrangements.

U.S. retirement plans

Our principal retirement plans in the United States are a defined contribution plan; an enhanced defined contribution plan; and qualified and non-qualified defined benefit pension plans. The defined benefit plans were closed to new participants in 1997, and then current participants were allowed to make a one-time election to continue accruing a benefit in the plans or to cease accruing a benefit and instead to participate in the enhanced defined contribution plan described below.

Both defined contribution plans offer an employer-matching savings option that allows employees to make pretax and post-tax contributions to various investment choices. Employees who elected to continue accruing a benefit in the qualified defined benefit pension plans may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2% of the employee's annual eligible earnings. Employees who elected not to continue accruing a benefit in the defined benefit pension plans, and employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2% of the employee's annual eligible earnings, plus an employer-matching contribution of up to 4% of the employee's annual eligible earnings. Employees hired after December 31, 2003, do not receive the fixed employer contribution of 2% of the employee's annual eligible earnings.

As of December 31, 2019 and 2018, as a result of employees' elections, TI's U.S. defined contribution plans held shares of TI common stock totaling 8 million shares and 9 million shares valued at \$988 million and \$821 million, respectively. Dividends paid on these shares in 2019 and 2018 were \$26 million and \$24 million, respectively. Effective April 1, 2016, the TI common stock fund was frozen to new contributions or transfers into the fund.

Our aggregate expense for the U.S. defined contribution plans was \$61 million in 2019, 2018 and 2017.

The defined benefit pension plans include employees still accruing benefits, as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan. Benefits under the qualified defined benefit pension plan are determined using a formula based on years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

U.S. retiree health care benefit plan

U.S. employees who meet eligibility requirements are offered medical coverage during retirement. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee's date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the plan's participants. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement.

Non-U.S. retirement plans

We provide retirement coverage for non-U.S. employees, as required by local laws or to the extent we deem appropriate, through a number of defined benefit and defined contribution plans. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

As of December 31, 2019 and 2018, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at \$28 million and \$23 million, respectively. Dividends paid on these shares of TI common stock in 2019 and 2018 were not material.

Effects on our Consolidated Statements of Income and Balance Sheets

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

	U.S. Defined Benefit			U.S. Retiree Health Care			Non-U.S. Defined Benefit		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Service cost	\$ 18	\$ 19	\$ 22	\$ 3	\$ 5	\$ 5	\$ 31	\$ 36	\$ 37
Interest cost	38	35	42	14	15	17	43	45	44
Expected return on plan assets	(41)	(42)	(41)	(14)	(15)	(17)	(86)	(67)	(62)
Amortization of prior service cost (credit)	—	—	—	(1)	(3)	(4)	1	(1)	(2)
Recognized net actuarial loss	9	17	14	—	2	3	29	20	28
Net periodic benefit costs	24	29	37	2	4	4	18	33	45
Settlement losses	10	23	36	—	—	—	3	3	2
Total, including other postretirement losses	\$ 34	\$ 52	\$ 73	\$ 2	\$ 4	\$ 4	\$ 21	\$ 36	\$ 47

All defined benefit and retiree health care benefit plan expense components other than service cost are recognized in OI&E in our Consolidated Statements of Income. Service cost is recognized within operating profit.

For the U.S. qualified pension and retiree health care plans, the expected return on plan assets component of net periodic benefit cost is based upon a market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets is the fair value adjusted by a smoothing technique whereby certain gains and losses are phased in over a period of three years.

Changes in the benefit obligations and plan assets for defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2019	2018	2019	2018	2019	2018
Change in plan benefit obligation						
Benefit obligation at beginning of year:	\$ 874	\$ 998	\$ 361	\$ 414	\$ 2,411	\$ 2,469
Service cost	18	19	3	5	31	36
Interest cost	38	35	14	15	43	45
Participant contributions	—	—	13	11	7	7
Benefits paid	(11)	(10)	(41)	(41)	(103)	(87)
Settlements	(66)	(100)	—	—	(12)	(16)
Curtailments	—	—	—	—	(1)	—
Actuarial loss (gain)	107	(68)	9	(43)	193	6
Plan amendments	—	—	—	—	—	7
Effects of exchange rate changes	—	—	—	—	12	(56)
Benefit obligation at end of year	\$ 960	\$ 874	\$ 359	\$ 361	\$ 2,581	\$ 2,411
Change in plan assets						
Fair value of plan assets at beginning of year:	\$ 869	\$ 995	\$ 330	\$ 394	\$ 2,410	\$ 2,593
Actual return on plan assets	185	(56)	53	(12)	337	(52)
Employer contributions (qualified plans)	—	20	1	1	9	19
Employer contributions (non-qualified plans)	10	20	—	—	—	—
Participant contributions	—	—	13	11	7	7
Benefits paid	(11)	(10)	(41)	(41)	(103)	(87)
Settlements	(66)	(100)	—	—	(12)	(16)
Effects of exchange rate changes	—	—	—	—	13	(54)
Other	—	—	—	(23)	—	—
Fair value of plan assets at end of year	\$ 987	\$ 869	\$ 356	\$ 330	\$ 2,661	\$ 2,410
Funded status at end of year	\$ 27	\$ (5)	\$ (3)	\$ (31)	\$ 80	\$ (1)

The actuarial loss (gain) for all pension plans was primarily related to a change in the discount rate used to measure the benefit obligations of those plans in 2019 and 2018.

Amounts recognized on our Consolidated Balance Sheets as of December 31, are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
2019				
Overfunded retirement plans	\$ 73	\$ —	\$ 145	\$ 218
Accrued expenses and other liabilities & other long-term liabilities	(17)	—	(4)	(21)
Underfunded retirement plans	(29)	(3)	(61)	(93)
Funded status at end of 2019	\$ 27	\$ (3)	\$ 80	\$ 104
2018				
Overfunded retirement plans	\$ 40	\$ —	\$ 52	\$ 92
Accrued expenses and other liabilities & other long-term liabilities	(8)	—	(3)	(11)
Underfunded retirement plans	(37)	(31)	(50)	(118)
Funded status at end of 2018	\$ (5)	\$ (31)	\$ (1)	\$ (37)

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about \$20 million to our retirement benefit plans in 2020.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were \$878 million and \$793 million as of December 31, 2019 and 2018, respectively, for the U.S. defined benefit plans, and \$2.46 billion and \$2.29 billion as of December 31, 2019 and 2018, respectively, for the non-U.S. defined benefit plans.

The change in AOCI is as follows:

	U.S. Defined Benefit			U.S. Retiree Health Care		Non-U.S. Defined Benefit		Total	
	Net Actuarial Loss	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit
AOCI balance, net of taxes, December 31, 2018	\$ 135	\$ 21	\$ (5)	\$ 317	\$ 3	\$ 473	\$ (2)		
Changes in AOCI by category:									
Adjustments	(36)	(31)	—	(58)	—	(125)	—		
Recognized within net income	(19)	—	1	(32)	(1)	(51)	—		
Tax effect	11	7	—	32	—	50	—		
Total change to AOCI	(44)	(24)	1	(58)	(1)	(126)	—		
AOCI balance, net of taxes, December 31, 2019	\$ 91	\$ (3)	\$ (4)	\$ 259	\$ 2	\$ 347	\$ (2)		

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets using the same three-level hierarchy of fair-value inputs described in Note 6.

	December 31, 2019			
	Level 1	Level 2	Other (a)	Total
Assets of U.S. defined benefit plan:				
Fixed income securities and cash equivalents	\$ —	\$ —	\$ 640	\$ 640
Equity securities	—	—	347	347
Total	\$ —	\$ —	\$ 987	\$ 987
Assets of U.S. retiree health care plan:				
Fixed income securities and cash equivalents	\$ 62	\$ —	\$ 168	\$ 230
Equity securities	—	—	126	126
Total	\$ 62	\$ —	\$ 294	\$ 356
Assets of non-U.S. defined benefit plans:				
Fixed income securities and cash equivalents	\$ 59	\$ 126	\$ 1,762	\$ 1,947
Equity securities	41	2	671	714
Total	\$ 100	\$ 128	\$ 2,433	\$ 2,661

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

December 31, 2018				
	Level 1	Level 2	Other (a)	Total
Assets of U.S. defined benefit plan:				
Fixed income securities and cash equivalents	\$ —	\$ —	\$ 563	\$ 563
Equity securities	—	—	306	306
Total	\$ —	\$ —	\$ 869	\$ 869
Assets of U.S. retiree health care plan:				
Fixed income securities and cash equivalents	\$ 59	\$ —	\$ 155	\$ 214
Equity securities	—	—	116	116
Total	\$ 59	\$ —	\$ 271	\$ 330
Assets of non-U.S. defined benefit plans:				
Fixed income securities and cash equivalents	\$ 47	\$ 139	\$ 1,602	\$ 1,788
Equity securities	33	1	588	622
Total	\$ 80	\$ 140	\$ 2,190	\$ 2,410

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

The investments in our major benefit plans largely consist of low-cost, broad-market index funds to mitigate risks of concentration within market sectors. Our investment policy is designed to better match the interest rate sensitivity of the plan assets and liabilities. The appropriate mix of equity and bond investments is determined primarily through the use of detailed asset-liability modeling studies that look to balance the impact of changes in the discount rate against the need to provide asset growth to cover future service cost. Most of our plans around the world have a greater proportion of fixed income securities with return characteristics that are more closely aligned with changes in the liabilities caused by discount rate volatility.

Assumptions and investment policies

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2019	2018	2019	2018	2019	2018
Weighted average assumptions used to determine benefit obligations:						
Discount rate	3.62%	4.37%	3.63%	4.30%	1.46%	1.85%
Long-term pay progression	3.30%	3.30%	n/a	n/a	3.06%	2.96%
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	4.35%	3.77%	4.30%	3.63%	1.85%	1.84%
Long-term rate of return on plan assets	4.90%	4.80%	4.40%	4.10%	3.62%	2.58%
Long-term pay progression	3.30%	3.30%	n/a	n/a	3.03%	2.96%

We utilize a variety of methods to select an appropriate discount rate depending on the depth of the corporate bond market in the country in which the benefit plan operates. In the United States, we use a settlement approach whereby a portfolio of bonds is selected from the universe of actively traded high-quality U.S. corporate bonds. The selected portfolio is designed to provide cash flows sufficient to pay the plan's expected benefit payments when due. The resulting discount rate reflects the rate of return of the selected portfolio of bonds. For our non-U.S. locations with a sufficient number of actively traded high-quality bonds, an analysis is performed in which the projected cash flows from the defined benefit plans are discounted against a yield curve constructed with an appropriate universe of high-quality corporate bonds available in each country. In this manner, a present value is developed. The discount rate selected is the single equivalent rate that produces the same present value. For countries that lack a sufficient corporate bond market, a government bond index adjusted for an appropriate risk premium is used to establish the discount rate.

Assumptions for the expected long-term rate of return on plan assets are based on future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. We adjust the results for the payment of reasonable expenses of the plan from plan assets. We believe our assumptions are appropriate based on the investment mix and long-term nature of the plans' investments. Assumptions used for the non-U.S. defined benefit plans reflect the different economic environments within the various countries.

The target allocation ranges for the plans that hold a substantial majority of the defined benefit assets are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
Fixed income securities and cash equivalents	65%	65%	60% – 100%
Equity securities	35%	35%	0% – 40%

We rebalance the plans' investments when they are outside the target allocation ranges.

Weighted average asset allocations as of December 31 are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2019	2018	2019	2018	2019	2018
Fixed income securities and cash equivalents	65%	65%	65%	65%	73%	74%
Equity securities	35%	35%	35%	35%	27%	26%

None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock.

The following assumed future benefit payments to plan participants in the next 10 years are used to measure our benefit obligations. Almost all of the payments, which may vary significantly from these assumptions, will be made from plan assets and not from company assets.

	2020	2021	2022	2023	2024	2025 – 2029
U.S. Defined Benefit	\$ 99	\$ 118	\$ 85	\$ 90	\$ 87	\$ 441
U.S. Retiree Health Care	32	30	29	27	26	115
Non-U.S. Defined Benefit	95	96	99	100	104	542

Assumed health care cost trend rates for the U.S. retiree health care benefit plan as of December 31 are as follows:

	2019	2018
Assumed health care cost trend rate for next year	7.00%	7.25%
Ultimate trend rate	5.00%	5.00%
Year in which ultimate trend rate is reached	2028	2028

Deferred compensation plans

We have deferred compensation plans that allow U.S. employees whose base salary and management responsibility exceed a certain level to defer receipt of a portion of their cash compensation. Payments under these plans are made based on the participant's distribution election and plan balance. Participants can earn a return on their deferred compensation based on notional investments in the same investment funds that are offered in our defined contribution plans.

As of December 31, 2019, our liability to participants of the deferred compensation plans was \$298 million and is recorded in other long-term liabilities on our Consolidated Balance Sheets. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. As of December 31, 2019, we held \$272 million in mutual funds related to these plans that are recorded in long-term investments on our Consolidated Balance Sheets, and serve as an economic hedge against changes in fair values of our other deferred compensation liabilities. We record changes in the fair value of the liability and the related investment in SG&A as discussed in Note 6.

9. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of December 31, 2019, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion until March 2024. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of December 31, 2019, our credit facility was undrawn, and we had no commercial paper outstanding.

Long-term debt

We retired \$750 million of maturing debt in August 2019.

In March 2019, we issued a principal amount of \$750 million of fixed-rate, long-term debt due in 2039. We incurred \$7 million of issuance and other related costs. The proceeds of the offering were \$743 million, net of the original issuance discount, and were used for general corporate purposes.

In September 2019, we issued a principal amount of \$750 million of fixed-rate, long-term debt due in 2029. We incurred \$5 million of issuance and other related costs. The proceeds of the offering were \$748 million, net of the original issuance discount, and were used for general corporate purposes.

We retired \$500 million of maturing debt in May 2018.

In the second quarter of 2018, we issued an aggregate principal amount of \$1.5 billion of fixed-rate, long-term debt due in 2048, comprised of the issuance of \$1.3 billion in May 2018 and an additional \$200 million in June 2018. We incurred \$16 million of issuance and other related costs. The proceeds of the offering were \$1.5 billion, net of the original issuance discount and premium, and were used for general corporate purposes.

We retired \$250 million of maturing debt in March 2017 and another \$375 million in June 2017.

In May 2017, we issued an aggregate principal amount of \$600 million of fixed-rate, long-term debt. The offering consisted of the reissuance of \$300 million of 2.75% notes due in 2021 at a premium and the issuance of \$300 million of 2.625% notes due in 2024 at a discount. We incurred \$3 million of issuance and other related costs. The proceeds of the offerings were \$605 million, net of the original issuance discount and premium, and were used for the repayment of maturing debt and general corporate purposes.

In November 2017, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2027. We incurred \$3 million of issuance and other related costs. The proceeds of the offering were \$494 million, net of the original issuance discount, and were used for general corporate purposes.

Long-term debt outstanding is as follows:

	December 31,	
	2019	2018
Notes due 2019 at 1.65%	\$ —	\$ 750
Notes due 2020 at 1.75%	500	500
Notes due 2021 at 2.75%	550	550
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	300
Notes due 2027 at 2.90%	500	500
Notes due 2029 at 2.25%	750	—
Notes due 2039 at 3.875%	750	—
Notes due 2048 at 4.15%	1,500	1,500
Total debt	5,850	5,100
Net unamortized discounts, premiums and issuance costs	(47)	(32)
Total debt, including net unamortized discounts, premiums and issuance costs	5,803	5,068
Current portion of long-term debt	(500)	(749)
Long-term debt	\$ 5,303	\$ 4,319

Interest and debt expense was \$170 million, \$125 million and \$78 million in 2019, 2018 and 2017, respectively. This was net of the amortized discounts, premiums and issuance costs. Cash payments for interest on long-term debt were \$156 million, \$114 million and \$75 million in 2019, 2018 and 2017, respectively. Capitalized interest was not material.

10. Leases

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

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

	December 31, 2019
Other long-term assets	\$ 337
Accrued expenses and other liabilities	\$ 73
Other long-term liabilities	259

Details of our operating leases are as follows:

	For Year Ended December 31, 2019
Lease cost related to lease liabilities	\$ 66
Variable lease cost	41
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for lease cost	\$ 60
Lease assets obtained in exchange for new lease liabilities	\$ 167
Weighted average remaining lease term	8.2 years
Weighted average discount rate	3.37 %

As of December 31, 2019, we had committed to make the following minimum payments under our non-cancellable operating leases:

	2020	2021	2022	2023	2024	Thereafter	Total
Lease payments	\$ 75	\$ 63	\$ 51	\$ 38	\$ 28	\$ 131	\$ 386
Imputed lease interest							(54)
Total lease liabilities							\$ 332

As of December 31, 2018, we had committed to make the following minimum payments under our non-cancellable operating leases, as reported under ASC 840:

	2019	2020	2021	2022	2023	Thereafter	Total
Operating leases	\$ 56	\$ 46	\$ 36	\$ 29	\$ 18	\$ 39	\$ 224

11. Commitments and contingencies

Purchase commitments

Our purchase commitments include payments for software licenses and contractual arrangements with suppliers when there is a fixed, non-cancellable payment schedule or when minimum payments are due with a reduced delivery schedule.

As of December 31, 2019, we had committed to make the following minimum payments under our purchase commitments:

	2020	2021	2022	2023	2024	Thereafter	Total
Purchase commitments	\$ 452	\$ 286	\$ 121	\$ 70	\$ 27	\$ 109	\$ 1,065

Indemnification guarantees

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

Warranty costs/product liabilities

We accrue for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability. Historically, we have experienced a low rate of payments on product claims. Although we cannot predict the

likelihood or amount of any future claims, we do not believe they will have a material adverse effect on our financial condition, results of operations or liquidity. Our stated warranties for semiconductor products obligate us to repair, replace or credit the purchase price of a covered product back to the buyer. Product claim consideration may exceed the price of our products.

General

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

12. Supplemental financial information

Restructuring charges/other

Restructuring charges/other are included in Other for segment reporting purposes and are comprised of the following components:

	For Years Ended December 31,		
	2019	2018	2017
Restructuring charges (a)	\$ (15)	\$ 6	\$ 11
Gains on sales of assets	(21)	(3)	—
Restructuring charges/other	<u>\$ (36)</u>	<u>\$ 3</u>	<u>\$ 11</u>

(a) Includes severance and benefits, accelerated depreciation, changes in estimates or other exit costs.

Changes in accrued restructuring balances

	2019	2018	2017
Balance, January 1	\$ 28	\$ 29	\$ 40
Restructuring charges	(15)	6	11
Non-cash items (a)	—	(3)	(1)
Payments	(13)	(4)	(21)
Balance, December 31	<u>\$ —</u>	<u>\$ 28</u>	<u>\$ 29</u>

(a) Reflects charges for impacts of accelerated depreciation and changes in exchange rates.

The restructuring accrual balances are reported as a component of either accrued expenses and other liabilities or other long-term liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

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

In January 2020, we announced a multiyear plan to close our two remaining factories with 150-millimeter production, which are more than 50 years old and located in Sherman and Dallas, Texas. Production will be transitioned from these sites to our more advanced and cost-effective 300-millimeter wafer fabrication facilities in North Texas. We expect this transition to be completed in the next three to five years. Charges for these closures cannot be reasonably estimated until a later phase of the transition.

Other income (expense), net (OI&E)

	For Years Ended December 31,		
	2019	2018	2017
Other income (a)	\$ 197	\$ 150	\$ 163
Other expense (b)	(22)	(52)	(88)
Total	<u>\$ 175</u>	<u>\$ 98</u>	<u>\$ 75</u>

- (a) Other income includes interest, royalty and lease income, as well as investment gains and losses.
- (b) Other expense includes a portion of pension and other retiree benefit costs. It also includes currency gains and losses, tax interest and miscellaneous items.

Property, plant and equipment at cost

	Depreciable Lives (Years)	December 31,	
		2019	2018
Land	n/a	\$ 126	\$ 128
Buildings and improvements	5 – 40	2,504	2,497
Machinery and equipment	2 – 10	3,110	2,800
Total		<u>\$ 5,740</u>	<u>\$ 5,425</u>

Other long-term liabilities

	December 31,	
	2019	2018
Long-term portion of transition tax on indefinitely reinvested earnings	\$ 506	\$ 506
Uncertain tax positions	303	286
Deferred compensation plans	298	246
Operating lease liabilities	259	—
Other	148	152
Total	<u>\$ 1,514</u>	<u>\$ 1,190</u>

Accumulated other comprehensive income (loss), net of taxes (AOCI)

	December 31,	
	2019	2018
Postretirement benefit plans:		
Net actuarial loss	\$ (347)	\$ (473)
Prior service credit	2	2
Cash flow hedge derivative instruments	(2)	(2)
Total	<u>\$ (347)</u>	<u>\$ (473)</u>

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within net income in 2019, 2018 and 2017. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Years Ended December 31,			Impact to Related Statement of Income Lines
	2019	2018	2017	
Net actuarial losses of defined benefit plans:				
Recognized net actuarial loss and settlement losses (a)	\$ 51	\$ 65	\$ 83	Decrease to OI&E
Tax effect	(13)	(15)	(27)	Decrease to provision for income taxes
Recognized within net income, net of taxes	<u>\$ 38</u>	<u>\$ 50</u>	<u>\$ 56</u>	Decrease to net income
Prior service credit of defined benefit plans:				
Amortization of prior service credit (a)	\$ —	\$ (4)	\$ (6)	Increase to OI&E
Tax effect	—	1	1	Increase to provision for income taxes
Recognized within net income, net of taxes	<u>\$ —</u>	<u>\$ (3)</u>	<u>\$ (5)</u>	Increase to net income
Derivative instruments:				
Amortization of treasury-rate locks	\$ —	\$ —	\$ 1	Increase to interest and debt expense
Tax effect	—	—	—	Decrease to provision for income taxes
Recognized within net income, net of taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	Decrease to net income

(a) Detailed in Note 8.

13. Quarterly financial data (unaudited)

	2019 Quarters				2018 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Revenue	\$ 3,350	\$ 3,771	\$ 3,668	\$ 3,594	\$ 3,717	\$ 4,261	\$ 4,017	\$ 3,789
Gross profit	2,097	2,446	2,360	2,261	2,407	2,804	2,619	2,447
Included in operating profit:								
Acquisition charges	50	79	80	79	79	80	79	80
Restructuring charges/other	—	—	(36)	—	(2)	1	3	1
Operating profit	1,249	1,589	1,506	1,379	1,516	1,937	1,712	1,548
Net income	1,070	1,425	1,305	1,217	1,239	1,570	1,405	1,366
Basic EPS	\$ 1.14	\$ 1.51	\$ 1.38	\$ 1.29	\$ 1.29	\$ 1.61	\$ 1.43	\$ 1.38
Diluted EPS	\$ 1.12	\$ 1.49	\$ 1.36	\$ 1.26	\$ 1.27	\$ 1.58	\$ 1.40	\$ 1.35

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2020 expressed an unqualified opinion thereon.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Uncertain tax positions

Description of the matter As discussed in Note 4 to the consolidated financial statements, the Company operates in the United States and multiple international tax jurisdictions, and its income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any tax position on these returns. Uncertainty in a tax position may arise because tax laws are subject to interpretation. The Company uses significant judgment to (1) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (2) measure the amount of tax benefit that qualifies for recognition. Auditing management's estimate of the amount of tax benefit that qualifies for recognition involved auditor judgment because management's estimate is complex, requires a high degree of judgment and is based on interpretations of tax laws and legal rulings.

How we addressed the matter in our audit We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting process for uncertain tax positions. For example, this included controls over the Company's assessment of the technical merits of tax positions and management's process to measure the benefit of those tax positions. Among other procedures performed, we involved our tax professionals to assess the technical merits of the Company's tax positions. This included assessing the Company's correspondence with the relevant tax authorities and evaluating income tax opinions or other third-party advice obtained by the Company. We also evaluated the appropriateness of the Company's accounting for its tax positions taking into consideration relevant international and local income tax laws and legal rulings. We analyzed the Company's assumptions and data used to determine the amount of tax benefit to recognize and tested the accuracy of the calculations. We also evaluated the adequacy of the Company's financial statement disclosures in Note 4 to the consolidated financial statements related to these tax matters.

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We have served as the Company's auditor since 1952.
Dallas, Texas
February 20, 2020

ITEM 9. Changes in and disagreements with accountants on accounting and financial disclosure

Not applicable.

ITEM 9A. Controls and procedures

Disclosure 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.

Internal control over financial reporting

Report by management on internal control over financial reporting

The management of TI is responsible for establishing and maintaining effective internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles. 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 fourth quarter of 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2019, our internal control over financial reporting is effective based on the COSO criteria.

TI's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which immediately follows this report.

Report of independent registered public accounting firm on internal control over financial reporting

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on internal control over financial reporting

We have audited Texas Instruments Incorporated's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Texas Instruments Incorporated (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes, and our report dated February 20, 2020 expressed an unqualified opinion thereon.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report by management on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Dallas, Texas
February 20, 2020

ITEM 9B. Other information

Not applicable.

PART III**ITEM 10. Directors, executive officers and corporate governance**

The information with respect to directors' names, ages, positions, term of office, periods of service and business experience, which is contained under the caption "Election of directors" in our proxy statement for the 2020 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

A list of our executive officers and their biographical information appears in Part I, Item 1 of this report.

Code of ethics

We have adopted the Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. A copy of the Code can be found on our website at www.ti.com/corporategovernance. We intend to satisfy the disclosure requirements of the SEC regarding amendments to, or waivers from, the Code by posting such information on the same website.

Audit committee

The information contained under the caption "Committees of the board" with respect to the audit committee and the audit committee financial expert in our proxy statement for the 2020 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 11. Executive compensation

The information contained under the captions "Director compensation" and "Executive compensation" in our proxy statement for the 2020 annual meeting of stockholders is incorporated herein by reference to such proxy statement, provided that the Compensation Committee report shall not be deemed filed with this Form 10-K.

The information contained under the caption "Compensation committee interlocks and insider participation" in our proxy statement for the 2020 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security ownership of certain beneficial owners and management and related stockholder matters

Equity compensation plan information

The following table sets forth information about the company's equity compensation plans as of December 31, 2019.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (1)) (3)
Equity compensation plans approved by security holders	38,656,075 (a)	\$ 66.80 (b)	78,894,707 (c)
Equity compensation plans not approved by security holders	—	\$ —	—
Total	38,656,075 (d)	\$ 66.80	78,894,707

- (a) Includes shares of TI common stock to be issued under the Texas Instruments 2003 Director Compensation Plan, the Texas Instruments 2009 Long-Term Incentive Plan (the "2009 LTIP") and predecessor stockholder-approved plans, the Texas Instruments 2009 Director Compensation Plan, the TI Employees 2014 Stock Purchase Plan (the "2014 ESPP") and the Texas Instruments 2018 Director Compensation Plan (the "2018 Director Plan").
- (b) Restricted stock units and stock units credited to directors' deferred compensation accounts are settled in shares of TI common stock on a one-for-one basis. Accordingly, such units have been excluded for purposes of computing the weighted-average exercise price.
- (c) Shares of TI common stock available for future issuance under the 2009 LTIP, the 2014 ESPP and the 2018 Director Plan. 43,155,445 shares remain available for future issuance under the 2009 LTIP and 1,926,980 shares remain available for future issuance under the 2018 Director Plan. Under the 2009 LTIP and the 2018 Director Plan, awards may be granted in the form of restricted stock units, options or other stock-based awards such as restricted stock.
- (d) Includes 32,493,944 shares for issuance upon exercise of outstanding grants of options, 5,897,800 shares for issuance upon vesting of outstanding grants of restricted stock units, 173,849 shares for issuance under the 2014 ESPP and 90,482 shares for issuance in settlement of directors' deferred compensation accounts.

Security ownership of certain beneficial owners and management

The information that is contained under the captions "Security ownership of certain beneficial owners" and "Security ownership of directors and management" in our proxy statement for the 2020 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 13. Certain relationships and related transactions, and director independence

The information contained under the captions "Related person transactions" and "Director independence" in our proxy statement for the 2020 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 14. Principal accountant fees and services

The information with respect to principal accountant fees and services contained under the caption “Proposal to ratify appointment of independent registered public accounting firm” in our proxy statement for the 2020 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

PART IV

ITEM 15. Exhibits, financial statement schedules

The financial statements are listed in the index included in Item 8, “Financial statements and supplementary data.”

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended	10-K	001-3761	February 24, 2015	3(a)	
3(b)	By-Laws of the Registrant	8-K	001-3761	December 12, 2016	3	
4(a)	Indenture	8-K	001-3761	May 23, 2011	4.2	
4(b)	Officer's Certificate	8-K	001-3761	May 8, 2013	4.2	
4(c)	Officer's Certificate	8-K	001-3761	March 12, 2014	4.2	
4(d)	Officer's Certificate	8-K	001-3761	May 6, 2015	4.1	
4(e)	Officer's Certificate	8-K	001-3761	May 6, 2016	4.1	
4(f)	Officer's Certificate	8-K	001-3761	May 4, 2017	4.1	
4(g)	Officer's Certificate	8-K	001-3761	November 3, 2017	4.1	
4(h)	Officer's Certificate	8-K	001-3761	May 7, 2018	4.1	
4(i)	Officer's Certificate	8-K	001-3761	June 8, 2018	4.1	
4(j)	Officer's Certificate	8-K	001-3761	March 11, 2019	4.1	
4(k)	Officer's Certificate	8-K	001-3761	September 4, 2019	4.1	
4(l)	Description of Securities					X
10(a)	TI Deferred Compensation Plan, as amended*	10-K	001-3761	February 24, 2016	10(a)	
10(b)	TI Employees Non-Qualified Pension Plan, effective January 1, 2009, as amended*	10-K	001-3761	February 24, 2016	10(b)	
10(c)	TI Employees Non-Qualified Pension Plan II*	10-K	001-3761	February 24, 2016	10(c)	
10(d)	Texas Instruments Long-Term Incentive Plan, adopted April 15, 1993*	10-K	001-3761	February 24, 2012	10(c)	
10(e)	Texas Instruments 2000 Long-Term Incentive Plan as amended October 16, 2008*	10-K	001-3761	February 24, 2015	10(e)	
10(f)	Texas Instruments 2003 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 24, 2015	10(j)	
10(g)	Form of Non-Qualified Stock Option Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(k)	
10(h)	Form of Restricted Stock Unit Award Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(l)	
10(i)	Texas Instruments 2009 Long-Term Incentive Plan as amended April 21, 2016*	DEF 14A	001-3761	March 9, 2016	Appendix B	
10(j)	Texas Instruments 2009 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 23, 2017	10(n)	
10(k)	Texas Instruments 2018 Director Compensation Plan as amended December 5, 2019					X
21	List of Subsidiaries of the Registrant					X
23	Consent of Independent Registered Public					

Designation of Exhibit	Description of Exhibit	Incorporated by Reference			Filed or Furnished Herewith
		File Form	Number	Date of Filing	Exhibit Number
101.ins	Instance Document				X
101.sch	XBRL Taxonomy Schema				X
101.cal	XBRL Taxonomy Calculation Linkbase				X
101.def	XBRL Taxonomy Definitions Document				X
101.lab	XBRL Taxonomy Labels Linkbase				X
101.pre	XBRL Taxonomy Presentation Linkbase				X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				X

* Management compensation plans and arrangements

Notice regarding forward-looking statements

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

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

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

- Our ability to maintain and enforce a strong intellectual property portfolio and maintain freedom of operation in all jurisdictions where we conduct business; or our exposure to infringement claims;
- Instability in the global credit and financial markets;
- Increases in health care and pension benefit costs;
- Our ability to recruit and retain skilled personnel, and effectively manage key employee succession; and
- Impairments of our non-financial assets.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Rafael R. Lizardi

Rafael R. Lizardi
Senior Vice President,
Chief Financial Officer
and Chief Accounting Officer

Date: February 20, 2020

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Rafael R. Lizardi, and Cynthia Hoff Trochu, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2019, to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 20th day of February 2020.

Signature	Title
/s/ Mark A. Blinn	
Mark A. Blinn	Director
/s/ Todd M. Bluedorn	
Todd M. Bluedorn	Director
/s/ Janet F. Clark	
Janet F. Clark	Director
/s/ Carrie S. Cox	
Carrie S. Cox	Director
/s/ Martin S. Craighead	
Martin S. Craighead	Director
/s/ Jean M. Hobby	
Jean M. Hobby	Director
/s/ Ronald Kirk	
Ronald Kirk	Director
/s/ Pamela H. Patsley	
Pamela H. Patsley	Director
/s/ Robert E. Sanchez	
Robert E. Sanchez	Director
/s/ Richard K. Templeton	
Richard K. Templeton	Director, Chairman of the Board, President and Chief Executive Officer
/s/ Rafael R. Lizardi	
Rafael R. Lizardi	Senior Vice President, Chief Financial Officer and Chief Accounting Officer

FORM 10-K

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

for the fiscal year ended December 31, 2018

OR

☐ **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 1-3761

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, Dallas, Texas
(Address of Principal Executive Offices)

75243
(Zip Code)

Registrant's Telephone Number, Including Area Code: 214-479-3773

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$107,359,133,537 as of June 30, 2018.

938,484,603 (Number of shares of common stock outstanding as of February 18, 2019)

Part III hereof incorporates information by reference to the Registrant’s proxy statement for the 2019 annual meeting of stockholders.

PART I

ITEM 1. Business.

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in more than 30 countries. We have two reportable segments: Analog and Embedded Processing. We report the results of our remaining business activities in Other. In 2018, we generated \$15.78 billion of revenue.

Our business model is designed around four sustainable competitive advantages that we believe, in combination, put us in a unique class of companies. These advantages include (1) a strong foundation of manufacturing and technology, (2) a broad portfolio of differentiated analog and embedded processing products, (3) the broadest reach of market channels and (4) diversity and longevity of our products, markets and customer positions. Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets, which we believe represent the best growth opportunities. Analog and embedded processing products sold into industrial and automotive markets provide long product life cycles, intrinsic diversity and less capital-intensive manufacturing, which we believe offer stability, profitability and strong cash generation. This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth, especially on a per-share basis, is important for maximizing shareholder value over the long term. We also believe that free cash flow will be valued only if it is productively invested in the business or returned to shareholders. Free cash flow is cash flow from operations less capital expenditures.

The combined effect of these sustainable competitive advantages is that over time we have gained market share in Analog and Embedded Processing and have grown and returned free cash flow. TI's business model puts us in a unique class of companies with the ability to grow, generate cash and return that cash to shareholders.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as "chips," combine multiple transistors to form a complete electronic circuit. We have tens of thousands of products that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels. Our segments also reflect how management allocates resources and measures results.

Analog

Our Analog segment generated \$10.80 billion of revenue in 2018. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors also are used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or running off a battery. Our Analog products are used in many markets, particularly industrial, automotive and personal electronics.

Sales of our Analog products generated about 68 percent of our revenue in 2018. According to external sources, the market for analog semiconductors was about \$59 billion in 2018. Our Analog segment's revenue in 2018 was about 18 percent of this fragmented market, the leading position. We believe we are well positioned to increase our market share over time.

Our Analog segment includes the following major product lines: Power, Signal Chain and High Volume.

Power

Power includes products that help customers manage power in electronic systems. Our broad portfolio is designed to manage power requirements across different voltage levels using battery management solutions, portable components, power supply controls, point-of-load products, switches and interfaces, integrated protection devices, high-voltage products, and mobile lighting and display products.

Signal Chain

Signal Chain includes products that sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control. Our Signal Chain products, which serve a variety of end markets, include amplifiers, data converters, interface products, motor drives, clocks and sensing products.

High Volume

High Volume includes integrated analog and standard products that are primarily sold into markets such as personal electronics, industrial and automotive. These products support applications like displays and automotive safety systems.

Embedded Processing

Our Embedded Processing segment generated \$3.55 billion of revenue in 2018. Embedded Processing products are the “brains” of many types of electronic equipment. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. Our devices vary from simple, low-cost microcontrollers used in applications such as electric toothbrushes to highly specialized, complex devices used in automotive applications such as infotainment systems and advanced driver assistance systems (ADAS). Our Embedded Processing products are used in many markets, particularly industrial and automotive.

An important characteristic of our Embedded Processing products is that our customers often invest their own research and development (R&D) to write software that operates on our products. This investment tends to increase the length of our customer relationships because many customers prefer to re-use software from one product generation to the next.

Sales of Embedded Processing products generated about 23 percent of our revenue in 2018. According to external sources, the market for embedded processors was about \$21 billion in 2018. Our Embedded Processing segment’s revenue in 2018 was about 18 percent of this fragmented market, among the leaders. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Connected Microcontrollers and Processors.

Connected Microcontrollers

Connected Microcontrollers includes microcontrollers, microcontrollers with integrated wireless capabilities and stand-alone wireless connectivity solutions. Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. Microcontrollers tend to have minimal requirements for memory, program length and software complexity. Our products are used in a wide range of applications and incorporate both wired and wireless communication with integrated analog functions to enable electronic equipment to sense, connect, log and transfer data.

Processors

Processors includes digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors are designed for specific computing activity.

Other

We report the results of our remaining business activities in Other, which includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other generated \$1.43 billion of revenue in 2018 and includes revenue from DLP® products (primarily used in projectors to create high-definition images), calculators and certain custom semiconductors known as application-specific integrated circuits (ASICs).

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges; restructuring charges; and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions.

Markets for our products

The table below lists the major markets for our products in 2018 and the estimated percentage of our 2018 revenue that the market represented. The chart also lists, in declining order of our revenue, the sectors within each market.

Market	Sector
Industrial (36% of TI revenue)	Factory automation & control Building automation Grid infrastructure Medical Test & measurement Aerospace & defense Appliances Motor drives Pro audio, video & signage Power delivery Electronic point of sale (EPOS) Industrial transport Lighting
Automotive (20% of TI revenue)	Infotainment & cluster Advanced driver assistance systems (ADAS) Passive safety Hybrid, electric & powertrain systems Body electronics & lighting
Personal electronics (23% of TI revenue)	Mobile phones PC & notebooks Portable electronics Connected peripherals & printers Tablets Data storage Home theatre & entertainment TV Wearables (non-medical) Gaming
Communications equipment (11% of TI revenue)	Wireless infrastructure Wired networking Broadband fixed line access Datacom module
Enterprise systems (7% of TI revenue)	Enterprise projectors Data center & enterprise computing Enterprise machine
Other (calculators and other) (3% of TI revenue)	

Market characteristics

Competitive landscape

Despite recent consolidation, the analog and embedded processing markets remain highly fragmented. As a result, we face significant global competition from dozens of large and small companies, including both broad-based suppliers and niche suppliers. Our competitors also include emerging companies, particularly in Asia, that sell products into the same markets in which we operate.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and depth of its channels to market, technological innovation, product development execution, technical support, customer service, quality, reliability, capacity and price. In addition, manufacturing process and package technologies that provide differentiated levels of performance are a competitive factor for our Analog products and customers' prior investments in software development is a competitive factor for our Embedded Processing products.

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing processes. Semiconductor prices and manufacturing costs tend to decline over time as manufacturing processes and product life cycles mature.

Market cycle

The "semiconductor cycle" refers to the ebb and flow of supply and demand and the building and depleting of inventories. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. These are typically referred to as upturns and downturns in the semiconductor cycle. The semiconductor cycle could be affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

We employ several strategies to dampen the effect of the semiconductor cycle on TI. We plan manufacturing facility and equipment expansion ahead of demand. We focus our resources on our Analog and Embedded Processing segments, which serve diverse markets and diverse customers. This diversity reduces our dependence on the performance of a single market or small group of customers. Additionally, we utilize consignment inventory programs with our customers and distributors that give us improved insight into customer demand.

Seasonality

Our revenue is subject to some seasonal variation. Historically, our sequential revenue growth rate tends to be weaker in the first and fourth quarters when compared with the second and third quarters.

Customers, sales and distribution

We sell our products to about 100,000 customers. Our customer base is diverse, with more than one-third of our revenue derived from customers outside our largest 100.

We market and sell our products through direct sales channels, including our broad sales force and our website, and through distributors. About 65 percent of our sales are fulfilled through our distributors, and they maintain inventory of our products.

In order to provide high service levels for our customers, over the last several years we have been investing to have a closer direct relationship with a large, diverse customer base. Our investments in new and improved capabilities include website and e-commerce enhancements for demand creation as well as inventory consignment programs and order fulfillment services.

Manufacturing

Semiconductor manufacturing begins with a sequence of photolithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is packaged and tested. The entire process takes place in highly specialized facilities, with most products requiring 6 to 14 weeks for completion.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation.

We invest in manufacturing technologies and do most of our manufacturing in-house. This strategic decision to directly control our manufacturing helps ensure a consistent supply of products for our customers and also allows us to invest in technology that differentiates the features of our products. We have focused on creating a competitive manufacturing cost advantage by investing in our advanced analog 300-millimeter capacity, which has about a 40 percent cost advantage per unpackaged chip over 200-millimeter. To strengthen this advantage, we are planning our next phase of 300-millimeter capacity expansion as 300-millimeter wafers will continue to support the majority of our Analog growth.

We expect to continue to maintain sufficient internal manufacturing capacity to meet the vast majority of our production needs, and to obtain manufacturing equipment to support new technology developments and revenue growth. To supplement our manufacturing capacity and maximize our responsiveness to customer demand, we use the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2018, we sourced about 20 percent of our total wafers from external foundries and about 40 percent of our assembly/test services from subcontractors.

Inventory

Our long-term inventory strategy is to maintain high levels of customer service and stable lead times, minimize inventory obsolescence and improve manufacturing asset utilization. To capitalize on manufacturing efficiencies, we build in advance of demand low-volume, long-lived devices with a broad customer base and a low risk of obsolescence. Additionally, we sometimes maintain product inventory in unfinished wafer form to allow greater flexibility in periods of high demand. Further, we have improved insight into demand and are better able to manage our factory loadings because over time we have increased consignment inventory programs with our customers and distributors. About 65 percent of TI revenue is fulfilled from consignment programs. Our strategy and expected customer demand will cause our inventory levels to fluctuate over time.

Longer term, we expect to carry more inventory than we have in the past as we move towards higher consignment levels and more long-lived, low-volume devices to serve industrial customers, a growing portion of our business.

Backlog

We define backlog as of a particular date as purchase orders with a customer-requested delivery date within a specified length of time. Our backlog at any particular date may not be indicative of revenue for any future period. As customer requirements and industry conditions change, orders may be subject to cancellation or modification of terms such as pricing, quantity or delivery date. Customer order placement practices continually evolve based on customers' individual business needs and capabilities, as well as industry supply and capacity considerations. Further, our consignment programs do not result in backlog because the order occurs at the same time as delivery, i.e., when the customer pulls the product from consigned inventory. Our backlog of orders was \$1.45 billion at December 31, 2018, and \$1.32 billion at December 31, 2017.

Raw materials

We purchase materials, parts and supplies from a number of suppliers. In some cases we purchase such items from sole-source suppliers. The materials, parts and supplies essential to our business are generally available at present, and we believe that such materials, parts and supplies will be available in the foreseeable future.

Intellectual property

We own many patents, and have many patent applications pending, in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and continually add patents to that portfolio. We also have license agreements, which vary in duration, involving rights to our portfolio or those of other companies. We do not consider our business materially dependent upon any one patent or patent license.

We often participate in industry initiatives to set technical standards. Our competitors may participate in the same initiatives. Participation in these initiatives may require us to license certain of our patents to other companies on reasonable and non-discriminatory terms.

We own trademarks that are used in the conduct of our business. These trademarks are valuable assets, the most important of which are “Texas Instruments” and our corporate monogram.

Executive officers of the Registrant

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

Name	Age	Position
Niels Anderskouv	49	Senior Vice President
Ahmad S. Bahai	56	Senior Vice President
Ellen L. Barker	56	Senior Vice President and Chief Information Officer
R. Gregory Delagi	56	Senior Vice President
Kyle M. Flessner	48	Senior Vice President
Haviv Ilan	50	Senior Vice President
Hagop H. Kozanian	36	Senior Vice President
Rafael R. Lizardi	46	Senior Vice President, Chief Financial Officer and Chief Accounting Officer
Richard K. Templeton	60	Director, Chairman of the Board, President and Chief Executive Officer
Cynthia Hoff Trochu	55	Senior Vice President, Secretary and General Counsel
Julie M. Van Haren	50	Senior Vice President
Darla H. Whitaker	53	Senior Vice President
Bing Xie	51	Senior Vice President

The term of office of these officers is from the date of their election until their successor shall have been elected and qualified. All have been employees of the company for more than five years. Messrs. Delagi and Templeton and Ms. Whitaker have served as executive officers of the company for more than five years. Ms. Trochu and Mr. Xie became executive officers of the company in 2015. Messrs. Anderskouv, Ilan and Lizardi and Meses. Barker and Van Haren became executive officers of the company in 2017. Messrs. Bahai, Flessner and Kozanian became executive officers of the company in 2018. Mr. Anderskouv was previously an executive officer of the company from 2012 to 2014.

Employees

At December 31, 2018, we had 29,888 employees.

Available information

Our internet address is www.ti.com. Information on our website is not part of this report. We make available free of charge through our Investor Relations website our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. Also available through the TI Investor Relations website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports.

Available on our website at www.ti.com/corporategovernance are: (i) our Corporate Governance Guidelines; (ii) charters for the Audit, Compensation, and Governance and Stockholder Relations Committees of our board of directors; (iii) our Code of Conduct; and (iv) our Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199, Attention: Investor Relations.

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 into 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 TI, a company with broad international operations. Like other companies, we are susceptible to any potential downturn associated with increasing protectionism, trade tensions and macroeconomic weakness, including any potential downturn associated with the pending withdrawal of the United Kingdom from the European Union. These 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 results, dividends or share repurchases, and other factors, many of which are beyond our control.

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 this competition will continue to increase from large competitors and from small competitors serving niche markets, and also from emerging companies, particularly in Asia, that sell products into the same markets in which we operate. For example, we may face increased competition as a result of China actively promoting and reshaping its domestic semiconductor industry through policy changes and investment. These actions may restrict us from participating in the China market or may prevent us from competing effectively with Chinese companies. Certain competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products, and consolidation among our competitors may allow them to compete more effectively. Additionally, traditional intellectual property licensors are increasingly providing functionality, designs and complete hardware or software solutions that compete with 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.

Changes in expected demand for our products could have a material adverse effect on our results of operations.

Our customers include companies in a wide range of end markets and sectors within those markets. If demand in one or more sectors within our end markets declines or the rate of growth slows, our results of operations may be adversely affected. The cyclical nature of the semiconductor market may lead to significant and rapid increases and decreases in product demand. Additionally, the loss or significant curtailment of purchases by one or more of our large 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.

Our results of operations also might suffer because of a general decline in customer demand resulting from, for example: uncertainty regarding the stability of global credit and financial markets; natural events or domestic or international political, social, economic or other conditions; breaches of customer information technology systems that disrupt customer operations; or a customer's inability to access credit markets and other sources of needed liquidity.

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 global operations subject us to risks associated with domestic or international political, social, economic or other conditions.

We have facilities in more than 30 countries. About 85 percent of our revenue comes from shipments to locations outside the United States; in particular, shipments of products into China typically represent a large portion of our revenue. We are exposed to political, social and economic conditions, security risks, terrorism or other hostile acts, health conditions, labor conditions, and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate. Additionally, certain countries where we operate have experienced, and other countries may experience, increasing protectionism that may impact global trade, including tariffs, import or export restrictions, trade embargoes and sanctions, restrictions on cross-border investment and other trade barriers. This could result in an adverse effect on our operations and our financial results. In addition, our global operations expose us to periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business. The remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

Our operating results and our reputation could be adversely affected by breaches or disruptions of information technology systems.

Breaches or disruptions of our information technology systems or the systems of our customers, vendors and other third parties could be caused by factors such as computer viruses, system failures, restricted network access, unauthorized access, terrorism, employee malfeasance, or human error. These events could, among other things, compromise our information technology networks; result in corrupt or lost data or the unauthorized release of our, our customers' or our suppliers' confidential or proprietary information; cause a disruption to our manufacturing and other operations; result in the release of personal data; or cause us to incur costs associated with increased protection, remediation, regulatory inquiries or penalties, any of which could adversely affect our operating results and our reputation. Cybersecurity threats are frequent and constantly evolving, thereby increasing the difficulty of defending against them.

Our results of operations could be affected by natural events in the locations in which we operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as severe weather, geological events or health epidemics that could disrupt operations. A natural disaster that results in a prolonged disruption to our operations may adversely affect our results and financial condition.

Rapid technological change in markets we serve requires us to develop new technologies and products.

Rapid technological change in markets we serve could contribute to shortened product life cycles and a decline in average selling prices of our products. Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a timely manner. We make significant investments in research and development to improve existing technology and products, develop new products to meet changing customer demands, and improve our production processes. In some cases, we might not realize a return or the expected return on our investments because they are generally made before commercial viability can be assured. Further, projects that are commercially viable may not contribute to our operating results until at least a few years after they are completed.

We face supply chain and manufacturing risks.

We rely on third parties to supply us with goods and services in a cost-effective and timely manner. Our access to needed goods and services may be adversely affected by potential disputes with suppliers or disruptions in our suppliers' operations as a result of, for example: quality excursions; uncertainty regarding the stability of global credit and financial markets; domestic or international political, social, economic and other conditions; natural events in the locations in which our suppliers operate; or limited or delayed access to key raw materials, natural resources and utilities. Additionally, a breach of our suppliers' information technology systems could result in a release of our confidential or proprietary information. If our suppliers are unable to access credit markets and other sources of needed liquidity, we may be unable to obtain needed supplies, collect accounts receivable or access needed technology.

In particular, our manufacturing processes and critical manufacturing equipment require that certain key raw materials, natural resources and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if one or more of our customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Our 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 products, and we depend on third parties to provide advanced logic manufacturing process technology development. We do not have long-term contracts with all of these suppliers, and the number of alternate suppliers is limited. Reliance on these suppliers involves risks, including possible shortages of capacity in periods of high demand, suppliers' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost effective, and appropriate manner and the possibility of suppliers' imposition of increased costs on us.

Our results of operations and our reputation could be affected by warranty claims, product liability claims, product recalls or legal proceedings.

Claims based on warranty, product liability, epidemic or delivery failures, or other grounds relating to our products, manufacturing, services, designs, communications or cybersecurity could lead to significant expenses as we defend the claims or pay damage awards or settlements. In the event of a claim, we may also incur costs if we decide to compensate the affected customer or end consumer. Any such claims may also cause us to write off the value of related inventory. We 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 a customer to recall a product containing a TI part, for example, with respect to products used in automotive applications or handheld electronics, which may cause us to incur costs and expenses relating to the recall. Any of these events could adversely affect our results of operations, financial condition and reputation.

Our operations could be affected by the complex laws, rules and regulations to which our business is subject.

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, the environment, safety and health; exports and imports; bribery and corruption; tax; data privacy and protection; labor and employment; competition; market access; intellectual property ownership and infringement; and the movement of currency. Compliance with these laws, rules and regulations may be onerous and expensive and could restrict our ability to manufacture or ship our products and operate our business. If we fail to comply or if we become subject to enforcement activity, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, natural resources, or materials or gases used or emitted into the environment in connection with the manufacture of our products. A substitute for a prohibited raw material or process might not be available, or might not be available at reasonable cost.

Our results of operations could be affected by changes in tax-related matters.

We have facilities in more than 30 countries 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. If our tax rate increases, our results of operations could be adversely affected. A number of factors could cause our tax rate to increase, including a change in the jurisdictions in which our profits are earned and taxed; a change in the mix of profits from those jurisdictions; changes in available tax credits or deductions, including for amounts relating to stock compensation; changes in applicable tax rates; changes in tariff regulations or surcharges; changes in accounting principles; or adverse resolution of audits by taxing authorities. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also affect our results of operations.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. These laws and regulations can be complex and subject to interpretation. Changes in these laws and regulations, including those that align with the Organisation for Economic Cooperation and Development's Base Erosion and Profit Shifting recommendations, could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. Each quarter we forecast our tax expense based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax expense will change.

If in the future we repatriate any of our earnings represented by non-cash, operating assets such as inventory and fixed assets, we might incur incremental non-U.S. taxes, which could affect our results of operations.

Our results of operations and financial condition could be adversely affected if a customer or a distributor suffers a loss with respect to our inventory.

We have consignment inventory programs in place for some of our largest customers and distributors. If a customer or distributor were to experience a loss with respect to TI-consigned inventory, our results of operations and financial condition may be adversely affected if we do not recover the full value of the lost inventory from the customer, distributor or insurer, or if our recovery is delayed.

Our results of operations could be adversely affected by our distributors' promotion of competing product lines or our distributors' financial performance.

In 2018, about 65 percent of our revenue was generated from sales of our products through distributors. Our distributors carry competing product lines, and our sales could be affected if our distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us. Disputes with or the loss of significant distributors could be disruptive or harmful to our current business.

Our margins may vary over time.

Our profit margins may be adversely affected by a number of factors, including decreases in customer demand and shipment volume; obsolescence of our inventory; shifts in our product mix; changes in tariffs; changes in our manufacturing processes; and new accounting pronouncements or changes in existing accounting practices or standards. In addition, we operate in a highly competitive market environment that might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these fixed costs do not decline with reductions in customer demand or factory loadings, and can adversely affect profit margins as a result.

Our performance depends in part on our ability to enforce our intellectual property rights and to maintain freedom of operation.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio in all jurisdictions where we conduct business. There can be no assurance that, as our business evolves, we will obtain the necessary intellectual property rights, or that 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. We may, directly or indirectly, face infringement claims from third parties, including non-practicing entities that have acquired patents to pursue enforcement actions against other companies. We may also face infringement claims where we or our customers make, use or sell products and where the intellectual property laws may be less established or less predictable. These assertions, whether or not of any merit, could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have a contractual or other legal obligation to indemnify them against damages resulting from infringement claims.

We actively enforce and protect our own intellectual property rights. However, our efforts cannot prevent all misappropriation or improper use of our protected technology and information, including, for example, third parties' use of our patented or copyrighted technology, or our trade secrets in their products without the right to do so, or third parties' sale of counterfeit products bearing our trademark. The risk of unfair copying or cloning may impede our ability to sell our products. The laws of countries where we operate may not protect our intellectual property rights to the same extent as U.S. laws.

Our debt could affect our operations and financial condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including our other risk factors, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise would be invested in our operations or returned to shareholders, or could cause us to raise funds by, for example, issuing new debt or equity or selling assets.

Our results of operations and liquidity could be affected by changes in the financial markets.

We maintain bank accounts, one or more multi-year revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our operations, invest in our business, make strategic acquisitions, service our debt obligations and meet our cash return objectives depends upon continuous access to our bank and investment accounts, and may depend on access to our bank credit lines that 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 and our ability to access the capital markets or redeem our investments could be restricted.

Increases in health care and pension benefit costs could affect our results of operations and financial condition.

Federal and state health care reform programs could increase our costs with regard to medical coverage of our employees, which could reduce profitability and affect our results of operations and financial condition. In addition, obligations related to our pension and other postretirement plans reflect assumptions that affect the planned funding and costs of these plans, including the actual return on plan assets, discount rates, plan participant population demographics and changes in pension regulations. Changes in these assumptions may affect plan funding, cash flow and results of operations, and our costs and funding obligations could increase significantly if our plans' actual experience differs from these assumptions.

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, as well as the effective management of succession for key employees. Skilled and experienced personnel in our industry, including engineering, management, marketing, technical and staff personnel, are in high demand and competition for their talents is intense. There can be no assurance that we will be able to successfully retain and recruit the key engineering, management and technical personnel that we require to execute our business strategy. Our ability to recruit internationally or deploy employees to various locations may be limited by immigration laws.

Our ability to successfully implement business and organizational changes could affect our business plans and results of operations.

From time to time, we undertake business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our strategic objectives. Our failure to successfully implement these changes could adversely affect our business plans and operating results. For example, we may not realize the expected benefits of an acquisition if we are unable to timely and successfully integrate acquired operations, product lines and technology, and our pre-acquisition due diligence may not identify all possible issues and risks that might arise with respect to an acquisition. Further, we may not achieve or sustain the expected growth or cost savings benefits of business and organizational changes, and restructuring charges could differ materially in amount and timing from our expectations.

Material impairments of our goodwill or intangible assets could adversely affect our results of operations.

We have a significant amount of goodwill and intangible assets on our consolidated balance sheet. Charges associated with impairments of goodwill or intangible assets could adversely affect our financial condition and results of operations.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our principal executive offices are located at 12500 TI Boulevard, Dallas, Texas. The following table indicates the general location of our principal manufacturing and design operations and the reportable segments that make major use of them. Except as otherwise indicated, we own these facilities.

	<u>Analog</u>	<u>Embedded Processing</u>
Dallas, Texas	X	X
Houston, Texas		X
Sherman, Texas	X	
Tucson, Arizona *	X	
Santa Clara, California	X	
South Portland, Maine	X	
Chengdu, China †	X	X
Shanghai, China *	X	X
Freising, Germany	X	X
Bangalore, India †	X	X
Aizu, Japan	X	X
Miho, Japan	X	X
Kuala Lumpur, Malaysia †	X	X
Melaka, Malaysia †	X	
Aguascalientes, Mexico *	X	
Baguio, Philippines †	X	X
Pampanga (Clark), Philippines †	X	X
Greenock, Scotland #	X	
Taipei, Taiwan †	X	X

* Leased.

† Portions of the facilities are leased and owned. This may include land leases.

In February 2019, we entered into an agreement to sell our manufacturing facility in Greenock, Scotland. The sale is expected to close during the first quarter of 2019.

Our facilities in the United States contained approximately 13.0 million square feet at December 31, 2018, of which approximately 0.6 million square feet were leased. Our facilities outside the United States contained approximately 10.0 million square feet at December 31, 2018, of which approximately 1.5 million square feet were leased.

At the end of 2018, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates, generally within the next five years. We believe our current properties are suitable and adequate for their intended purpose.

ITEM 3. Legal Proceedings.

We are involved in various inquiries and proceedings that arise in the ordinary course of our business. We believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The information concerning the number of stockholders of record at December 31, 2018, is contained in Item 6, "Summary of Selected Financial Data."

TI common stock is quoted on The Nasdaq Global Select Market under the ticker symbol TXN. The following table contains information regarding our purchases of our common stock during the fourth quarter of 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ^(a)
October 1, 2018 through October 31, 2018	10,869,754	\$ 97.50	10,823,353	\$ 17.10 billion
November 1, 2018 through November 30, 2018	5,992,830	95.44	5,992,830	16.53 billion
December 1, 2018 through December 31, 2018	4,062,116	93.96	4,062,116	16.14 billion
Total	20,924,700 ^(b)	\$ 96.22 ^(b)	20,878,299	\$ 16.14 billion ^(c)

(a) All open-market purchases during the quarter were made under the authorizations from our board of directors to purchase up to \$7.5 billion and \$6.0 billion of additional shares of TI common stock announced September 17, 2015 and September 21, 2017, respectively. On September 20, 2018, our board of directors authorized the purchase of an additional \$12.0 billion of our common stock.

(b) In addition to open-market purchases, 46,401 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

(c) As of December 31, 2018, this amount consisted of the remaining portion of the \$6.0 billion authorized in September 2017 and the \$12.0 billion authorized in September 2018. No expiration date has been specified for these authorizations.

ITEM 6. Selected Financial Data.

(Millions of dollars, except share and per-share amounts)	For Years Ended December 31,				
	2018	2017	2016	2015	2014
Cash flow data:					
Cash flows from operating activities	\$ 7,189	\$ 5,363	\$ 4,614	\$ 4,397	\$ 4,054
Capital expenditures	1,131	695	531	551	385
Free cash flow (a)	6,058	4,668	4,083	3,846	3,669
Dividends paid	2,555	2,104	1,646	1,444	1,323
Stock repurchases	5,100	2,556	2,132	2,741	2,831
Income statement data:					
Revenue by segment:					
Analog	10,801	9,900	8,536	8,339	8,104
Embedded Processing	3,554	3,498	3,023	2,787	2,740
Other	1,429	1,563	1,811	1,874	2,201
Revenue	15,784	14,961	13,370	13,000	13,045
Gross profit	10,277	9,614	8,257	7,575	7,447
Operating expenses (R&D and SG&A)	3,243	3,202	3,098	2,995	3,164
Acquisition charges	318	318	319	329	330
Restructuring charges/other	3	11	(15)	(71)	(50)
Operating profit	6,713	6,083	4,855	4,322	4,003
Net income	\$ 5,580	\$ 3,682	\$ 3,595	\$ 2,986	\$ 2,821

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

Net income	\$ 5,580	\$ 3,682	\$ 3,595	\$ 2,986	\$ 2,821
Income allocated to RSUs	(42)	(33)	(44)	(42)	(43)
Income allocated to common shares for diluted EPS	\$ 5,538	\$ 3,649	\$ 3,551	\$ 2,944	\$ 2,778
Average diluted shares outstanding (millions)	990	1,012	1,021	1,043	1,080
Diluted EPS	\$ 5.59	\$ 3.61	\$ 3.48	\$ 2.82	\$ 2.57
Cash dividends declared per common share	\$ 2.63	\$ 2.12	\$ 1.64	\$ 1.40	\$ 1.24

- (a) Free cash flow is a non-GAAP measure derived by subtracting capital expenditures from cash flows from operating activities.

(Millions of dollars, except other data items)	December 31,				
	2018	2017	2016	2015	2014
Balance sheet data:					
Cash, cash equivalents and short-term investments	\$ 4,233	\$ 4,469	\$ 3,490	\$ 3,218	\$ 3,541
Total assets	17,137	17,642	16,431	16,230	17,372
Current portion of long-term debt	749	500	631	1,000	1,001
Long-term debt	4,319	3,577	2,978	3,120	3,630
Other data - Number of:					
Employees	29,888	29,714	29,865	29,977	31,003
Stockholders of record	13,825	14,260	14,910	15,563	16,361

See Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements and Supplementary Data.

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

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Our business model is designed around the following four sustainable competitive advantages that we believe, in combination, put us in a unique class of companies:

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

Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets, which we believe represent the best growth opportunities. Analog and embedded processing products sold into industrial and automotive markets provide long product life cycles, intrinsic diversity and less capital-intensive manufacturing, which we believe offer stability, profitability and strong cash generation. This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth, especially on a per-share basis, is important for maximizing shareholder value over the long term. We also believe that free cash flow will be valued only if it is productively invested in the business or returned to shareholders.

The combined effect of these sustainable competitive advantages is that over time we have gained market share in Analog and Embedded Processing and have grown free cash flow. Our business model puts us in a unique class of companies with the ability to grow, generate cash and return that cash to shareholders.

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

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.
- When we discuss our results:
 - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
 - New products tend not to have a significant impact on our revenue in any given period because we sell such a large number of products.
 - From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the "mix" of products shipped.

- Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.

- The 2017 enactment of the U.S. Tax Cuts and Jobs Act (the Tax Act) reduces our annual operating tax rate, which does not include discrete tax items, from 31 percent in 2017 to an ongoing rate of about 16 percent starting in 2019. In 2018, our annual operating tax rate was 20 percent, 4 percentage points higher, primarily due to a transitional non-cash expense. For an explanation of the term “annual operating tax rate,” see the Non-GAAP financial information section.

- After a sustained period of growth, in late 2018 the semiconductor market entered a downturn. As a result, demand for our products weakened, and we expect this weakness to continue in 2019. During this time, we will continue to be disciplined with our operating plan and expenses, while focusing on long-term investments to strengthen our competitive advantages.
- All dollar amounts in the tables are stated in millions of U.S. dollars.

Results of operations

We continued to perform well in 2018, even as the year ended with a semiconductor market slowdown. We focus on Analog and Embedded Processing, with an emphasis on the industrial and automotive markets, because these products serve highly diverse markets with thousands of applications and have long-term growth opportunities. Gross margin of 65.1 percent reflected the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

Our focus on Analog and Embedded Processing allows us to generate strong cash flow from operations. Our cash flow from operations of \$7.19 billion underscored the strength of our business model. Free cash flow was \$6.06 billion and represented 38.4 percent of revenue, up from 31.2 percent a year ago. During 2018, we returned \$7.66 billion to shareholders through a combination of stock repurchases and dividends. Our strategy is to return all free cash flow to shareholders. Our dividends represented 42 percent of free cash flow, underscoring their sustainability. Free cash flow is a non-GAAP financial measure. See the Non-GAAP financial information section.

Details of financial results – 2018 compared with 2017

Revenue of \$15.78 billion increased \$823 million, or 6 percent, primarily due to higher revenue from Analog. Embedded Processing also grew.

Gross profit of \$10.28 billion was up \$663 million, or 7 percent, due to higher revenue and lower manufacturing costs. As a percentage of revenue, gross profit increased to 65.1 percent from 64.3 percent.

Operating expenses (R&D and SG&A) were \$3.24 billion compared with \$3.20 billion.

Acquisition charges of \$318 million were non-cash. See Note 8 to the financial statements.

Operating profit was \$6.71 billion, or 42.5 percent of revenue, compared with \$6.08 billion, or 40.7 percent of revenue.

Other income and expense (OI&E) was \$98 million of income compared with \$75 million of income. See Note 13 to the financial statements.

Interest and debt expense of \$125 million increased \$47 million due to the issuance of additional long-term debt.

Our provision for income taxes was \$1.11 billion compared with \$2.40 billion, which includes a discrete tax benefit of \$198 million in 2018 and a discrete tax expense of \$540 million in 2017. The decrease in our tax provision was due to the enactment of the Tax Act in 2017, which included a reduction in the statutory tax rate in 2018 and the tax on indefinitely reinvested earnings recorded in 2017. The benefits of the Tax Act in 2018 were partially offset by higher income before income taxes. Our effective tax rate, which includes discrete tax items, was 17 percent in 2018 compared with 39 percent in 2017. See Note 5 to the financial statements for a reconciliation of the U.S. statutory income tax rate to our effective tax rate.

Net income was \$5.58 billion compared with \$3.68 billion. EPS was \$5.59 compared with \$3.61.

Segment results – 2018 compared with 2017

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

	2018	2017	Change
Revenue	\$ 10,801	\$ 9,900	9%
Operating profit	5,109	4,468	14%
Operating profit % of revenue	47.3%	45.1%	

Analog revenue increased due to Power and, to a lesser extent, Signal Chain, partially offset by a decline in High Volume. Operating profit increased due to higher revenue and associated gross profit.

Embedded Processing (includes Connected Microcontrollers and Processors product lines)

	2018	2017	Change
Revenue	\$ 3,554	\$ 3,498	2%
Operating profit	1,205	1,143	5%
Operating profit % of revenue	33.9%	32.7%	

Embedded Processing revenue increased due to Connected Microcontrollers. Processors revenue was about even. Operating profit increased primarily due to higher gross profit.

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

	2018	2017	Change
Revenue	\$ 1,429	\$ 1,563	(9)%
Operating profit *	399	472	(15)%
Operating profit % of revenue	27.9%	30.2%	

* Includes acquisition charges and restructuring charges/other

Other revenue decreased by \$134 million, and operating profit decreased by \$73 million.

Details of financial results – 2017 compared with 2016

Revenue of \$14.96 billion was up \$1.59 billion, or 12 percent, from 2016 due to higher revenue from Analog and Embedded Processing.

Gross profit of \$9.61 billion was up \$1.36 billion, or 16 percent, primarily due to higher revenue. As a percentage of revenue, gross profit increased to 64.3 percent from 61.8 percent.

Operating expenses were \$3.20 billion compared with \$3.10 billion, as we allocated resources from manufacturing support and SG&A into R&D activities.

Acquisition charges of \$318 million were non-cash.

Restructuring charges/other was a charge of \$11 million compared with a credit of \$15 million in 2016. These amounts are included in Other for segment reporting purposes. See Note 12 to the financial statements.

Operating profit was \$6.08 billion, or 40.7 percent of revenue, compared with \$4.86 billion, or 36.3 percent of revenue.

OI&E was \$75 million of income compared with \$155 million of income in 2016.

Our provision for income taxes was \$2.40 billion compared with \$1.34 billion. The increase was due to the enactment of the Tax Act and, to a lesser extent, higher income before income taxes. Our effective tax rate, which includes discrete tax items, was 39 percent in 2017 compared with 27 percent in 2016.

Net income was \$3.68 billion compared with \$3.60 billion. EPS was \$3.61 compared with \$3.48.

Segment results – 2017 compared with 2016

Analog

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue	\$ 9,900	\$ 8,536	16%
Operating profit	4,468	3,416	31%
Operating profit % of revenue	45.1%	40.0%	

Analog revenue increased due to Power and Signal Chain. High Volume also grew, but to a lesser extent. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue	\$ 3,498	\$ 3,023	16%
Operating profit	1,143	817	40%
Operating profit % of revenue	32.7%	27.0%	

Embedded Processing revenue increased due to growth in both product lines, led by Processors. Operating profit increased primarily due to higher revenue and associated gross profit.

Other

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue	\$ 1,563	\$ 1,811	(14)%
Operating profit *	472	622	(24)%
Operating profit % of revenue	30.2%	34.3%	

* Includes acquisition charges and restructuring charges/other

Other revenue decreased by \$248 million primarily due to custom ASIC products and the recognition of royalties in OI&E instead of revenue, which began in the first quarter of 2017. Operating profit decreased by \$150 million.

Financial condition

At the end of 2018, total cash (cash and cash equivalents plus short-term investments) was \$4.23 billion, a decrease of \$236 million from the end of 2017.

Accounts receivable were \$1.21 billion, a decrease of \$71 million compared with the end of 2017. Days sales outstanding at the end of 2018 were 29 compared with 31 at the end of 2017.

Inventory was \$2.22 billion, an increase of \$260 million from the end of 2017. Days of inventory at the end of 2018 were 152 compared with 134 at the end of 2017.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are cash and cash equivalents, short-term investments and a variable rate, revolving credit facility. Cash flows from operating activities for 2018 were \$7.19 billion, an increase of \$1.83 billion from 2017. This increase was due to higher net income, which benefited from a lower effective tax rate.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2023. This credit facility also serves as support for the issuance of commercial paper. As of December 31, 2018, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for 2018 used \$78 million compared with \$1.13 billion in 2017. Capital expenditures were \$1.13 billion compared with \$695 million in 2017 and were primarily for semiconductor manufacturing equipment in both periods. We had sales of short-term investments, net of purchases, that provided cash proceeds of \$1.07 billion compared with purchases of short-term investments, net of sales, that used cash of \$460 million in 2017. We received \$9 million from asset sales compared with \$40 million in 2017.

Financing activities for 2018 used \$6.33 billion compared with \$3.73 billion in 2017. In 2018, we received net proceeds of \$1.50 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$500 million. In 2017, we received net proceeds of \$1.10 billion from the issuance of fixed-rate, long-term debt and retired maturing debt of \$625 million. Dividends paid in 2018 were \$2.56 billion compared with \$2.10 billion in 2017, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used \$5.10 billion to repurchase 49.5 million shares of our common stock compared with \$2.56 billion used in 2017 to repurchase 30.6 million shares. Employee exercises of stock options provided cash proceeds of \$373 million compared with \$483 million in 2017.

We had \$2.44 billion of cash and cash equivalents and \$1.80 billion of short-term investments as of December 31, 2018. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

Non-GAAP financial information

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

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

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

	For Years Ended December 31,		
	2018	2017	2016
Cash flow from operations (GAAP)	\$ 7,189	\$ 5,363	\$ 4,614
Capital expenditures	(1,131)	(695)	(531)
Free cash flow (non-GAAP)	<u>\$ 6,058</u>	<u>\$ 4,668</u>	<u>\$ 4,083</u>
Revenue	<u>\$ 15,784</u>	<u>\$ 14,961</u>	<u>\$ 13,370</u>
Cash flow from operations as a percent of revenue (GAAP)	45.5%	35.8%	34.5%
Free cash flow as a percent of revenue (non-GAAP)	38.4%	31.2%	30.5%

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

Long-term contractual obligations

Contractual Obligations	Payments Due by Period				
	2019	2020/2021	2022/2023	Thereafter	Total
Long-term debt (a)	\$ 886	\$ 1,281	\$ 1,188	\$ 3,876	\$ 7,231
Purchase commitments (b)	389	469	37	15	910
Tax on indefinitely reinvested earnings (c)	—	46	156	304	506
Operating leases (d)	56	82	47	39	224
Deferred compensation plans (e)	17	46	48	111	222
Total (f)	<u>\$ 1,348</u>	<u>\$ 1,924</u>	<u>\$ 1,476</u>	<u>\$ 4,345</u>	<u>\$ 9,093</u>

- (a) Principal and related interest payments for our long-term debt obligations, including amounts classified as the current portion of long-term debt.
- (b) Includes payments for software licenses and contractual arrangements with suppliers when there is a fixed, non-cancellable payment schedule or when minimum payments are due with a reduced delivery schedule. Excludes cancellable arrangements.
- (c) Future payments for the one-time transition tax on our indefinitely reinvested earnings related to the enactment of the Tax Act. See Note 5 to the financial statements for more details.
- (d) Includes minimum payments for leased facilities and equipment and purchases of industrial gases under contracts accounted for as operating leases.
- (e) Estimated payments for certain liabilities that existed as of December 31, 2018.
- (f) Excludes \$286 million of uncertain tax liabilities under ASC 740, as well as any planned future funding contributions to retirement benefit plans. Amounts associated with uncertain tax liabilities have been excluded because of the difficulty in making reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Regarding future funding of retirement benefit plans, we plan to contribute about \$50 million in 2019, but funding projections beyond 2019 are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plans' asset performance, interest rates and potential U.S. and non-U.S. legislation.

Critical accounting policies

Our accounting policies are more fully described in Note 2 of the consolidated financial statements. As disclosed in Note 2, the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other estimates and assumptions would have a material impact on the financial statements. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require a higher degree of judgment.

Revenue recognition

Based on management's assessment of the revenue recognition criteria, we usually recognize revenue from sales of our products to distributors upon shipment or delivery to the distributors. For our consignment arrangements with distributors, delivery occurs when the distributor pulls product from consignment inventory that we store at designated locations. Recognition is not contingent upon resale of the products to the distributors' customers in either scenario.

Revenue is recognized net of allowances, which are management's estimates of future credits to be granted to distributors under programs common in the semiconductor industry. These allowances are not material and generally include special pricing arrangements, product returns due to quality issues, and incentives designed to maximize growth opportunities.

Allowances are based on analysis of historical data and contractual terms and are recorded when revenue is recognized. We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

Income taxes

In determining net income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities, and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. In this process, certain relevant criteria are evaluated including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior years that can be used to absorb net operating losses and credit carrybacks, and taxable income in future years. Our judgment regarding future recoverability of our deferred tax assets based on these criteria may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require material adjustments to the deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made. Also, our plans for the permanent reinvestment or eventual repatriation of the accumulated earnings of certain non-U.S. operations could change. Such changes could have a material effect on tax expense in future years.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. Statistical allowances are determined quarterly for raw materials and work-in-process based on historical disposals of inventory for salability and obsolescence reasons. For finished goods, quarterly statistical allowances are determined by comparing inventory levels of individual parts to historical shipments, current backlog and estimated future sales in order to identify inventory judged unlikely to be sold. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. Examples are an end-of-life part or demand with imminent risk of cancellation. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of the net realizable value for those products. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Changes in accounting standards

See Note 2 to the financial statements for information on new accounting standards.

Off-balance sheet arrangements

As of December 31, 2018, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Commitments and contingencies

See Note 11 to the financial statements for a discussion of our commitments and contingencies.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign exchange risk

The U.S. dollar is our functional currency for financial reporting. Our non-U.S. entities own assets or liabilities denominated in U.S. dollars or other currencies. Exchange rate fluctuations impact taxable income in those jurisdictions, and consequently impact our effective tax rate.

Our balance sheet also reflects amounts remeasured from non-U.S. dollar currencies. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by forward currency exchange contracts, based on year-end 2018 balances and currency exchange rates, a hypothetical 10 percent plus or minus fluctuation in non-U.S. currency exchange rates relative to the U.S. dollar would result in a pre-tax currency exchange gain or loss of about \$3 million.

We use these forward currency exchange contracts to reduce the earnings impact that exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. For example, at year-end 2018, we had forward currency exchange contracts outstanding with a notional value of \$525 million to hedge net balance sheet exposures (including \$160 million to sell Japanese yen, \$99 million to sell euros and \$94 million to sell Indian rupees). Similar hedging activities existed at year-end 2017.

Interest rate risk

We have the following potential exposure to changes in interest rates: (1) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (2) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2018, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by about \$4 million and decrease the fair value of our long-term debt by \$330 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2018 include the following:

- *Investments in mutual funds* – includes mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.
- *Investments in venture capital funds* – includes investments in limited partnerships (accounted for under either the equity method or at cost as non-marketable equity securities).
- *Equity investments* – includes non-marketable (non-publicly traded) equity securities.

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in deferred compensation liabilities such that a 10 percent increase or decrease in the investments' fair values would not materially affect operating results. Non-marketable equity securities and certain venture capital funds are stated at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Investments in the remaining venture capital funds are stated using the equity method. See Note 7 to the financial statements for details of equity and other long-term investments.

ITEM 8. Financial Statements and Supplementary Data.

List of Financial Statements (Item 15(a))

Income for each of the three years in the period ended December 31, 2018

Comprehensive income for each of the three years in the period ended December 31, 2018

Balance sheets as of December 31, 2018 and 2017

Cash flows for each of the three years in the period ended December 31, 2018

Stockholders' equity for each of the three years in the period ended December 31, 2018

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

**Consolidated
Statements
of Income**
For Years Ended December 31,
**(Millions
of dollars,
except
share and
per-share
amounts)**

	2018	2017	2016
Revenue	\$ 15,784	\$ 14,961	\$ 13,370
Cost of revenue (COR)	5,507	5,347	5,113
Gross profit	10,277	9,614	8,257
Research and development (R&D)	1,559	1,508	1,356
Selling, general and administrative (SG&A)	1,684	1,694	1,742
Acquisition charges	318	318	319
Restructuring charges/ other	3	11	(15)
Operating profit	6,713	6,083	4,855
Other income (expense), net (OI&E)	98	75	155
Interest and debt expense	125	78	80
Income before income taxes	6,686	6,080	4,930
Provision for income taxes	1,106	2,398	1,335
Net income	\$ 5,580	\$ 3,682	\$ 3,595
Earnings per common share (EPS):			
Basic	\$ 5.71	\$ 3.68	\$ 3.54
Diluted	\$ 5.59	\$ 3.61	\$ 3.48
Average shares outstanding (millions):			
Basic	970	991	1,003
Diluted	990	1,012	1,021

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

Net income	\$	5,580	\$	3,682	\$	3,595
Income allocated to RSUs		(42)		(33)		(44)
Income allocated to common stock for diluted EPS						
	\$	5,538	\$	3,649	\$	3,551

See accompanying notes.

**Consolidated
Statements
of
Comprehensive
Income**

For Years Ended December 31,

(Millions of dollars)	2018	2017	2016
Net income	\$ 5,580	\$ 3,682	\$ 3,595
Other comprehensive income (loss)			
Net actuarial losses of defined benefit plans:			
Adjustment, net of tax effect of \$35, (\$26) and \$6	(98)	92	(43)
Recognized within net income, net of tax effect of (\$15), (\$27) and (\$25)	50	56	51
Prior service credit of defined benefit plans:			
Adjustment, net of tax effect of \$1, \$1 and \$0	(6)	(2)	—
Recognized within net income, net of tax effect of \$1, \$1 and \$2	(3)	(5)	(3)
Derivative instruments:			
Change in fair value, net of tax effect of \$1,	(2)	—	—

\$0 and \$0 Recognized within net income, net of tax effect of \$0, \$0 and \$0	—	1	1
Other comprehensive income (loss), net of taxes	(59)	142	6
Total comprehensive income	\$ 5,521	\$ 3,824	\$ 3,601

See
accompanying
notes.

**Consolidated
Balance Sheets****(Millions of
dollars, except
share amounts)****December 31,****Assets**

Current assets:

	2018	2017
Cash and cash equivalents	\$ 2,438	\$ 1,656
Short-term investments	1,795	2,813
Accounts receivable, net of allowances of (\$19) and (\$8)	1,207	1,278
Raw materials	181	126
Work in process	1,070	1,089
Finished goods	966	742
Inventories	2,217	1,957
Prepaid expenses and other current assets	440	1,030
Total current assets	8,097	8,734
Property, plant and equipment at cost	5,425	4,789
Accumulated depreciation	(2,242)	(2,125)
Property, plant and equipment	3,183	2,664
Long-term investments	251	268
Goodwill	4,362	4,362
Acquisition-related intangibles	628	946
Deferred tax assets	295	264
Capitalized software licenses	89	110
Overfunded retirement plans	92	208
Other long-term assets	140	86
Total assets	\$ 17,137	\$ 17,642

**Liabilities and
stockholders'
equity**

Current liabilities:

Current portion of long-term debt	\$ 749	\$ 500
Accounts payable	478	466
Accrued compensation	724	722
Income taxes payable	103	128
Accrued expenses and other liabilities	420	442
Total current liabilities	2,474	2,258
Long-term debt	4,319	3,577

Underfunded retirement plans	118	89
Deferred tax liabilities	42	78
Other long-term liabilities	1,190	1,303
Total liabilities	<u>8,143</u>	<u>7,305</u>
Stockholders' equity:		
Preferred stock, \$25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred – None issued	—	—
Common stock, \$1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	1,950	1,776
Retained earnings	37,906	34,662
Treasury common stock at cost		
Shares: 2018 – 795,665,646; 2017 – 757,657,217	(32,130)	(27,458)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(473)	(384)
Total stockholders' equity	<u>8,994</u>	<u>10,337</u>
Total liabilities and stockholders' equity	<u>\$ 17,137</u>	<u>\$ 17,642</u>

See accompanying notes.

**Consolidated
Statements
of Cash
Flows**

For Years Ended December 31,

**(Millions
of dollars)**

**Cash
flows
from
operating
activities**

	2018	2017	2016
Net income	\$ 5,580	\$ 3,682	\$ 3,595
Adjustments to net income:			
Depreciation	590	539	605
Amortization of acquisition-related intangibles	318	318	319
Amortization of capitalized software	46	47	31
Stock compensation	232	242	252
Gains on sales of assets	(3)	—	(40)
Deferred taxes	(105)	112	(202)
Increase (decrease) from changes in:			
Accounts receivable	71	(7)	(108)
Inventories	(282)	(167)	(99)
Prepaid expenses and other current assets	669	76	(81)
Accounts payable and accrued expenses	(7)	51	72
Accrued compensation	(7)	(3)	36
Income taxes payable	158	468	333
Changes in funded status of retirement plans	36	21	(73)
Other	(107)	(16)	(26)
Cash flows from operating activities	7,189	5,363	4,614

Cash flows from investing activities			
Capital expenditures	(1,131)	(695)	(531)
Proceeds from asset sales	9	40	—
Purchases of short-term investments	(5,641)	(4,555)	(3,503)
Proceeds from short-term investments	6,708	4,095	3,390
Other	(23)	(12)	(6)
Cash flows from investing activities	(78)	(1,127)	(650)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	1,500	1,099	499
Repayment of debt	(500)	(625)	(1,000)
Dividends paid	(2,555)	(2,104)	(1,646)
Stock repurchases	(5,100)	(2,556)	(2,132)
Proceeds from common stock transactions	373	483	472
Other	(47)	(31)	(3)
Cash flows from financing activities	(6,329)	(3,734)	(3,810)
Net change in cash and cash equivalents	782	502	154
Cash and cash equivalents at beginning of period	1,656	1,154	1,000
Cash and cash equivalents	\$ 2,438	\$ 1,656	\$ 1,154

at end of
period

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See
accompanying
notes.

Consolidated Statements of Stockholders' Equity (Millions of dollars, except per- share amounts)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2015	\$ 1,741	\$ 1,629	\$ 31,176	\$ (24,068)	\$ (532)
2016					
Net income	—	—	3,595	—	—
Dividends declared and paid (\$1.64 per share)	—	—	(1,646)	—	—
Common stock issued for stock- based awards	—	(204)	—	677	—
Stock repurchases	—	—	—	(2,132)	—
Stock compensation	—	252	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	6
Dividend equivalents paid on restricted stock units	—	—	(18)	—	—
Other	—	(3)	—	—	—
Balance, December 31, 2016	1,741	1,674	33,107	(25,523)	(526)
2017					
Net income	—	—	3,682	—	—
Dividends declared and paid (\$2.12 per share)	—	—	(2,104)	—	—
Common stock issued for stock- based awards	—	(138)	—	621	—
Stock repurchases	—	—	—	(2,556)	—
Stock compensation	—	242	—	—	—
Other comprehensive	—	—	—	—	142

income (loss), net of taxes					
Dividend equivalents paid on restricted stock units	—	—	(17)	—	—
Other	—	(2)	(6)	—	—
Balance, December 31, 2017	1,741	1,776	34,662	(27,458)	(384)
2018					
Net income	—	—	5,580	—	—
Dividends declared and paid (\$2.63 per share)	—	—	(2,555)	—	—
Common stock issued for stock- based awards	—	(55)	—	428	—
Stock repurchases	—	—	—	(5,100)	—
Stock compensation	—	232	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(59)
Dividend equivalents paid on restricted stock units	—	—	(17)	—	—
Cumulative effect of accounting changes	—	—	236	—	(30)
Other	—	(3)	—	—	—
Balance, December 31, 2018	\$ 1,741	\$ 1,950	\$ 37,906	\$ (32,130)	\$ (473)

See
accompanying
notes.

Notes to financial statements

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

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

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

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

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges (see Note 8); restructuring charges (see Note 12); and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

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

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. We have no material intersegment revenue. The accounting policies of the segments are consistent with those described below in the summary of significant accounting policies and practices.

Segment information

For Years Ended December 31,			
	2018	2017	2016
Revenue:			
Analog \$	10,801	\$ 9,900	\$ 8,536
Embedded Processing	3,554	3,498	3,023
Other	1,429	1,563	1,811
Total revenue	<u>\$ 15,784</u>	<u>\$ 14,961</u>	<u>\$ 13,370</u>
Operating profit:			
Analog \$	5,109	\$ 4,468	\$ 3,416
Embedded Processing	1,205	1,143	817
Other	399	472	622
Total operating profit	<u>\$ 6,713</u>	<u>\$ 6,083</u>	<u>\$ 4,855</u>

Geographic area information

The following geographic area information includes revenue, based on product shipment destination, and property, plant and equipment, based on physical location. The revenue information is not necessarily indicative of the geographic area in which the end applications containing our products are ultimately consumed because our products tend to be shipped to the locations where our customers manufacture their products. Specifically, many of our products are shipped to our customers in China who may include these parts in the manufacture of their own end products, which they may in turn export to their customers around the world.

For Years Ended December 31,			
	2018	2017	2016
Revenue:			
United States	\$ 2,288	\$ 1,901	\$ 1,682
Asia (a)	9,240	8,824	8,024
Europe, Middle East and Africa	3,047	2,907	2,393
Japan	869	1,049	1,040
Rest of world	340	280	231
Total revenue	\$ 15,784	\$ 14,961	\$ 13,370

- (a) Revenue from products shipped into China was \$7.0 billion, \$6.6 billion and \$6.0 billion in 2018, 2017 and 2016, respectively.

December 31,			
	2018	2017	
Property, plant and equipment:			
United States	\$ 1,812	\$ 1,469	
Asia (a)	1,116	964	
Europe, Middle East and Africa	84	97	
Japan	157	118	
Rest of world	14	16	
Total property, plant and equipment	\$ 3,183	\$ 2,664	

- (a) Property, plant and equipment at our two sites in the Philippines was \$437 million as of December 31, 2018 and 2017. Property, plant and equipment at our sites in China was \$313 million and \$236 million as of December 31, 2018 and 2017, respectively.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The basis of these financial statements is comparable for all periods presented herein, except for the effects of adopting a new accounting standard in 2018 related to revenue recognition.

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 these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated. We have reclassified certain amounts in the prior periods' financial statements to conform to the 2018 presentation.

The preparation of financial statements requires the use of estimates from which final results may vary.

Significant accounting policies and practices

Revenue recognition

We generate revenue primarily from the sale of semiconductor products, either directly to a customer or to a distributor, or at the conclusion of a consignment process. We have a variety of types of contracts with our customers and distributors. In determining whether a contract exists, we evaluate the terms of the arrangement, the relationship with the customer or distributor and their ability to pay.

We recognize revenue from sales of our products, including sales to our distributors, when control is transferred. Control is considered transferred when title and risk of loss pass, when the customer becomes obligated to pay and, where required, when the customer has accepted the products. This transfer generally occurs at a point in time upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order. Payment for sales to customers and distributors is generally due on our standard commercial terms. For sales to distributors, payment is not contingent upon resale of the products.

Revenue from sales of our products that are subject to inventory consignment agreements is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that we store at designated locations. Transfer of control occurs at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, we retain control over the products' disposition, including the right to pull back or relocate the products.

The revenue recognized is adjusted based on allowances, which are prepared on a portfolio basis using a most likely amount methodology based on analysis of historical data and contractual terms. These allowances, which are not material, generally include adjustments for pricing arrangements, product returns and incentives. The length of time between invoicing and payment is not significant under any of our payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

In addition, we record allowances for accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, record a charge in the period such determination is made.

We recognize shipping fees, if any, received from customers in revenue. We include the related shipping and handling costs in cost of revenue. The majority of our customers pay these fees directly to third parties.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was \$34 million, \$39 million and \$44 million in 2018, 2017 and 2016, respectively.

Income taxes

We account for income taxes using an asset and liability approach. We record the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences of events that have been recognized in the financial statements or tax returns. We record a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Other assessed taxes

Some transactions require us to collect taxes such as sales, value-added and excise taxes from our customers. These transactions are presented in our Consolidated Statements of Income on a net (excluded from revenue) basis.

Earnings per share (EPS)

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

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

	For Years Ended December 31,								
	2018			2017			2016		
	Net Income	Shares	EPS	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:									
Net income	\$ 5,580			\$ 3,682			\$ 3,595		
Income allocated to RSUs	(43)			(34)			(45)		
Income allocated to common stock	<u>\$ 5,537</u>	<u>970</u>	<u>\$ 5.71</u>	<u>\$ 3,648</u>	<u>991</u>	<u>\$ 3.68</u>	<u>\$ 3,550</u>	<u>1,003</u>	<u>\$ 3.54</u>
Dilutive effect of stock compensation plans		20			21			18	
Diluted EPS:									
Net income	\$ 5,580			\$ 3,682			\$ 3,595		
Income allocated to RSUs	(42)			(33)			(44)		
Income allocated to common stock	<u>\$ 5,538</u>	<u>990</u>	<u>\$ 5.59</u>	<u>\$ 3,649</u>	<u>1,012</u>	<u>\$ 3.61</u>	<u>\$ 3,551</u>	<u>1,021</u>	<u>\$ 3.48</u>

Potentially dilutive securities representing 4 million and 6 million shares of common stock that were outstanding in 2018 and 2017, respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive. No potentially dilutive securities were excluded from the computation of diluted earnings per common share during 2016.

Investments

We present investments on our Consolidated Balance Sheets as cash equivalents, short-term investments or long-term investments, which are detailed below. See Note 7 for additional information.

- *Cash equivalents and short-term investments* – We consider investments in available-for-sale debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in available-for-sale debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments. The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns.
- *Long-term investments* – Long-term investments consist of mutual funds, venture capital funds and non-marketable equity securities.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory. Consigned inventory was \$314 million and \$303 million as of December 31, 2018 and 2017, respectively.

We review inventory quarterly for salability and obsolescence. A statistical allowance is provided for inventory considered unlikely to be sold. The statistical allowance is based on an analysis of historical disposal activity, historical customer shipments, as well as estimated future sales. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. We write off inventory in the period in which disposal occurs.

Property, plant and equipment; acquisition-related intangibles; and other capitalized costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software

licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

We regularly review whether facts or circumstances exist that indicate the carrying values of property, plant and equipment or other long-lived assets, including intangible assets, are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Any impairment charge is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise. We perform our annual goodwill impairment test as of October 1 for our reporting units, which compares the fair value for each reporting unit to its associated carrying value, including goodwill. See Note 8 for additional information.

Foreign currency

The functional currency for our non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than the U.S. dollar are remeasured into the functional currency. Current assets (except inventories), deferred taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Property, plant and equipment with associated depreciation and inventories are valued at historical exchange rates. Revenue and expense accounts other than depreciation for each month are remeasured at the appropriate daily rate of exchange. Currency exchange gains and losses from remeasurement are credited or charged to OI&E.

Derivatives and hedging

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

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

We do not use derivatives for speculative or trading purposes.

Changes in accounting standards – adopted standards for current period

Accounting Standard Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. We adopted Accounting Standards Codification Topic 606 (ASC 606) as of January 1, 2018, using the modified retrospective transition method applied only to contracts that were not completed as of the adoption date. The reported results for 2018 reflect the application of the new accounting guidance, while the reported results for prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under ASC 605, *Revenue Recognition*.

The most significant impact from adopting the standard relates to our accounting for royalty income on licenses of intellectual property; however, the effect of such change during any individual reporting period will not materially impact our results of operations and financial position. Although royalty income is recorded within OI&E, the new revenue guidance applies to these agreements by analogy, and therefore, such agreements have been evaluated for ASC 606 transition considerations. Under ASC 606, royalty income for our fixed-rate royalty agreements is bifurcated between two performance obligations: providing a right to use our initial patent portfolio and the right to access our future patents when those patents are developed. We have determined that the value of these agreements is allocated more heavily to the initial performance obligation. As a result, income from these agreements is recognized predominately at the time of contract execution rather than ratably over the life of the agreements, accelerating the timing of when we recognize royalty income in OI&E.

The timing of revenue recognition, billings and cash collections may result in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities). These items are included in other current and non-current assets and liabilities on the Consolidated Balance Sheets. Generally, we invoice customers for payment upon shipment or when goods are pulled from consignment inventory, which results in an unconditional right to consideration. The time frame between when the customer places an order for products and when it is shipped is less than 12 months.

Occasionally, as of the end of a reporting period, some performance obligations associated with contracts are unsatisfied or only partially satisfied. In accordance with the practical expedients available in the guidance, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less. Additionally, sales commissions are expensed when incurred because the amortization period would have been one year or less.

We recognized an increase to opening retained earnings of \$206 million, net of taxes, as of January 1, 2018, due to the cumulative impact of adopting ASC 606. A contract asset of \$283 million and deferred tax liabilities of \$55 million were recorded as of January 1, 2018, related to the transition period adjustments.

ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This standard allows a reclassification of stranded tax effects as a result of the U.S. Tax Cuts and Jobs Act (the Tax Act) from AOCI to retained earnings. The provisions from this guidance are effective for interim and annual periods beginning after January 1, 2019. This standard should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effects of the Tax Act are recognized.

We elected to early adopt this standard during the fourth quarter of 2018 concurrent with the completion of our accounting for the tax effects of the enactment of the Tax Act, applying the guidance to the period of adoption. As a result, we reclassified stranded tax effects of \$30 million from the 2018 opening balance of AOCI into retained earnings. See Note 5 for additional information related to our accounting for the effects of the Tax Act.

Other standards

The following standards were also adopted:

ASU	Description	Adopted Date
ASU No. 2016-01	<i>Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i>	January 1, 2018
ASU No. 2017-01	<i>Business Combinations (Topic 805): Clarifying the Definition of a Business</i>	January 1, 2018
ASU No. 2017-04	<i>Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</i>	October 1, 2018
ASU No. 2017-05	<i>Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i>	January 1, 2018

Changes in accounting standards – standards not yet adopted

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

This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a finance lease. This standard is effective for interim and annual periods beginning January 1, 2019.

We are adopting this standard effective January 1, 2019, using the optional transition method, applying the guidance to leases existing at, or entered into after, the beginning of the period of adoption. We are also electing certain practical expedients permitted under the transition guidance. In preparation for adoption of the standard, we have implemented system functionality to enable the preparation of financial information. The most significant impact from adopting the standard will be the recognition of right-of-use assets and lease liabilities for operating leases on our Consolidated Balance Sheets, which will increase total assets by about 2 percent.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which requires waiting to recognize a loss until it is probable of having been incurred. There are other provisions within the standard that affect how impairments of other financial assets may be recorded and presented, and that expand disclosures. This standard will be effective for our interim and annual periods beginning January 1, 2020, with early adoption permitted beginning January 1, 2019, and must be applied on a modified retrospective basis. We are evaluating the potential impact of this standard, but we do not expect it to have a material impact on our financial position and results of operations.

Other standards

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

ASU	Description	Effective Date
ASU No. 2017-12	<i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i>	January 1, 2019
ASU No. 2018-13	<i>Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement</i>	January 1, 2020
ASU No. 2018-14	<i>Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans</i>	January 1, 2020
ASU No. 2018-15	<i>Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</i>	January 1, 2020

3. Stock compensation

We have stock options outstanding to participants under long-term incentive plans. The option price per share may not be less than the fair market value of our common stock on the date of the grant. The options have a 10-year term, generally vest ratably over four years, and continue to vest after the option recipient retires.

We also have RSUs outstanding to participants under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock on the vesting date, which is generally four years after the date of grant. Upon vesting, the shares are issued without payment by the grantee. RSUs continue to vest after the recipient retires. Holders of RSUs receive an annual cash payment equivalent to the dividends paid on our common stock.

We have options and RSUs outstanding to non-employee directors under director compensation plans. The plans generally provide for annual grants of stock options and RSUs, a one-time grant of RSUs to each new non-employee director and the issuance of TI common stock upon the distribution of stock units credited to deferred compensation accounts established for such directors.

We also have an employee stock purchase plan (ESPP) under which options are offered to all eligible employees in amounts based on a percentage of the employee’s compensation, subject to a cap. Under the plan, the option price per share is 85 percent of the fair market value on the exercise date.

Total stock compensation expense recognized is as follows:

For Years Ended December 31,			
	2018	2017	2016
COR	\$ 25	\$ 36	\$ 40
R&D	69	59	60
SG&A	138	147	152
Total	\$ 232	\$ 242	\$ 252

These amounts include expenses related to non-qualified stock options, RSUs and stock options offered under our ESPP and are net of estimated forfeitures.

We recognize compensation expense for non-qualified stock options and RSUs on a straight-line basis over the minimum service period required for vesting of the award, adjusting for estimated forfeitures based on historical activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis. Options issued under our ESPP are expensed over a three-month period.

Fair-value methods and assumptions

We account for all awards granted under our various stock compensation plans at fair value. We estimate the fair values for non-qualified stock options using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	For Years Ended December 31,		
	2018	2017	2016
Weighted average grant date fair value, per share	\$ 23.20	\$ 16.49	\$ 10.03
Weighted average assumptions used:			
Expected volatility	23%	24%	25%
Expected lives (in years)	7.2	7.2	7.3
Risk-free interest rates	2.57%	2.36%	1.72%
Expected dividend yields	2.25%	2.52%	2.87%

We determine expected volatility on all options granted using available implied volatility rates. We believe that market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates.

We determine expected lives of options based on the historical option exercise experience of our optionees using a rolling 10-year average. We believe the historical experience method is the best estimate of future exercise patterns currently available.

Risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

Expected dividend yields are based on the annualized approved quarterly dividend rate and the current market price of our common stock at the time of grant. No assumption for a future dividend rate change is included unless there is an approved plan to change the dividend in the near term.

The fair value per share of RSUs is determined based on the closing price of our common stock on the date of grant.

Our ESPP is a discount-purchase plan and consequently the Black-Scholes-Merton option-pricing model is not used to determine the fair value per share of these awards. The fair value per share under this plan equals the amount of the discount.

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans are as follows:

	Stock Options		RSUs	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding grants, December 31, 2017	44,754,593	\$ 48.49	9,225,643	\$ 55.40
Granted	4,617,486	110.07	1,247,239	110.05
Stock options exercised/RSUs vested	(8,432,458)	42.63	(2,769,994)	44.50
Forfeited and expired	(1,034,067)	77.30	(397,345)	70.34
Outstanding grants, December 31, 2018	39,905,454	56.10	7,305,543	66.72

The weighted average grant date fair values per share of RSUs granted in 2018, 2017 and 2016 were \$110.05, \$79.52 and \$53.98, respectively. In 2018, 2017 and 2016, the total grant date fair values of shares vested from RSU grants were \$123 million, \$149 million and \$178 million, respectively.

As of December 31, 2018, the number of shares remaining available for future issuance under these plans was 50,167,414.

Summarized information about stock options outstanding as of December 31, 2018, is as follows:

Exercise Price Range	Stock Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable	Weighted Average Exercise Price per Share
	(Shares)			(Shares)	
\$ 14.47 to 20.00	573,629	0.1	\$ 14.96	573,629	\$ 14.96
20.01 to 40.00	9,508,056	2.9	31.21	9,508,056	31.21
40.01 to 60.00	19,883,804	6.2	50.95	12,397,285	49.53
60.01 to 80.00	5,612,386	8.1	79.21	1,143,118	79.20
80.01 to 100.00	37,917	9.3	91.16	3,714	91.54
100.01 to 113.30	4,289,662	9.1	110.15	—	—
14.47 to 113.30	39,905,454	5.9	56.10	23,625,802	42.76

In 2018, 2017 and 2016, the aggregate intrinsic values (i.e., the difference in the closing market price on the date of exercise and the exercise price paid by the optionee) of options exercised were \$561 million, \$632 million and \$424 million, respectively.

Summarized information as of December 31, 2018, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, is as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest) (a)	Options Exercisable
Number of outstanding (shares)	39,274,492	23,625,802
Weighted average remaining contractual life (in years)	5.9	4.7
Weighted average exercise price per share \$	55.60	\$ 42.76
Intrinsic value (millions of dollars) \$	1,591	\$ 1,222

- (a) Includes effects of expected forfeitures of approximately 1 million shares. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was \$1.60 billion.

As of December 31, 2018, total future compensation related to equity awards not yet recognized in our Consolidated Statements of Income was \$224 million, consisting of \$97 million related to unvested stock options and \$127 million related to unvested RSUs. The \$224 million is expected to be recognized as follows: \$110 million in 2019, \$72 million in 2020, \$37 million in 2021 and \$5 million in 2022.

Employee stock purchase plan

Options outstanding under the ESPP as of December 31, 2018, had an exercise price equal to 85 percent of the fair market value of TI common stock on the date of automatic exercise. The automatic exercise occurred on January 2, 2019, resulting in an exercise price of \$80.29 per share. Of the total outstanding options, none were exercisable as of December 31, 2018.

ESPP transactions are as follows:

	ESPP (Shares)		Exercise Price
Outstanding grants, December 31, 2017	202,179	\$	89.74
Granted	847,535		87.48
Exercised	(819,878)		90.06
Outstanding grants, December 31, 2018	229,836		80.29

The weighted average grant date fair values per share of options granted under the ESPP in 2018, 2017 and 2016 were \$15.43, \$12.99 and \$9.79, respectively. In 2018, 2017 and 2016, the total intrinsic value of options exercised under these plans was \$13 million, \$13 million and \$12 million, respectively.

As of December 31, 2018, the number of shares remaining available for future issuance under this plan was 34,555,101.

Effect on shares outstanding and treasury shares

Treasury shares were acquired in connection with the board-authorized stock repurchase program. As of December 31, 2018, \$16.14 billion of stock repurchase authorizations remain, and no expiration date has been specified.

Our current practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. The following table reflects the changes in our treasury shares:

	<u>Stock Options</u>	<u>RSUs</u>	<u>Treasury Shares</u>
Balance, December 31, 2015			729,547,527
Repurchases Shares used for:			35,480,036
Stock options/ RSUs	(14,516,606)	(5,639,666)	
Stock applied to taxes	—	1,336,476	
ESPP	(1,362,202)	—	
Director deferred stock units	—	—	(13,587)
Total issued	<u>(15,878,808)</u>	<u>(4,303,190)</u>	<u>(20,181,998)</u>
Balance, December 31, 2016			744,831,978
Repurchases Shares used for:			30,570,129
Stock options/ RSUs	(13,313,019)	(4,419,464)	
Stock applied to taxes	—	1,058,100	
ESPP	(1,065,757)	—	
Director deferred stock units	—	—	(4,750)
Total issued	<u>(14,378,776)</u>	<u>(3,361,364)</u>	<u>(17,740,140)</u>
Balance, December 31, 2017			757,657,217
Repurchases Shares used for:			49,482,220
Stock options/ RSUs	(8,432,458)	(2,769,994)	
Stock applied to taxes	—	553,720	
ESPP	(819,878)	—	
Director deferred stock units	—	—	(5,181)
Total issued	<u>(9,252,336)</u>	<u>(2,216,274)</u>	<u>(11,468,610)</u>
Balance, December 31, 2018			<u>795,665,646</u>

The effects on cash flows are as follows:

For Years Ended December 31,			
	2018	2017	2016
Proceeds from common stock transactions (a)	\$ 373	\$ 483	\$ 472
Tax benefit realized from stock compensation	\$ 179	\$ 341	\$ 255
Reduction to deferred tax asset	(43)	(91)	(105)
Excess tax benefit for stock compensation	\$ 136	\$ 250	\$ 150

- (a) Net of taxes paid for employee shares withheld of \$60 million, \$83 million and \$70 million in 2018, 2017 and 2016, respectively.

4. Profit sharing plans

Profit sharing benefits are generally formulaic and determined by one or more subsidiary or company-wide financial metrics. We pay profit sharing benefits primarily under the company-wide TI Employee Profit Sharing Plan. This plan provides for profit sharing to be paid based solely on TI's operating margin for the full calendar year. Under this plan, TI must achieve a minimum threshold of 10 percent operating margin before any profit sharing is paid. At 10 percent operating margin, profit sharing will be 2 percent of eligible payroll. The maximum amount of profit sharing available under the plan is 20 percent of eligible payroll, which is paid only if TI's operating margin is at or above 35 percent for a full calendar year.

We recognized \$354 million, \$355 million and \$346 million of profit sharing expense under the TI Employee Profit Sharing Plan in 2018, 2017 and 2016, respectively.

5. Income taxes

Income before income taxes is comprised of the following components:

For Years Ended December 31,			
	2018	2017	2016
U.S.	\$ 5,672	\$ 5,130	\$ 3,953
Non-U.S.	1,014	950	977
Total	<u>\$ 6,686</u>	<u>\$ 6,080</u>	<u>\$ 4,930</u>

Provision for income taxes is comprised of the following components:

	For Years Ended December 31,								
	2018			2017			2016		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
U.S. federal	\$ 979	\$ (98)	\$ 881	\$ 2,101	\$ 51	\$ 2,152	\$ 1,289	\$ (122)	\$ 1,167
Non-U.S.	225	(8)	217	173	61	234	238	(80)	158
U.S. state	7	1	8	12	—	12	10	—	10
Total	\$ 1,211	\$ (105)	\$ 1,106	\$ 2,286	\$ 112	\$ 2,398	\$ 1,537	\$ (202)	\$ 1,335

Principal reconciling items from the U.S. statutory income tax rate to the effective tax rate (provision for income taxes as a percentage of income before income taxes) are as follows:

For Years Ended December 31,			
	2018	2017	2016
U.S. statutory income tax rate	21.0%	35.0%	35.0%
U.S. tax benefit for foreign derived intangible income	(5.3)	—	—
U.S. Tax Act transitional non-cash expense	4.2	—	—
U.S. Tax Act enactment-date effects and measurement period adjustments	(0.7)	12.7	—
U.S. tax on global intangible low-taxed income	0.4	—	—
U.S. tax benefit for manufacturing	—	(1.6)	(1.5)
U.S. excess tax benefit for stock compensation	(2.0)	(4.1)	(3.0)
U.S. R&D tax credit	(1.3)	(1.1)	(1.2)
U.S. non-deductible expenses	0.2	0.2	0.3
Non-U.S. effective tax rates	0.1	(2.5)	(3.7)
Impact of changes to uncertain tax positions	—	0.7	0.6
Other	(0.1)	0.1	0.6
Effective tax rate	<u>16.5%</u>	<u>39.4%</u>	<u>27.1%</u>

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. statutory income tax rate from 35 percent to 21 percent and requires companies to pay a one-time tax on indefinitely reinvested earnings of certain non-U.S. subsidiaries that were previously tax deferred. We applied the guidance in Staff Accounting Bulletin No. 118 when accounting for the enactment-date effects of the Tax Act in 2017 and throughout 2018. As of December 31, 2017, we had not completed our accounting for the enactment-date income tax effects of the Tax Act for the following aspects: one-time tax on indefinitely reinvested earnings and the effects on our existing deferred tax balances. As of December 31, 2018, we completed our accounting for the enactment-date income tax effects of the Tax Act. We booked a provisional amount of \$773 million in 2017 and reduced our provisional amount by \$44 million in 2018, for a net of \$729 million. The Tax Act also included the global intangible low-taxed income (GILTI) tax for years beginning in 2018. We account for the effects of GILTI as a component of income tax expense in the period in which the tax arises.

The earnings represented by non-cash operating assets, such as fixed assets and certain inventory, will continue to be permanently reinvested outside the United States. The tax on indefinitely reinvested earnings eliminates any additional U.S. taxation of these earnings upon repatriation to the United States. Consequently, no U.S. tax provision has been made for the future remittance of these earnings. However, withholding taxes in certain non-U.S. jurisdictions will be incurred upon repatriation of available cash to the United States. A provision has been made for deferred taxes on these undistributed earnings to the extent that dividend payments from these subsidiaries are expected to result in a withholding tax liability. As of December 31, 2018, we have no basis differences that would result in material unrecognized deferred tax liabilities.

Our effective tax rate is affected by U.S. tax benefits and tax rates applicable to our operations in many of the jurisdictions in which we operate, most of which were lower than the U.S. statutory income tax rate prior to enactment of the Tax Act. These non-U.S. tax rates are generally statutory in nature and without expiration.

The primary components of deferred tax assets and liabilities are as follows:

	December 31,	
	2018	2017
Deferred tax assets:		
Deferred loss and tax credit	\$ 247	\$ 256
carryforwards		
Accrued expenses	129	119
Stock compensation	122	107
Inventories and related reserves	107	93
Retirement costs for defined benefit and retiree health care	80	38
Other	—	9
Total deferred tax assets, before valuation allowance	685	622
Valuation allowance	(172)	(165)
Total deferred tax assets, after valuation allowance	513	457
Deferred tax liabilities:		
Acquisition-related intangibles and fair-	(142)	(207)

value adjustments		
International earnings	(43)	(64)
Other	(75)	—
Total deferred tax liabilities	(260)	(271)
Net deferred tax asset	\$ 253	\$ 186

The deferred tax assets and liabilities based on tax jurisdictions are presented on our Consolidated Balance Sheets as follows:

	December 31,	
	2018	2017
Deferred tax assets	\$ 295	\$ 264
Deferred tax liabilities	(42)	(78)
Net deferred tax asset	\$ 253	\$ 186

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. Valuation allowances increased by \$7 million and \$37 million in 2018 and 2017, respectively. These changes had no impact to net income in 2018 or 2017.

We have U.S. and non-U.S. tax loss carryforwards of approximately \$6 million, none of which will expire before the year 2028.

Cash payments made for income taxes, net of refunds, were \$705 million, \$1.80 billion and \$1.15 billion in 2018, 2017 and 2016, respectively.

Uncertain tax positions

We operate in a number of tax jurisdictions, and our income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the matters challenged by authorities are typically complex, their ultimate outcome is uncertain. Before any benefit can be recorded in our financial statements, we must determine that it is “more likely than not” that a tax position will be sustained by the appropriate tax authorities. We recognize accrued interest related to uncertain tax positions and penalties as components of OI&E.

The changes in the total amounts of uncertain tax positions are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance, January 1	\$ 300	\$ 243	\$ 84
Additions based on tax positions related to the current year	3	17	4
Additions for tax positions of prior years	1	42	189
Reductions for tax positions of prior years	—	(1)	(2)
Settlements with tax authorities	(18)	(1)	(32)
Balance, December 31	<u>\$ 286</u>	<u>\$ 300</u>	<u>\$ 243</u>
Interest income (expense) recognized in the year ended December 31	<u>\$ (15)</u>	<u>\$ (19)</u>	<u>\$ 4</u>
Interest receivable (payable) as of December 31	<u>\$ (49)</u>	<u>\$ (38)</u>	<u>\$ 13</u>

The liability for uncertain tax positions is a component of other long-term liabilities on our Consolidated Balance Sheets.

All of the \$286 million and \$300 million liabilities for uncertain tax positions as of December 31, 2018 and 2017, respectively, are comprised of positions that, if recognized, would lower the effective tax rate. If these liabilities are ultimately realized, \$30 million and \$13 million of existing deferred tax assets in 2018 and 2017, respectively, would also be realized. It is reasonably possible that the \$286 million liability as of December 31, 2018, could decrease by up to \$223 million in 2019 for the resolution of a tax depreciation-related position.

As of December 31, 2018, the statute of limitations remains open for U.S. federal tax returns for 2013 and following years. Audit activities related to our U.S. federal tax returns through 2012 have been completed except for certain pending tax treaty procedures for relief from double taxation. The procedures for relief from double taxation pertain to U.S. federal tax returns for the years 2006 through 2012. The audit of the U.S. federal tax returns for 2013 through 2015 is underway.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the United States, our subsidiaries are no longer subject to income tax audits for years before 2007.

6. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts, the fair value of which was not material as of December 31, 2018. Our forward foreign currency exchange contracts outstanding as of December 31, 2018, had a notional value of \$525 million to hedge our non-U.S. dollar net balance sheet exposures, including \$160 million to sell Japanese yen, \$99 million to sell euros and \$94 million to sell Indian rupees.

Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. Our postretirement plan assets are carried at fair value or net asset value per share. 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. The carrying value of our long-term debt approximates the fair value as measured using broker-dealer quotes, which are Level 2 inputs. See Note 7 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

We are subject to counterparty risks from financial institutions, customers and issuers of debt securities. Financial instruments that could subject us to concentrations of credit risk are primarily cash deposits, cash equivalents, short-term investments and accounts receivable. To manage our credit risk exposure, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on cash deposits and financial derivative contracts to financial institutions with investment-grade ratings.

Concentrations of credit risk with respect to accounts receivable are limited due to our large number of customers and their dispersion across different industries and geographic areas. We maintain allowances for expected returns, disputes, adjustments, incentives and collectability. These allowances are deducted from accounts receivable on our Consolidated Balance Sheets.

Details of these accounts receivable allowances are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance, January 1	\$ 8	\$ 17	\$ 7
Amounts charged (credited) to operating results	11	(9)	10
Recoveries and write-offs, net	—	—	—
Balance, December 31	<u>\$ 19</u>	<u>\$ 8</u>	<u>\$ 17</u>

Major customer

No end customer accounted for 10 percent or more of revenue in 2018, 2017 or 2016.

7. Valuation of debt and equity investments and certain liabilities

Debt and equity investments measured at fair value

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

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

Other equity investments

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

Non-marketable equity securities are measured at cost with adjustments for observable changes in price or impairments. Prior to our adoption of ASU 2016-01 in 2018, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment. Gains and losses on non-marketable equity investments are recognized in OI&E.

Details of our investments are as follows:

	December 31, 2018			December 31, 2017		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Measured at fair value:						
Available- for-sale debt securities:						
Money market funds	\$ 747	\$ —	\$ —	\$ 525	\$ —	\$ —
Corporate obligations	473	748	—	172	698	—
U.S. government agency and Treasury securities	988	1,047	—	700	2,115	—
Trading securities:						
Mutual funds	—	—	226	—	—	236
Total	<u>2,208</u>	<u>1,795</u>	<u>226</u>	<u>1,397</u>	<u>2,813</u>	<u>236</u>
Other measurement basis:						
Equity- method investments	—	—	21	—	—	26
Non- marketable equity investments	—	—	4	—	—	6
Cash on hand	230	—	—	259	—	—
Total	<u>\$ 2,438</u>	<u>\$ 1,795</u>	<u>\$ 251</u>	<u>\$ 1,656</u>	<u>\$ 2,813</u>	<u>\$ 268</u>

As of December 31, 2018 and 2017, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments in 2018, 2017 or 2016.

In 2018, 2017 and 2016, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$6.71 billion, \$4.10 billion and \$3.39 billion, respectively. Gross realized gains and losses from these sales were not material.

The following table presents the aggregate maturities of our available-for-sale debt investments as of December 31, 2018:

	Fair Value
One year or less	\$ 3,838
One to two years	165

There were no other-than-temporary declines and impairments in the values of our debt investments in 2018, 2017 or 2016.

Fair-value considerations

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

advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

- *Level 1* – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.
- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of December 31, 2018 and 2017, we had no Level 3 assets or liabilities, other than certain assets held by our postretirement plans.

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

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 747	\$ —	\$ 747	\$ 525	\$ —	\$ 525
Corporate obligations	—	1,221	1,221	—	870	870
U.S. government agency and Treasury securities	2,035	—	2,035	2,765	50	2,815
Mutual funds	226	—	226	236	—	236
Total assets	<u>\$ 3,008</u>	<u>\$ 1,221</u>	<u>\$ 4,229</u>	<u>\$ 3,526</u>	<u>\$ 920</u>	<u>\$ 4,446</u>
Liabilities:						
Deferred compensation	\$ 246	\$ —	\$ 246	\$ 255	\$ —	\$ 255
Total liabilities	<u>\$ 246</u>	<u>\$ —</u>	<u>\$ 246</u>	<u>\$ 255</u>	<u>\$ —</u>	<u>\$ 255</u>

8. Goodwill and acquisition-related intangibles

Goodwill by segment as of December 31, 2018 and 2017, is as follows:

	Goodwill
Analog	\$ 4,158
Embedded Processing	172
Other	32
Total	<u>\$ 4,362</u>

We perform our annual goodwill impairment test as of October 1 and determine whether the fair value of each of our reporting units is in excess of its carrying value. Determination of fair value is based upon management estimates and judgment, using unobservable inputs in discounted cash flow models to calculate the fair value of each reporting unit. These unobservable inputs are considered Level 3 measurements, as described in Note 7. In 2018, 2017 and 2016, we determined no impairment was indicated.

The components of acquisition-related intangibles are as follows:

	Amortization Period (Years)	December 31, 2018			December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	\$ 2,125	\$ 1,573	\$ 552	\$ 2,130	\$ 1,361	\$ 769
Customer relationships	8	810	734	76	810	633	177
Total		<u>\$ 2,935</u>	<u>\$ 2,307</u>	<u>\$ 628</u>	<u>\$ 2,940</u>	<u>\$ 1,994</u>	<u>\$ 946</u>

Acquisition charges

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

Amortization of acquisition-related intangibles was \$318 million, \$318 million and \$319 million in 2018, 2017 and 2016, respectively. Fully amortized assets are written off against accumulated amortization. Remaining estimated amortization is as follows:

	Amortization of Acquisition-Related Intangibles	
2019	\$	288
2020		198
2021		142

9. Postretirement benefit plans

Plan descriptions

We have various employee retirement plans, including defined contribution, defined benefit and retiree health care benefit plans. For qualifying employees, we offer deferred compensation arrangements.

U.S. retirement plans

Our principal retirement plans in the United States are a defined contribution plan; an enhanced defined contribution plan; and qualified and non-qualified defined benefit pension plans. The defined benefit plans were closed to new participants in 1997, and then current participants were allowed to make a one-time election to continue accruing a benefit in the plans, or to cease accruing a benefit and instead to participate in the enhanced defined contribution plan described below.

Both defined contribution plans offer an employer-matching savings option that allows employees to make pre-tax and post-tax contributions to various investment choices. Employees who elected to continue accruing a benefit in the qualified defined benefit pension plans may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2 percent of the employee's annual eligible earnings. Employees who elected not to continue accruing a benefit in the defined benefit pension plans, and employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2 percent of the employee's annual eligible earnings, plus an employer-matching contribution of up to 4 percent of the employee's annual eligible earnings. Employees hired after December 31, 2003, do not receive the fixed employer contribution of 2 percent of the employee's annual eligible earnings.

As of December 31, 2018 and 2017, as a result of employees' elections, TI's U.S. defined contribution plans held shares of TI common stock totaling 9 million shares and 10 million shares valued at \$821 million and \$1.00 billion, respectively. Dividends paid on these shares in 2018 and 2017 were \$24 million and \$22 million, respectively. Effective April 1, 2016, the TI common stock fund was frozen to new contributions or transfers into the fund.

Our aggregate expense for the U.S. defined contribution plans was \$61 million in 2018 and 2017 and \$60 million in 2016.

The defined benefit pension plans include employees still accruing benefits, as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan. Benefits under the qualified defined benefit pension plan are determined using a formula based upon years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

U.S. retiree health care benefit plan

U.S. employees who meet eligibility requirements are offered medical coverage during retirement. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee's date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the plan's participants. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement.

Non-U.S. retirement plans

We provide retirement coverage for non-U.S. employees, as required by local laws or to the extent we deem appropriate, through a number of defined benefit and defined contribution plans. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

As of December 31, 2018 and 2017, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at \$23 million and \$27 million, respectively. Dividends paid on these shares of TI common stock in 2018 and 2017 were not material.

Effects on our Consolidated Statements of Income and Balance Sheets

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

	U.S. Defined Benefit			U.S. Retiree Health Care			Non-U.S. Defined Benefit		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Service cost	\$ 19	\$ 22	\$ 22	\$ 5	\$ 5	\$ 5	\$ 36	\$ 37	\$ 34
Interest cost	35	42	42	15	17	20	45	44	52
Expected return on plan assets	(42)	(41)	(41)	(15)	(17)	(20)	(67)	(62)	(68)
Amortization of prior service credit	—	—	—	(3)	(4)	(3)	(1)	(2)	(2)
Recognized net actuarial loss	17	14	21	2	3	7	20	28	25
Net periodic benefit costs	29	37	44	4	4	9	33	45	41
Settlement losses	23	36	21	—	—	—	3	2	2
Total, including other postretirement losses	\$ 52	\$ 73	\$ 65	\$ 4	\$ 4	\$ 9	\$ 36	\$ 47	\$ 43

All defined benefit and retiree health care benefit plan expense components other than service cost are recognized in OI&E in our Consolidated Statements of Income. Service cost is recognized within operating profit.

For the U.S. qualified pension and retiree health care plans, the expected return on plan assets component of net periodic benefit cost is based upon a market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets is the fair value adjusted by a smoothing technique whereby certain gains and losses are phased in over a period of three years.

Changes in the benefit obligations and plan assets for defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2018	2017	2018	2017	2018	2017
Change in plan benefit obligation						
Benefit obligation at beginning of year:	\$ 998	\$ 1,030	\$ 414	\$ 434	\$ 2,469	\$ 2,361
Service cost	19	22	5	5	36	37
Interest cost	35	42	15	17	45	44
Participant contributions	—	—	11	9	7	6
Benefits paid	(10)	(9)	(41)	(39)	(87)	(90)
Settlements	(100)	(196)	—	—	(16)	(13)
Actuarial loss (gain)	(68)	109	(43)	(15)	6	(52)
Plan amendments	—	—	—	3	7	—

Effects of exchange rate changes	—	—	—	—	(56)	176
Benefit obligation at end of year	<u>\$ 874</u>	<u>\$ 998</u>	<u>\$ 361</u>	<u>\$ 414</u>	<u>\$ 2,411</u>	<u>\$ 2,469</u>
Change in plan assets						
Fair value of plan assets at beginning of year:	\$ 995	\$ 1,034	\$ 394	\$ 434	\$ 2,593	\$ 2,309
Actual return on plan assets	(56)	123	(12)	44	(52)	148
Employer contributions (qualified plans)	20	25	1	1	19	56
Employer contributions (non-qualified plans)	20	18	—	—	—	—
Participant contributions	—	—	11	9	7	6
Benefits paid	(10)	(9)	(41)	(39)	(87)	(90)
Settlements	(100)	(196)	—	—	(16)	(13)
Effects of exchange rate changes	—	—	—	—	(54)	177
Other	—	—	(23)	(55)	—	—
Fair value of plan assets at end of year	<u>\$ 869</u>	<u>\$ 995</u>	<u>\$ 330</u>	<u>\$ 394</u>	<u>\$ 2,410</u>	<u>\$ 2,593</u>
Funded status at end of year	<u>\$ (5)</u>	<u>\$ (3)</u>	<u>\$ (31)</u>	<u>\$ (20)</u>	<u>\$ (1)</u>	<u>\$ 124</u>

Amounts recognized on our Consolidated Balance Sheets as of December 31, are as follows:

	<u>U.S. Defined Benefit</u>	<u>U.S. Retiree Health Care</u>	<u>Non-U.S. Defined Benefit</u>	<u>Total</u>
2018				
Overfunded retirement plans	40	\$ —	\$ 52	\$ 92
Accrued expenses and other liabilities & other long-term liabilities	(8)	—	(3)	(11)
Underfunded retirement plans	(37)	(31)	(50)	(118)
Funded status at end of 2018	<u>\$ (5)</u>	<u>\$ (31)</u>	<u>\$ (1)</u>	<u>\$ (37)</u>
2017				
Overfunded retirement plans	58	\$ —	\$ 150	\$ 208
Accrued expenses and other liabilities & other long-term liabilities	(13)	—	(5)	(18)
Underfunded retirement plans	(48)	(20)	(21)	(89)
Funded status at end of 2017	<u>\$ (3)</u>	<u>\$ (20)</u>	<u>\$ 124</u>	<u>\$ 101</u>

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about \$50 million to our retirement benefit plans in 2019. The amounts shown for underfunded U.S. defined benefit plans were for non-qualified pension plans, which we do not fund because contributions to them are not tax deductible.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were \$793 million and \$899 million as of December 31, 2018 and 2017, respectively, for the U.S. defined benefit plans, and \$2.29 billion and \$2.33 billion as of December 31, 2018 and 2017, respectively, for the non-U.S. defined benefit plans.

The change in AOCI is as follows:

	<u>U.S. Defined Benefit</u>	<u>U.S. Retiree Health Care</u>	<u>Non-U.S. Defined Benefit</u>	<u>Total</u>
	<u>Net Actuarial Loss</u>	<u>Net Actuarial Loss</u>	<u>Net Actuarial Loss</u>	<u>Net Actuarial Loss</u>
		<u>Prior Service Credit</u>	<u>Prior Service Credit</u>	<u>Prior Service Credit</u>
AOCI balance, net of taxes, December 31, 2017	\$ 118	\$ 29	\$ (6)	\$ 247
Changes in AOCI by category:				
Adjustments	29	(16)	—	120
				7
				133
				7

Recognized within net income	(39)	(2)	3	(24)	1	(65)	4
Tax effect	2	4	(1)	(26)	(1)	(20)	(2)
Cumulative effect of accounting changes (a)	25	6	(1)	—	—	31	(1)
Total change to AOCI	17	(8)	1	70	7	79	8
AOCI balance, net of taxes, December 31, 2018	\$ 135	\$ 21	\$ (5)	\$ 317	\$ 3	\$ 473	\$ (2)

(a) Reflects the adoption of ASU 2018-02. See Note 2 for additional information.

The estimated amounts of net actuarial loss and unrecognized prior service cost (credit) included in AOCI as of December 31, 2018, that are expected to be amortized into net periodic benefit cost over the next fiscal year are: \$10 million and none for the U.S. defined benefit plans; none and (\$2) million for the U.S. retiree health care benefit plan; and \$29 million and \$1 million for the non-U.S. defined benefit plans.

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets using the same three-level hierarchy of fair-value inputs described in Note 7.

December 31, 2018					
	Level 1	Level 2	Level 3	Other (a)	Total
Assets of U.S. defined benefit plan:					
Fixed income securities and cash equivalents	\$ —	\$ —	\$ —	\$ 563	\$ 563
Equity securities	—	—	—	306	306
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 869</u>	<u>\$ 869</u>
Assets of U.S. retiree health care plan:					
Fixed income securities and cash equivalents	\$ 59	\$ —	\$ —	\$ 155	\$ 214
Equity securities	—	—	—	116	116
Total	<u>\$ 59</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 271</u>	<u>\$ 330</u>
Assets of non-U.S. defined benefit plans:					
Fixed income securities and cash equivalents	\$ 47	\$ 139	\$ —	\$ 1,602	\$ 1,788
Equity securities	33	1	—	588	622
Total	<u>\$ 80</u>	<u>\$ 140</u>	<u>\$ —</u>	<u>\$ 2,190</u>	<u>\$ 2,410</u>

(a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

December 31, 2017					
	Level 1	Level 2	Level 3	Other (a)	Total
Assets of U.S. defined benefit plan:					
Fixed income securities and cash equivalents	\$ —	\$ —	\$ —	\$ 654	\$ 654
Equity securities	—	—	—	341	341
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 995</u>	<u>\$ 995</u>
Assets of U.S. retiree health care plan:					
Fixed income securities and cash equivalents	\$ 132	\$ 2	\$ —	\$ 111	\$ 245
Equity securities	—	—	—	149	149
Total	<u>\$ 132</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 260</u>	<u>\$ 394</u>
Assets of non-U.S. defined benefit plans:					
Fixed income securities and cash equivalents	\$ 16	\$ 183	\$ —	\$ 1,646	\$ 1,845
Equity securities	7	23	—	717	747
Other	—	—	1	—	1
Total	<u>\$ 23</u>	<u>\$ 206</u>	<u>\$ 1</u>	<u>\$ 2,363</u>	<u>\$ 2,593</u>

- (a) Consists of bond index and equity index funds, measured at net asset value per share, as well as cash equivalents.

The investments in our major benefit plans largely consist of low-cost, broad-market index funds to mitigate risks of concentration within market sectors. Our investment policy is designed to better match the interest rate sensitivity of the plan assets and liabilities. The appropriate mix of equity and bond investments is determined primarily through the use of detailed asset-liability modeling studies that look to balance the impact of changes in the discount rate against the need to provide asset growth to cover future service cost. Most of our plans around the world have a greater proportion of fixed income securities with return characteristics that are more closely aligned with changes in the liabilities caused by discount rate volatility. For the U.S. plans, we utilize an option collar strategy to reduce the volatility of returns on certain investments in U.S. equity funds.

The only Level 3 asset in our worldwide benefit plans for the periods presented is a diversified property fund in a non-U.S. pension plan. These investments are valued using inputs from the fund managers and internal models. Changes to the fair value of this fund since December 31, 2016, have not been material, and are due to redemptions.

Assumptions and investment policies

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2018	2017	2018	2017	2018	2017
Weighted average assumptions used to determine benefit obligations:						
Discount rate	4.37%	3.75%	4.30%	3.63%	1.85%	1.84%
Long-term pay progression	3.30%	3.30%	n/a	n/a	2.96%	2.96%
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	3.77%	4.21%	3.63%	4.08%	1.84%	1.76%
Long-term rate of return on plan assets	4.80%	4.30%	4.10%	4.10%	2.58%	2.60%
Long-term pay progression	3.30%	3.30%	n/a	n/a	2.96%	3.11%

We utilize a variety of methods to select an appropriate discount rate depending on the depth of the corporate bond market in the country in which the benefit plan operates. In the United States, we use a settlement approach whereby a portfolio of bonds is selected from the universe of actively traded high-quality U.S. corporate bonds. The selected portfolio is designed to provide cash flows sufficient to pay the plan's expected benefit payments when due. The resulting discount rate reflects the rate of return of the selected portfolio of bonds. For our non-U.S. locations with a sufficient number of actively traded high-quality bonds, an analysis is performed in which the projected cash flows from the defined benefit plans are discounted against a yield curve constructed with an appropriate universe of high-quality corporate bonds available in each country. In this manner, a present value is developed. The discount rate selected is the single equivalent rate that produces the same present value. For countries that lack a sufficient corporate bond market, a government bond index adjusted for an appropriate risk premium is used to establish the discount rate.

Assumptions for the expected long-term rate of return on plan assets are based on future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. We adjust the results for the payment of reasonable expenses of the plan from plan assets. We believe our assumptions are appropriate based on the investment mix and long-term nature of the plans' investments. Assumptions used for the non-U.S. defined benefit plans reflect the different economic environments within the various countries.

The target allocation ranges for the plans that hold a substantial majority of the defined benefit assets are as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
Fixed income securities and cash equivalents	65%	55% - 65%	60% - 100%
Equity securities	35%	35% - 45%	0% - 40%

We rebalance the plans' investments when they are not within the target allocation ranges.

Weighted average asset allocations as of December 31 are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Fixed income securities and cash equivalents	65%	66%	65%	62%	74%	71%
Equity securities	35%	34%	35%	38%	26%	29%

None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock. As of December 31, 2018, we do not expect to return any of the defined benefit pension plans' assets to TI in the next 12 months.

The following assumed future benefit payments to plan participants in the next 10 years are used to measure our benefit obligations. Almost all of the payments, which may vary significantly from these assumptions, will be made from plan assets and not from company assets.

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
2019	\$ 78	\$ 32	\$ 88
2020	105	31	90
2021	77	30	92
2022	79	29	95
2023	85	28	95
2024 – 2028	428	124	510

Assumed health care cost trend rates for the U.S. retiree health care benefit plan as of December 31 are as follows:

	2018	2017
Assumed health care cost trend rate for next year	7.25%	7.50%
Ultimate trend rate	5.00%	5.00%
Year in which ultimate trend rate is reached	2028	2028

A one percentage point increase or decrease in health care cost trend rates over all future periods would have increased or decreased the accumulated postretirement benefit obligation for the U.S. retiree health care benefit plan as of December 31, 2018, by \$1 million. The service cost and interest cost components of 2018 plan expense would have increased or decreased by less than \$1 million.

Deferred compensation arrangements

We have a deferred compensation plan that allows U.S. employees whose base salary and management responsibility exceed a certain level to defer receipt of a portion of their cash compensation. Payments under this plan are made based on the participant's distribution election and plan balance. Participants can earn a return on their deferred compensation based on notional investments in the same investment funds that are offered in our defined contribution plans.

As of December 31, 2018, our liability to participants of the deferred compensation plans was \$246 million and is recorded in other long-term liabilities on our Consolidated Balance Sheets. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. As of December 31, 2018, we held \$226 million in mutual funds related to these plans that are recorded in long-term investments on our Consolidated Balance Sheets, and serve as an economic hedge against changes in fair values of our other deferred compensation liabilities. We record changes in the fair value of the liability and the related investment in SG&A as discussed in Note 7.

10. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of December 31, 2018, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion until March 2023. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of December 31, 2018, our credit facility was undrawn, and we had no commercial paper outstanding.

Long-term debt

We retired \$500 million of maturing debt in May 2018.

In the second quarter of 2018, we issued an aggregate principal amount of \$1.5 billion of fixed-rate, long-term debt due in 2048, comprised of the issuance of \$1.3 billion in May 2018 and an additional \$200 million in June 2018. We incurred \$16 million of issuance and other related costs. The proceeds of the offering were \$1.5 billion, net of the original issuance discount and premium, and were used for general corporate purposes.

We retired \$250 million of maturing debt in March 2017 and another \$375 million in June 2017.

In May 2017, we issued an aggregate principal amount of \$600 million of fixed-rate, long-term debt. The offering consisted of the reissuance of \$300 million of 2.75% notes due in 2021 at a premium and the issuance of \$300 million of 2.625% notes due in 2024 at a discount. We incurred \$3 million of issuance and other related costs. The proceeds of the offerings were \$605 million, net of the original issuance discount and premium, and were used for the repayment of maturing debt and general corporate purposes.

In November 2017, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2027. We incurred \$3 million of issuance and other related costs. The proceeds of the offering were \$494 million, net of the original issuance discount, and were used for general corporate purposes.

In May 2016, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2022. We incurred \$3 million of issuance and other related costs. The proceeds of the offering were \$499 million, net of the original issuance discount, and were used toward the repayment of a portion of \$1.0 billion of maturing debt retired in May 2016.

Long-term debt outstanding is as follows:

	December 31,	
	2018	2017
Notes due 2018 at 1.00%	\$ —	\$ 500
Notes due 2019 at 1.65%	750	750
Notes due 2020 at 1.75%	500	500
Notes due 2021 at 2.75%	550	550
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	300
Notes due 2027 at 2.90%	500	500
Notes due 2048 at 4.15%	1,500	—
Total debt	5,100	4,100
Net unamortized discounts, premiums and issuance costs	(32)	(23)
Total debt, including net unamortized discounts, premiums and issuance costs	5,068	4,077
Current portion of long-term debt	(749)	(500)
Long-term debt	\$ 4,319	\$ 3,577

Interest and debt expense was \$125 million, \$78 million and \$80 million in 2018, 2017 and 2016, respectively. This was net of the amortized discounts, premiums and issuance costs. Cash payments for interest on long-term debt were \$114 million, \$75 million and \$88 million in 2018, 2017 and 2016, respectively. Capitalized interest was not material.

11. Commitments and contingencies

Purchase commitments

Some of our purchase commitments include payments for software licenses and contractual agreements with suppliers where there is a fixed, non-cancellable payment schedule or minimum payments due with a reduced delivery schedule.

Operating leases

We conduct certain operations in leased facilities and also lease a portion of our data processing and other equipment. In addition, certain long-term supply agreements to purchase industrial gases are accounted for as operating leases. Lease agreements frequently include purchase and renewal provisions and require us to pay taxes, insurance and maintenance costs. Rental and lease expense incurred was \$79 million, \$81 million and \$86 million in 2018, 2017 and 2016, respectively.

As of December 31, 2018, we had committed to make the following minimum payments under our purchase commitments and non-cancellable operating leases:

	Purchase Commitments		Operating Leases
2019	\$ 389	\$	56
2020	339		46
2021	130		36
2022	22		29
2023	15		18
Thereafter	15		39

Indemnification guarantees

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

Warranty costs/product liabilities

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

General

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

12. Restructuring charges/other

Restructuring charges/other are included in Other for segment reporting purposes and are comprised of the following components:

	For Years Ended December 31,		
	2018	2017	2016
Restructuring charges (a)	\$ 6	\$ 11	\$ 25
Gains on sales of assets	(3)	—	(40)
Restructuring charges/other	\$ 3	\$ 11	\$ (15)

(a) Includes severance and benefits, accelerated depreciation, changes in estimates or other exit costs.

Changes in accrued restructuring balances

	2018	2017	2016
Balance, January 1	\$ 29	\$ 40	\$ 32
Restructuring charges	6	11	25
Non-cash items (a)	(3)	(1)	(6)
Payments	(4)	(21)	(11)
	\$ 28	\$ 29	\$ 40

Balance,
December
31

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(a) Reflects charges for impacts of accelerated depreciation and changes in exchange rates.

The restructuring accrual balances are reported as a component of either accrued expenses and other liabilities or other long-term liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

In February 2019, we entered into an agreement to sell our manufacturing facility in Greenock, Scotland. The sale is expected to close during the first quarter of 2019.

13. Supplemental financial information

Other income (expense), net (OI&E)

	For Years Ended December 31,		
	2018	2017	2016
Other income (a) \$	150	\$ 163	\$ 219
Other expense (b)	(52)	(88)	(64)
Total	<u>\$ 98</u>	<u>\$ 75</u>	<u>\$ 155</u>

- (a) Other income includes interest, royalty and lease income; investment gains and losses; and other miscellaneous items. As of January 1, 2017, royalties are recorded in OI&E instead of revenue.
- (b) Other expense includes a portion of pension and other retiree benefit costs. It also includes currency gains and losses and tax interest expense.

Prepaid expenses and other current assets

	December 31,	
	2018	2017
Prepaid taxes on intercompany \$	132	\$ 768
inventory profits, net		
Other	308	262
Total	<u>\$ 440</u>	<u>\$ 1,030</u>

Property, plant and equipment at cost

	Depreciable Lives (Years)	December 31,	
		2018	2017
Land	n/a	\$ 128	\$ 127
Buildings and improvements	5 - 40	2,497	2,467
Machinery and equipment	2 - 10	2,800	2,195
Total		<u>\$ 5,425</u>	<u>\$ 4,789</u>

Other long-term liabilities

	December 31,	
	2018	2017
Long-term portion of tax on indefinitely reinvested earnings \$	506	\$ 635
Other	684	668
Total	<u>\$ 1,190</u>	<u>\$ 1,303</u>

Accumulated other comprehensive income (loss), net of taxes (AOCI)

December 31,	
2018	2017

Postretirement benefit plans			
(a):			
Net actuarial loss	\$	(473)	\$ (394)
Prior service credit		2	10
Cash flow hedge derivative instruments		(2)	—
Total	\$	<u>(473)</u>	\$ <u>(384)</u>

(a) Includes \$30 million for the adoption of ASU 2018-02. See Note 2 for additional information.

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within net income in 2018, 2017 and 2016. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Years Ended December 31,			Impact to Related Statement of Income Lines
	2018	2017	2016	
Net actuarial losses of defined benefit plans:				
Recognized net actuarial loss and settlement losses (a)	\$ 65	\$ 83	\$ 76	Decrease to OI&E
Tax effect	(15)	(27)	(25)	Decrease to provision for income taxes
Recognized within net income, net of taxes	<u>\$ 50</u>	<u>\$ 56</u>	<u>\$ 51</u>	Decrease to net income
Prior service credit of defined benefit plans:				
Amortization of prior service credit (a)	\$ (4)	\$ (6)	\$ (5)	Increase to OI&E
Tax effect	1	1	2	Increase to provision for income taxes
Recognized within net income, net of taxes	<u>\$ (3)</u>	<u>\$ (5)</u>	<u>\$ (3)</u>	Increase to net income
Derivative instruments:				
Amortization of treasury-rate locks	\$ —	\$ 1	\$ 1	Increase to interest and debt expense
Tax effect	—	—	—	Decrease to provision for income taxes
Recognized within net income, net of taxes	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 1</u>	Decrease to net income

(a) Detailed in Note 9.

14. Quarterly financial data (unaudited)

	2018 Quarters				2017 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Revenue	\$ 3,717	\$ 4,261	\$ 4,017	\$ 3,789	\$ 3,750	\$ 4,116	\$ 3,693	\$ 3,402
Gross profit	2,407	2,804	2,619	2,447	2,440	2,656	2,374	2,144
Included in operating profit:								
Acquisition charges	79	80	79	80	79	80	79	80
Restructuring charges/other	(2)	1	3	1	3	1	3	4
Operating profit	1,516	1,937	1,712	1,548	1,563	1,788	1,480	1,252
Net income	1,239	1,570	1,405	1,366	344	1,285	1,056	997
Basic EPS	\$ 1.29	\$ 1.61	\$ 1.43	\$ 1.38	\$ 0.35	\$ 1.29	\$ 1.05	\$ 0.99
Diluted EPS	\$ 1.27	\$ 1.58	\$ 1.40	\$ 1.35	\$ 0.34	\$ 1.26	\$ 1.03	\$ 0.97

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 1952.

Dallas, Texas

February 22, 2019

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

Not applicable.

ITEM 9A. Controls and Procedures.Disclosure 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 TI's management, including its chief executive officer and chief financial officer, of the effectiveness of the design and operation of TI's 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.

Internal control over financial reporting*Report by management on internal control over financial reporting*

The management of TI is responsible for establishing and maintaining effective internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles. 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 fourth quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2018, our internal control over financial reporting is effective based on the COSO criteria.

TI's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which immediately follows this report.

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on Internal Control over Financial Reporting

We have audited Texas Instruments Incorporated's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Texas Instruments Incorporated (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Texas Instruments Incorporated as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report by management on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Dallas, Texas
February 22, 2019

ITEM 9B. Other Information.

Not applicable.

PART III**ITEM 10. Directors, Executive Officers and Corporate Governance.**

The information with respect to directors' names, ages, positions, term of office, periods of service and business experience, which is contained under the caption "Election of directors" in our proxy statement for the 2019 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

The information with respect to Section 16(a) beneficial ownership reporting compliance contained under the caption of the same name in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

A list of our executive officers and their biographical information appears in Part I, Item 1 of this report.

Code of Ethics

We have adopted the Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. A copy of the Code can be found on our website at www.ti.com/corporategovernance. We intend to satisfy the disclosure requirements of the SEC regarding amendments to, or waivers from, the Code by posting such information on the same website.

Audit Committee

The information contained under the caption "Committees of the board" with respect to the audit committee and the audit committee financial expert in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 11. Executive Compensation.

The information contained under the captions "Director compensation" and "Executive compensation" in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement, provided that the Compensation Committee report shall not be deemed filed with this Form 10-K.

The information contained under the caption "Compensation committee interlocks and insider participation" in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity compensation plan information

The following table sets forth information about the company's equity compensation plans as of December 31, 2018.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (1)) (3)
Equity compensation plans approved by security holders	47,037,697 (a)	\$ 56.24 (b)	84,722,515 (c)
Equity compensation plans not approved by security holders	558,052 (d)	\$ 56.10 (b)	—
Total	47,595,749 (e)	\$ 56.24	84,722,515

Includes shares of TI common stock to be issued under the Texas Instruments 2003 Director Compensation Plan (the "2003 Director Plan"), the Texas Instruments 2009 Long-Term Incentive Plan (the "2009 LTIP") and

- (a) predecessor stockholder-approved plans, the Texas Instruments 2009 Director Compensation Plan (the "2009 Director Plan"), the TI Employees 2014 Stock Purchase Plan (the "2014 ESPP") and the Texas Instruments 2018 Director Compensation Plan (the "2018 Director Plan").

- (b) Restricted stock units and stock units credited to directors' deferred compensation accounts are settled in shares of TI common stock on a one-for-one basis. Accordingly, such units have been excluded for purposes of computing the weighted- average exercise price.

- (c) Shares of TI common stock available for future issuance under the 2009 LTIP, the 2014 ESPP and the 2018 Director Plan. 48,175,749 shares remain available for future issuance under the 2009 LTIP and 1,991,665 shares remain available for future issuance under the 2018 Director Plan. Under the 2009 LTIP and the 2018 Director Plan, awards may be granted in the form of restricted stock units, options or other stock-based awards such as restricted stock.

- (d) Includes shares to be issued under the Texas Instruments 2003 Long-Term Incentive Plan (the "2003 LTIP"). The 2003 LTIP was replaced by the 2009 LTIP, which was approved by stockholders. No further grants may be made under the 2003 LTIP. Only non-management employees were eligible to receive awards under the 2003 LTIP. The 2003 LTIP authorized the grant of shares in the form of restricted stock units, options or other stock-based awards such as restricted stock. The plan is administered by a committee of independent directors (the Committee). The Committee had the sole discretion to grant to eligible participants one or more equity awards and to determine the number or amount of any award. Except in the case of awards made through assumption of, or in substitution for, outstanding awards previously granted by an acquired company, and except as a result of an adjustment event such as a stock split, the exercise price under any stock option, the grant price of any stock appreciation right, and the purchase price of any security that could be purchased under any other stock-based award under the 2003 LTIP could not be less than 100 percent of the fair market value of the stock or other security on the effective date of the grant of the option, right or award.

Also includes shares to be issued under the Texas Instruments Directors Deferred Compensation Plan and the Texas Instruments Restricted Stock Unit Plan for Directors. These plans were replaced by the stockholder-approved 2003 Director Plan (which was replaced by the 2009 Director Plan), and no further grants may be made under them.

- (e) Includes 39,905,454 shares for issuance upon exercise of outstanding grants of options, 7,305,543 shares for issuance upon vesting of outstanding grants of restricted stock units, 229,836 shares for issuance under the 2014 ESPP and 154,916 shares for issuance in settlement of directors' deferred compensation accounts.

Security ownership of certain beneficial owners and management

The information that is contained under the captions "Security ownership of certain beneficial owners" and "Security ownership of directors and management" in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The information contained under the captions “Related person transactions” and “Director independence” in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 14. Principal Accountant Fees and Services.

The information with respect to principal accountant fees and services contained under the caption “Proposal to ratify appointment of independent registered public accounting firm” in our proxy statement for the 2019 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

PART IV**ITEM 15. Exhibits, Financial Statement Schedules.**

The financial statements are listed in the index included in Item 8, “Financial Statements and Supplementary Data.”

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended	10-K	001-3761	February 24, 2015	3(a)	
3(b)	By-Laws of the Registrant	8-K	001-3761	December 12, 2016	3	
4(a)	Indenture	8-K	001-3761	May 23, 2011	4.2	
4(b)	Officer’s Certificate	8-K	001-3761	May 8, 2013	4.2	
4(c)	Officer’s Certificate	8-K	001-3761	March 12, 2014	4.2	
4(d)	Officer’s Certificate	8-K	001-3761	May 6, 2015	4.1	
4(e)	Officer’s Certificate	8-K	001-3761	May 6, 2016	4.1	
4(f)	Officer’s Certificate	8-K	001-3761	May 4, 2017	4.1	
4(g)	Officer’s Certificate	8-K	001-3761	November 3, 2017	4.1	
4(h)	Officer’s Certificate	8-K	001-3761	May 7, 2018	4.1	
4(i)	Officer’s Certificate	8-K	001-3761	June 8, 2018	4.1	
10(a)	TI Deferred Compensation Plan, as amended*	10-K	001-3761	February 24, 2016	10(a)	
10(b)	TI Employees Non-Qualified Pension Plan, effective January 1, 2009, as amended*	10-K	001-3761	February 24, 2016	10(b)	
10(c)	TI Employees Non-Qualified Pension Plan II*	10-K	001-3761	February 24, 2016	10(c)	
10(d)	Texas Instruments Long-Term Incentive Plan, adopted April 15, 1993*	10-K	001-3761	February 24, 2012	10(c)	
10(e)	Texas Instruments 2000 Long-Term Incentive Plan as amended October 16, 2008*	10-K	001-3761	February 24, 2015	10(e)	
10(f)	Texas Instruments 2003 Long-Term Incentive Plan as amended October 16, 2008	10-K	001-3761	February 24, 2015	10(f)	
10(g)	Texas Instruments Restricted Stock Unit Plan for Directors, as amended, dated April 16, 1998	10-K	001-3761	February 24, 2012	10(h)	
10(h)	Texas Instruments Directors Deferred Compensation Plan, as amended, dated April 16, 1998	10-K	001-3761	February 24, 2012	10(i)	
10(i)	Texas Instruments 2003 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 24, 2015	10(j)	
10(j)	Form of Non-Qualified Stock Option Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(k)	
10(k)	Form of Restricted Stock Unit Award Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(l)	

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
10(l)	Texas Instruments 2009 Long-Term Incentive Plan as amended April 21, 2016*	DEF 14A	001-3761	March 9, 2016	Appendix B	
10(m)	Texas Instruments 2009 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 23, 2017	10(n)	
10(n)	Texas Instruments 2018 Director Compensation Plan	10-Q	001-3761	August 2, 2018	10(a)	
21	List of Subsidiaries of the Registrant					X
23	Consent of Independent Registered Public Accounting Firm					X
31(a)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer					X
31(b)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer					X
32(a)	Section 1350 Certification of Chief Executive Officer					X
32(b)	Section 1350 Certification of Chief Financial Officer					X
101.ins	Instance Document					X
101.sch	XBRL Taxonomy Schema					X
101.cal	XBRL Taxonomy Calculation Linkbase					X
101.Def	XBRL Taxonomy Definitions Document					X
101.lab	XBRL Taxonomy Labels Linkbase					X
101.pre	XBRL Taxonomy Presentation Linkbase					X

* Management compensation plans and arrangements

Notice regarding forward-looking statements

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

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

- Market demand for semiconductors, particularly in our end markets;
- Our ability to compete in products and prices in an intensely competitive industry;
- Customer demand that differs from forecasts and the financial impact of inadequate or excess company inventory that results from demand that differs from projections;
- Economic, social and political conditions in the countries in which we, our customers or our suppliers operate, including security risks; global trade policies; political and social instability; health conditions; possible disruptions in transportation, communications and information technology networks; and fluctuations in foreign currency exchange rates;
- Evolving cybersecurity threats to our information technology systems or those of our customers or suppliers;
- Natural events such as severe weather, geological events or health epidemics in the locations in which we, our customers or our suppliers operate;
- Our ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- Timely implementation of new manufacturing technologies and installation of manufacturing equipment, and the ability to obtain needed third-party foundry and assembly/test subcontract services;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, manufacturing, services, design or communications, or recalls by our customers for a product containing one of our parts;
- Compliance with or changes in the complex laws, rules and regulations to which we are or may become subject, or actions of enforcement authorities, that restrict our ability to manufacture or ship our products or operate our business, or subject us to fines, penalties or other legal liability;
- Changes in tax law and accounting standards that can impact the tax rate applicable to us, the jurisdictions in which profits are determined to be earned and taxed, adverse resolution of tax audits, increases in tariff rates, and the ability to realize deferred tax assets;
- A loss suffered by one of our customers or distributors with respect to TI-consigned inventory;
- Financial difficulties of our distributors or their promotion of competing product lines to our detriment, or the loss of significant distributors;
- Losses or curtailments of purchases from key customers or the timing and amount of distributor and other customer inventory adjustments;
- Our ability to maintain or improve profit margins, including our ability to utilize our manufacturing facilities at sufficient levels to cover our fixed operating costs, in an intensely competitive and cyclical industry and despite changes in the regulatory environment;
- Our ability to maintain and enforce a strong intellectual property portfolio and maintain freedom of operation in all jurisdictions where we conduct business; or our exposure to infringement claims;
- Instability in the global credit and financial markets that affects our ability to fund our daily operations, invest in the business, make strategic acquisitions, or make principal and interest payments on our debt;

- Increases in health care and pension benefit costs;
- Our ability to recruit and retain skilled engineering, management and technical personnel, and effectively manage key employee succession;
- Our ability to successfully integrate and realize opportunities for growth from acquisitions, or our ability to realize our expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Impairments of our non-financial assets.

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of this report. The forward-looking statements included in this report are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS
INSTRUMENTS
INCORPORATED

/

s/

Rafael

R.

Lizardi

Rafael

R.

Lizardi

Senior

Vice

President,

Chief

Financial

Officer

and

Chief

Accounting

Officer

Date: February 22, 2019

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Rafael R. Lizardi, and Cynthia Hoff Trochu, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2018, to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 22nd day of February 2019.

<u>Signature</u>	<u>Title</u>
<u>/s/ Ralph W. Babb, Jr.</u> Ralph W. Babb, Jr.	Director
<u>/s/ Mark A. Blinn</u> Mark A. Blinn	Director
<u>/s/ Todd M. Bluedorn</u> Todd M. Bluedorn	Director
<u>/s/ Daniel A. Carp</u> Daniel A. Carp	Director
<u>/s/ Janet F. Clark</u> Janet F. Clark	Director
<u>/s/ Carrie S. Cox</u> Carrie S. Cox	Director
<u>/s/ Martin S. Craighead</u> Martin S. Craighead	Director
<u>/s/ Jean M. Hobby</u> Jean M. Hobby	Director
<u>/s/ Ronald Kirk</u> Ronald Kirk	Director
<u>/s/ Pamela H. Patsley</u> Pamela H. Patsley	Director
<u>/s/ Robert E. Sanchez</u> Robert E. Sanchez	Director
<u>/s/ Richard K. Templeton</u> Richard K. Templeton	Director, Chairman of the Board, President and Chief Executive Officer
<u>/s/ Rafael R. Lizardi</u> Rafael R. Lizardi	Senior Vice President, Chief Financial Officer and Chief Accounting Officer

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

FORM 10-K

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

for the fiscal year ended December 31, 2017

OR

☐ **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 1-3761

**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, Dallas, Texas

(Address of Principal Executive Offices)

75243

(Zip Code)

Registrant's Telephone Number, Including Area Code: 214-479-3773

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$1.00

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$76,179,967,734 as of June 30, 2017.

983,787,502 (Number of shares of common stock outstanding as of February 20, 2018)

Part III hereof incorporates information by reference to the Registrant's proxy statement for the 2018 annual meeting of stockholders.

PART I

ITEM 1. Business.

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in more than 30 countries. We have two reportable segments: Analog and Embedded Processing. We report the results of our remaining business activities in Other. In 2017, we generated \$14.96 billion of revenue.

Our business model is designed around four sustainable competitive advantages, that we believe, in combination, put us in a unique class of companies. These advantages include (1) a strong foundation of manufacturing and technology, (2) a broad portfolio of differentiated analog and embedded processing products, (3) the broadest reach of market channels and (4) diversity and longevity of our products, markets and customer positions. Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets, which we believe represent the best growth opportunities. Analog and embedded processing products sold into industrial and automotive markets provide long product life cycles, intrinsic diversity, and less capital-intensive manufacturing, which we believe offer stability, profitability and strong cash generation. This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth, especially on a per-share basis, is important for maximizing shareholder value over the long term. We also believe that free cash flow will be valued only if it is productively invested in the business or returned to shareholders. Free cash flow is cash flow from operations less capital expenditures.

The combined effect of these sustainable competitive advantages is that over time we have gained market share in Analog and Embedded Processing and have grown and returned free cash flow. TI's business model puts us in a unique class of companies with the ability to grow, generate cash, and return that cash to shareholders.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as “chips,” combine multiple transistors to form a complete electronic circuit. We have tens of thousands of products that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels. Our segments also reflect how management allocates resources and measures results. In 2017, we reorganized the product lines within our segments to align our business structure with the way our customers select and buy products.

Analog

Our Analog segment generated \$9.90 billion of revenue in 2017. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors also are used to manage power in all electronic equipment by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the equipment is plugged into a wall or running off a battery. Our Analog products are used in many markets, particularly industrial, automotive and personal electronics.

Sales of our Analog products generated about 66 percent of our revenue in 2017. According to external sources, the market for analog semiconductors was about \$53 billion in 2017. Our Analog segment's revenue in 2017 was about 19 percent of this fragmented market, the leading position. We believe we are well positioned to increase our market share over time.

Our Analog segment includes the following major product lines: Power, Signal Chain and High Volume.

Power

Power includes products that help customers manage power in electronic systems. Our broad portfolio is designed to manage power requirements across different voltage levels using battery management solutions, portable components, power supply controls, point-of-load products, switches and interfaces, integrated protection devices, high-voltage products, and mobile lighting and display products.

Signal Chain

Signal Chain includes products that sense, condition and measure real-world signals to allow information to be transferred or converted for further processing and control. Our Signal Chain products, which serve a variety of end markets, include amplifiers, data converters, interface products, motor drives, clocks and sensing products.

High Volume

High Volume includes integrated analog and standard products that are primarily sold into markets such as personal electronics, industrial and automotive. These products support applications like touch screens and automotive safety systems.

Embedded Processing

Our Embedded Processing segment generated \$3.50 billion of revenue in 2017. Embedded Processing products are the “brains” of many types of electronic equipment. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. Our devices vary from simple, low-cost microcontrollers used in electric toothbrushes to highly specialized, complex devices used in automotive applications such as infotainment systems and advanced driver assistance systems (ADAS). Our Embedded Processing products are used in many markets, particularly industrial and automotive.

An important characteristic of our Embedded Processing products is that our customers often invest their own research and development (R&D) to write software that operates on our products. This investment tends to increase the length of our customer relationships because many customers prefer to re-use software from one product generation to the next.

Sales of Embedded Processing products generated about 23 percent of our revenue in 2017. According to external sources, the market for embedded processors was about \$20 billion in 2017. Our Embedded Processing segment’s revenue in 2017 was about 18 percent of this fragmented market, among the leaders. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Connected Microcontrollers and Processors.

Connected Microcontrollers

Connected Microcontrollers includes microcontrollers, microcontrollers with integrated wireless capabilities and stand-alone wireless connectivity solutions. Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. Microcontrollers tend to have minimal requirements for memory, program length and software complexity. Our products are used in a wide range of applications and incorporate both wired and wireless communication with integrated analog functions to enable electronic equipment to sense, connect, log and transfer data.

Processors

Processors includes digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors are designed for specific computing activity.

Other

We report the results of our remaining business activities in Other, which includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other generated \$1.56 billion of revenue in 2017 and includes revenue from DLP® products (primarily used in projectors to create high-definition images), calculators and certain custom semiconductors known as application-specific integrated circuits (ASICs).

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges; restructuring charges; and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions.

Financial information with respect to our segments and our operations outside the United States is contained in Note 1 to the financial statements, which is included in Item 8, “Financial Statements and Supplementary Data.” Risks attendant to our foreign operations are described in Item 1A, “Risk Factors.”

Markets for our products

The table below lists the major markets for our products in 2017 and the estimated percentage of our 2017 revenue that the market represented. The chart also lists, in declining order of our revenue, the sectors within each market.

Market	Sector
Industrial (35% of TI revenue)	Factory automation and control
	Building automation
	Medical/healthcare/fitness
	Grid infrastructure
	Test and measurement
	Motor drives
	Space/avionics/defense
	Appliances
	Power delivery
	Electronic point of sale
	Display
	Industrial transportation
	Lighting
	Industrial other
Automotive (19% of TI revenue)	Infotainment and cluster
	Passive safety
	Advanced driver assistance systems (ADAS)
	Hybrid/electric vehicle and powertrain
Personal electronics (25% of TI revenue)	Body electronics and lighting
	Mobile phones
	Personal and notebook computers
	Portable electronics
	Storage
	Tablets
	Printers and other peripherals
	Home theater and entertainment
	Wearables (non-medical)
Communications equipment (12% of TI revenue)	TV
	Gaming
	Wireless infrastructure
	Telecom infrastructure
Enterprise systems (6% of TI revenue)	Enterprise switching
	Residential
	Projectors
	Servers
	Multi-function printers
Other (calculators and other) (3% of TI revenue)	High-performance computing
	Thin client

Market characteristics

Competitive landscape

Despite recent consolidation, the analog and embedded processing markets remain highly fragmented. As a result, we face significant global competition from dozens of large and small companies, including both broad-based suppliers and niche suppliers. Our competitors also include emerging companies, particularly in Asia, that sell products into the same markets in which we operate.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and depth of its channels to market, technological innovation, product development execution, technical support, customer service, quality, reliability, capacity and price. In addition, manufacturing process technologies that provide differentiated levels of performance are a competitive factor for our Analog products and customers' prior investments in software development is a competitive factor for our Embedded Processing products.

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing processes. Semiconductor prices and manufacturing costs tend to decline over time as manufacturing processes and product life cycles mature.

Market cycle

The "semiconductor cycle" refers to the ebb and flow of supply and demand and the building and depleting of inventories. The semiconductor market historically has been characterized by periods of tight supply caused by strengthening demand and/or insufficient manufacturing capacity, followed by periods of surplus inventory caused by weakening demand and/or excess manufacturing capacity. These are typically referred to as upturns and downturns in the semiconductor cycle. The semiconductor cycle could be affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

We employ several strategies to dampen the effect of the semiconductor cycle on TI. We acquire our manufacturing facilities and equipment ahead of demand, which usually allows us to acquire this capacity at lower costs. We focus our resources on our Analog and Embedded Processing segments, which serve diverse markets and diverse customers. This diversity reduces our dependence on the performance of a single market or small group of customers. Additionally, we utilize consignment inventory programs with our customers and distributors that give us improved insight into customer demand.

Seasonality

Our revenue is subject to some seasonal variation. Historically, our sequential revenue growth rate tends to be weaker in the first and fourth quarters when compared with the second and third quarters.

Customers, sales and distribution

We sell our products to about 100,000 customers. Our customer base is diverse, with more than one-third of our revenue derived from customers outside our largest 100.

We market and sell our semiconductor products through direct sales and distributors, and online. We have sales or marketing offices in more than 30 countries, and we continue to expand and enhance our online presence. About 65 percent of our sales are fulfilled through distribution channels. Our distributors maintain an inventory of our products and sell directly to a wide range of customers. They also sell products from our competitors.

Manufacturing

Semiconductor manufacturing begins with a sequence of photolithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is packaged and tested. The entire process takes place in highly specialized facilities and requires an average of 12 weeks, with most products being completed within 6 to 14 weeks.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation.

We do most of our manufacturing in-house. This strategic decision to directly control our manufacturing helps ensure a consistent supply of products for our customers and also allows us to invest in technology that differentiates the features of our products. We have focused on creating a competitive manufacturing cost advantage by increasing factory loadings of our advanced analog 300-millimeter wafers, which have about a 40 percent cost advantage per unpackaged chip over 200-millimeter wafers. 300-millimeter wafers will support the majority of our Analog growth going forward.

Additionally, we keep our manufacturing costs low by using mature assets acquired ahead of demand when their prices are most attractive. We expect to continue to maintain sufficient internal manufacturing capacity to meet the vast majority of our production needs, and to obtain manufacturing equipment to support new technology developments and revenue growth. To supplement our manufacturing capacity and maximize our responsiveness to customer demand, we use the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2017, we sourced about 20 percent of our total wafers from external foundries and about 40 percent of our assembly/test services from subcontractors.

Research and Development

Our R&D expense was \$1.51 billion in 2017, compared with \$1.36 billion in 2016 and \$1.27 billion in 2015. We continually grow and strengthen our broad Analog and Embedded Processing portfolios through disciplined allocation of R&D resources. We invest in R&D to develop differentiated products, with a particular emphasis on designing for the industrial and automotive markets.

We conduct most of our R&D internally. We also closely engage with a wide range of third parties, including software suppliers, universities and select industry consortia, and we collaborate with our foundry suppliers on semiconductor manufacturing technology.

Inventory

Our long-term inventory strategy is to maintain high levels of customer service and stable lead times, minimize inventory obsolescence and improve manufacturing asset utilization. To capitalize on manufacturing efficiencies, we build in advance of demand low-volume, long-lived devices with a broad customer base and a low risk of obsolescence. Additionally, we sometimes maintain product inventory in unfinished wafer form to allow greater flexibility in periods of high demand. Further, we have improved insight into demand and are better able to manage our factory loadings because over time we have increased consignment inventory programs with our customers and distributors. About 60 percent of TI revenue is fulfilled from consignment programs. Our strategy and expected customer demand will cause our inventory levels to fluctuate over time.

Longer term, we expect to carry more inventory than we have in the past as we move towards higher consignment levels and more long-lived, low-volume devices to serve industrial customers, a growing portion of our business.

Backlog

We define backlog as of a particular date as purchase orders with a customer-requested delivery date within a specified length of time. Our backlog at any particular date may not be indicative of revenue for any future period. As customer requirements and industry conditions change, orders may be subject to cancellation or modification of terms such as pricing, quantity or delivery date. Customer order placement practices continually evolve based on customers' individual business needs and capabilities, as well as industry supply and capacity considerations. Further, our consignment programs do not result in backlog because the order occurs at the same time as delivery, i.e., when the customer pulls the product from consigned inventory. Our backlog of orders was \$1.32 billion at December 31, 2017, and \$1.09 billion at December 31, 2016.

Raw materials

We purchase materials, parts and supplies from a number of suppliers. In some cases we purchase such items from sole source suppliers. The materials, parts and supplies essential to our business are generally available at present, and we believe that such materials, parts and supplies will be available in the foreseeable future.

Intellectual property

We own many patents, and have many patent applications pending, in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and continually add patents to that portfolio. We also have license agreements, which vary in duration, involving rights to our portfolio or those of other companies. We do not consider our business materially dependent upon any one patent or patent license.

We often participate in industry initiatives to set technical standards. Our competitors may participate in the same initiatives. Participation in these initiatives may require us to license certain of our patents to other companies on reasonable and non-discriminatory terms.

We own trademarks that are used in the conduct of our business. These trademarks are valuable assets, the most important of which are “Texas Instruments” and our corporate monogram.

Acquisitions and divestitures

From time to time we consider acquisitions and divestitures. We focus on transactions that are a strategic fit and strengthen our portfolio, and that also meet our financial objectives.

Executive officers of the Registrant

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

Name	Age	Position
Niels Anderskov	48	Senior Vice President
Stephen A. Anderson	56	Senior Vice President
Ellen L. Barker	55	Senior Vice President and Chief Information Officer
Brian T. Crutcher*	45	Director, Executive Vice President and Chief Operating Officer
R. Gregory Delagi	55	Senior Vice President
Haviv Ilan	49	Senior Vice President
Rafael R. Lizardi	45	Senior Vice President, Chief Financial Officer and Chief Accounting Officer
Kevin J. Ritchie	61	Senior Vice President
Richard K. Templeton*	59	Director, Chairman of the Board, President and Chief Executive Officer
Cynthia Hoff Trochu	54	Senior Vice President, Secretary and General Counsel
Julie M. Van Haren	49	Senior Vice President
Darla H. Whitaker	52	Senior Vice President
Bing Xie	50	Senior Vice President

* On January 18, 2018, Mr. Crutcher was appointed to succeed Mr. Templeton as president and chief executive officer, effective June 1, 2018. Mr. Templeton will continue as chairman of the board.

The term of office of these officers is from the date of their election until their successor shall have been elected and qualified. All have been employees of the company for more than five years. Messrs. Anderson, Crutcher, Delagi, Ritchie and Templeton and Ms. Whitaker have served as executive officers of the company for more than five years. Ms. Trochu and Mr. Xie became executive officers of the company in 2015. Messrs. Anderskov, Ilan and Lizardi and Mes. Barker and Van Haren became executive officers of the company in 2017. Mr. Anderskov was previously an executive officer of the company from 2012 to 2014.

Employees

At December 31, 2017, we had 29,714 employees.

Available information

Our internet address is www.ti.com. Information on our website is not part of this report. We make available free of charge through our Investor Relations website our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. Also available through the TI Investor Relations website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports.

Available on our website at www.ti.com/corporategovernance are: (i) our Corporate Governance Guidelines; (ii) charters for the Audit, Compensation, and Governance and Stockholder Relations Committees of our board of directors; (iii) our Code of Conduct; and (iv) our Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199, Attention: Investor Relations.

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 into 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 TI, a company 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 results and other factors, many of which are beyond our control.

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 this competition will continue to increase from large competitors and from small competitors serving niche markets, and also from emerging companies, particularly in Asia, that sell products into the same markets in which we operate. For example, we may face increased competition as a result of China actively promoting and reshaping its domestic semiconductor industry through policy changes and investment. These actions may restrict us from participating in the China market or may prevent us from competing effectively with Chinese companies. Certain competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products, and consolidation among our competitors may allow them to compete more effectively. Additionally, traditional intellectual property licensors are increasingly providing functionality, designs and complete hardware or software solutions that compete with 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.

Changes in expected demand for our products could have a material adverse effect on our results of operations.

Our customers include companies in a wide range of end markets and sectors within those markets. If demand in one or more sectors within our end markets declines or the rate of growth slows, our results of operations may be adversely affected. The cyclical nature of the semiconductor market may lead to significant and rapid increases and decreases in product demand. Additionally, the loss or significant curtailment of purchases by one or more of our large 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.

Our results of operations also might suffer because of a general decline in customer demand resulting from, for example: uncertainty regarding the stability of global credit and financial markets; natural events or domestic or international political, social, economic or other conditions; breaches of customer information technology systems that disrupt customer operations; or a customer's inability to access credit markets and other sources of needed liquidity.

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 global operations subject us to risks associated with domestic or international political, social, economic or other conditions.

We have facilities in more than 30 countries. About 85 percent of our revenue comes from shipments to locations outside the United States; in particular, shipments of products into China typically represent a large portion of our revenue. We are exposed to political, social and economic conditions, security risks, terrorism or other hostile acts, health conditions, labor conditions, and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate, including the United States. Additionally, certain countries where we operate have experienced, and other countries may experience, increasing protectionism that may impact global trade. This could result in an adverse effect on our operations and our financial results. In addition, our global operations expose us to periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business. The remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

Our operating results and our reputation could be adversely affected by breaches or disruptions of information technology systems.

Breaches or disruptions of our information technology systems or the systems of our customers, vendors and other third parties could be caused by factors such as computer viruses, system failures, restricted network access, unauthorized access, terrorism, employee malfeasance, or human error. These events could, among other things, compromise our information technology networks; result in corrupt or lost data or the unauthorized release of our, our customers' or our suppliers' confidential or proprietary information; cause a disruption to our manufacturing and other operations; result in the release of personal data; or cause us to incur costs associated with increased protection, remediation or penalties, any of which could adversely affect our operating results and our reputation. Cybersecurity threats are frequent and constantly evolving, thereby increasing the difficulty of defending against them.

Our results of operations could be affected by natural events in the locations in which we operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as severe weather, geological events or health epidemics that could disrupt operations. A natural disaster that results in a prolonged disruption to our operations may adversely affect our results and financial condition.

Rapid technological change in markets we serve requires us to develop new technologies and products.

Rapid technological change in markets we serve could contribute to shortened product life cycles and a decline in average selling prices of our products. Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a timely manner. We make significant investments in research and development to improve existing technology and products and develop new ones to meet changing customer demands. In some cases, we might not realize a return on our investments because they are generally made before commercial viability can be assured. Further, projects that are commercially viable may not contribute significant revenue until at least a few years after they are completed.

We face supply chain and manufacturing risks.

We rely on third parties to supply us with goods and services in a cost-effective and timely manner. Our access to needed goods and services may be adversely affected by potential disputes with suppliers or disruptions in our suppliers' operations as a result of, for example: quality excursions; uncertainty regarding the stability of global credit and financial markets; domestic or international political, social, economic and other conditions; natural events in the locations in which our suppliers operate; or limited or delayed access to key raw materials, natural resources and utilities. Additionally, a breach of our suppliers' information technology systems could result in a release of our confidential or proprietary information. If our suppliers are unable to access credit markets and other sources of needed liquidity, we may be unable to obtain needed supplies, collect accounts receivable or access needed technology.

In particular, our manufacturing processes and critical manufacturing equipment require that certain key raw materials, natural resources and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if one or more of our customers demand that we change the sourcing of materials we cannot identify as conflict-free.

Our 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 products, and we depend on third parties to provide advanced logic manufacturing process technology development. We do not have long-term contracts with all of these suppliers, and the number of alternate suppliers is limited. Reliance on these suppliers involves risks, including possible shortages of capacity in periods of high demand, suppliers' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost effective, and appropriate manner and the possibility of suppliers' imposition of increased costs on us.

Our operations could be affected by the complex laws, rules and regulations to which our business is subject.

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, the environment, safety and health; exports and imports; bribery and corruption; tax; data privacy and protection; labor and employment; competition; market access; intellectual property ownership and infringement; and the movement of currency. Compliance with these laws, rules and regulations may be onerous and expensive and could restrict our ability to manufacture or ship our products and operate our business. If we fail to comply or if we become subject to enforcement activity, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, natural resources, or materials or gases used or emitted into the environment in connection with the manufacture of our products. A substitute for a prohibited raw material or process might not be available, or might not be available at reasonable cost.

Our results of operations and our reputation could be affected by warranty claims, product liability claims, product recalls or legal proceedings.

We could be subject to claims based on warranty, product liability, epidemic or delivery failures, or other grounds relating to our products, manufacturing, services, designs, communications or cybersecurity that could lead to significant expenses as we defend such claims or pay damage awards or settlements. In the event of a claim, we may also incur costs if we decide to compensate the affected customer or end consumer. We 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, for example, with respect to products used in automotive applications or handheld electronics, which may cause us to incur costs and expenses relating to the recall. Any of these events could adversely affect our results of operations, financial condition and our reputation.

Our results of operations could be affected by changes in tax-related matters.

We have facilities in more than 30 countries 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. A number of factors could cause our tax rate to increase, including a change in the jurisdictions in which our profits are earned and taxed; a change in the mix of profits from those jurisdictions; changes in available tax credits; changes in applicable tax rates; changes in tariff regulations or surcharges; changes in accounting principles; or adverse resolution of audits by taxing authorities. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also affect our results of operations. If our tax rate increases, our results of operations could be adversely affected.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. Changes in these laws and regulations, including those that align with the Organisation for Economic Cooperation and Development's Base Erosion and Profit Shifting recommendations, could affect the locations where we are deemed to earn income, which could in turn 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 initial estimates of the financial impact of the U.S. Tax Cuts and Jobs Act, enacted in December 2017, may change as we refine our analysis and as additional guidance becomes available. If in the future we repatriate any of the earnings represented by non-cash, operating assets such as inventory and fixed assets, we might incur incremental non-U.S. taxes, which could affect our results of operations.

Our results of operations and financial condition could be adversely affected if a customer or a distributor suffers a loss with respect to our inventory.

We have consignment inventory programs in place for some of our largest customers and distributors. If a customer or distributor were to experience a loss with respect to TI-consigned inventory, our results of operations and financial condition may be adversely affected if we do not recover the full value of the lost inventory from the customer, distributor or insurer, or if our recovery is delayed.

Our results of operations could be adversely affected by our distributors' promotion of competing product lines or our distributors' financial performance.

In 2017, about 65 percent of our revenue was generated from sales of our products through distributors. Our distributors carry competing product lines, and our sales could be affected if our distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us. Disputes with or the loss of a significant number of distributors could be disruptive or harmful to our current business.

Our margins may vary over time.

Our profit margins may be adversely affected by a number of factors, including decreases in customer demand and shipment volume; obsolescence of our inventory; shifts in our product mix; changes in tariffs; changes in our manufacturing processes; and new accounting pronouncements or changes in existing accounting practices or standards. In addition, we operate in a highly competitive market environment that might adversely affect pricing for our products. Because we own much of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these fixed costs do not decline with reductions in customer demand or factory loadings, and can adversely affect profit margins as a result.

Our performance depends in part on our ability to enforce our intellectual property rights and to maintain freedom of operation.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio in all jurisdictions where we conduct business. There can be no assurance that, as our business evolves, we will obtain the necessary intellectual property rights, or that 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. We may, directly or indirectly, face infringement claims from third parties, including non-practicing entities that have acquired patents to pursue enforcement actions against other companies. We may also face infringement claims where we or our customers make, use or sell products and where the intellectual property laws may be less established or less predictable. These assertions, whether or not of any merit, could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have a contractual or other legal obligation to indemnify them against damages resulting from infringement claims.

We actively enforce and protect our own intellectual property rights. However, our efforts cannot prevent all misappropriation or improper use of our protected technology and information, including, for example, third parties' use of our patented or copyrighted technology, or our trade secrets in their products without the right to do so, or third parties' sale of counterfeit products bearing our trademark. The risk of unfair copying or cloning may impede our ability to sell our products. The laws of countries where we operate may not protect our intellectual property rights to the same extent as U.S. laws.

Our debt could affect our operations and financial condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including our other risk factors, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise would be invested in our operations or returned to shareholders, or could cause us to raise funds by, for example, issuing new debt or equity or selling assets.

Our results of operations and liquidity could be affected by changes in the financial markets.

We maintain bank accounts, one or more multi-year revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our operations, invest in our business, make strategic acquisitions, service our debt obligations and meet our cash return objectives depends upon continuous access to our bank and investment accounts, and may depend on access to our bank credit lines that 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 and our ability to access the capital markets or redeem our investments could be restricted.

Increases in health care and pension benefit costs could affect our results of operations and financial condition.

Federal and state health care reform programs could increase our costs with regard to medical coverage of our employees, which could reduce profitability and affect our results of operations and financial condition. In addition, obligations related to our pension and other postretirement plans reflect assumptions that affect the planned funding and costs of these plans, including the actual return on plan assets, discount rates, plan participant population demographics and changes in pension regulations. Changes in these assumptions may affect plan funding, cash flow and results of operations, and our costs and funding obligations could increase significantly if our plans' actual experience differs from these assumptions.

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 engineering, management, marketing, technical and staff personnel. Skilled and experienced personnel in our industry are in high demand, and competition for their talents is intense. There can be no assurance that we will be able to successfully retain and recruit the key engineering, management and technical personnel that we require to execute our business strategy. Our ability to recruit internationally or deploy employees to various locations may be limited by immigration laws.

Our ability to successfully implement business and organizational changes could affect our business plans and results of operations.

From time to time, we undertake business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our strategic objectives. Our failure to successfully implement these changes could adversely affect our business plans and operating results. For example, we may not realize the expected benefits of an acquisition if we are unable to timely and successfully integrate acquired operations, product lines and technology, and our pre-acquisition due diligence may not identify all possible issues and risks that might arise with respect to an acquisition. Further, we may not achieve or sustain the expected growth or cost savings benefits of business and organizational changes, and restructuring charges could differ materially in amount and timing from our expectations.

Material impairments of our goodwill or intangible assets could adversely affect our results of operations.

We have a significant amount of goodwill and intangible assets on our consolidated balance sheet. Charges associated with impairments of goodwill or intangible assets could adversely affect our financial condition and results of operations.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our principal executive offices are located at 12500 TI Boulevard, Dallas, Texas. The following table indicates the general location of our principal manufacturing and design operations and the reportable segments that make major use of them. Except as otherwise indicated, we own these facilities.

	Analog	Embedded Processing
Dallas, Texas	X	X
Houston, Texas		X
Sherman, Texas	X	
Tucson, Arizona*	X	
Santa Clara, California	X	
South Portland, Maine	X	
Chengdu, China†	X	X
Shanghai, China*	X	X
Freising, Germany	X	X
Bangalore, India†	X	X
Aizu, Japan	X	X
Miho, Japan	X	X
Kuala Lumpur, Malaysia†	X	X
Melaka, Malaysia†	X	
Aguascalientes, Mexico*	X	
Baguio, Philippines†	X	X
Pampanga (Clark), Philippines†	X	X
Greenock, Scotland	X	
Taipei, Taiwan†	X	X

* Leased.

† Portions of the facilities are leased and owned. This may include land leases.

Our facilities in the United States contained approximately 13.1 million square feet at December 31, 2017, of which approximately 0.7 million square feet were leased. Our facilities outside the United States contained approximately 10.0 million square feet at December 31, 2017, of which approximately 1.5 million square feet were leased.

At the end of 2017, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates, generally within the next five years. We believe our current properties are suitable and adequate for their intended purpose.

ITEM 3. Legal Proceedings.

We are involved in various inquiries and proceedings that arise in the ordinary course of our business. We believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The information concerning the number of stockholders of record at December 31, 2017, is contained in Item 6, "Summary of Selected Financial Data."

Common stock prices and dividends

TI common stock is listed on The NASDAQ Global Select Market. The table below shows the high and low closing prices of TI common stock as reported by Bloomberg L.P. and the dividends paid per common share in each quarter during the past two years.

		Quarter			
		1st	2nd	3rd	4th
Stock prices:					
2017	High	\$ 82.20	\$ 84.34	\$ 89.65	\$ 104.82
	Low	72.92	76.90	76.41	89.65
2016	High	58.37	63.30	71.42	74.87
	Low	48.03	56.43	61.06	67.60
Dividends paid:					
2017		\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.62
2016		0.38	0.38	0.38	0.50

Issuer purchases of equity securities

The following table contains information regarding our purchases of our common stock during the fourth quarter of 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2017 through October 31, 2017	2,575,154	\$ 93.49	2,560,953	\$ 9.71 billion
November 1, 2017 through November 30, 2017	3,324,228	97.71	3,324,228	9.39 billion
December 1, 2017 through December 31, 2017	1,456,816	97.63	1,456,816	9.24 billion
Total	7,356,198 ⁽²⁾	\$ 96.22 ⁽²⁾	7,341,997	\$ 9.24 ⁽³⁾ billion

(1) All open-market purchases during the quarter were made under the authorization from our board of directors to purchase up to \$7.5 billion of additional shares of TI common stock announced September 17, 2015. On September 21, 2017, our board of directors authorized the purchase of an additional \$6.0 billion of our common stock.

(2) In addition to open-market purchases, 14,201 shares of common stock were surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

(3) As of December 31, 2017, this amount consisted of the remaining portion of the \$7.5 billion authorized in September 2015 and the \$6.0 billion authorized in September 2017. No expiration date has been specified for these authorizations.

ITEM 6. Selected Financial Data.

(Millions of dollars, except share and per-share amounts)	For Years Ended December 31,				
	2017	2016	2015	2014	2013
Cash flow data:					
Cash flows from operating activities	\$ 5,363	\$ 4,614	\$ 4,397	\$ 4,054	\$ 3,514
Capital expenditures	695	531	551	385	412
Free cash flow (a)	4,668	4,083	3,846	3,669	3,102
Dividends paid	2,104	1,646	1,444	1,323	1,175
Stock repurchases	2,556	2,132	2,741	2,831	2,868
Income statement data:					
Revenue by segment:					
Analog	9,900	8,536	8,339	8,104	7,194
Embedded Processing	3,498	3,023	2,787	2,740	2,450
Other	1,563	1,811	1,874	2,201	2,561
Revenue	14,961	13,370	13,000	13,045	12,205
Gross profit (b)	9,614	8,257	7,575	7,447	6,400
Operating expenses (R&D and SG&A) (b)	3,202	3,098	2,995	3,164	3,329
Acquisition charges	318	319	329	330	341
Restructuring charges/other (b)	11	(15)	(71)	(50)	(192)
Operating profit (b)	6,083	4,855	4,322	4,003	2,922
Net income	<u>\$ 3,682</u>	<u>\$ 3,595</u>	<u>\$ 2,986</u>	<u>\$ 2,821</u>	<u>\$ 2,162</u>

As a result of accounting rule ASC 260, which requires a portion of Net income to be allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents, diluted earnings per share (EPS) is calculated using the following:

Net income	\$ 3,682	\$ 3,595	\$ 2,986	\$ 2,821	\$ 2,162
Income allocated to RSUs	(33)	(44)	(42)	(43)	(36)
Income allocated to common shares for diluted EPS	<u>\$ 3,649</u>	<u>\$ 3,551</u>	<u>\$ 2,944</u>	<u>\$ 2,778</u>	<u>\$ 2,126</u>
Average diluted shares outstanding, in millions	1,012	1,021	1,043	1,080	1,113
Diluted EPS	\$ 3.61	\$ 3.48	\$ 2.82	\$ 2.57	\$ 1.91
Cash dividends declared per common share	\$ 2.12	\$ 1.64	\$ 1.40	\$ 1.24	\$ 1.07

- (a) Free cash flow is a non-GAAP measure derived by subtracting Capital expenditures from Cash flows from operating activities.
- (b) Prior periods reclassified to conform to the 2017 presentation, having adopted ASU 2017-07. See Note 2 to the financial statements.

(Millions of dollars, except Other data items)	December 31,				
	2017	2016	2015	2014	2013
Balance sheet data:					
Cash, cash equivalents and short-term investments	\$ 4,469	\$ 3,490	\$ 3,218	\$ 3,541	\$ 3,829
Total assets	17,642	16,431	16,230	17,372	18,554
Current portion of long-term debt	500	631	1,000	1,001	1,000
Long-term debt	3,577	2,978	3,120	3,630	4,145
Other data - Number of:					
Employees	29,714	29,865	29,977	31,003	32,209
Stockholders of record	14,260	14,910	15,563	16,361	17,213

See Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements and Supplementary Data.

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

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Our business model is designed around the following four sustainable competitive advantages, that we believe, in combination, put us in a unique class of companies:

- *A strong foundation of manufacturing and technology.* We invest in manufacturing technologies and do most of our manufacturing in-house. This strategic decision to directly control our manufacturing helps ensure a consistent supply of products for our customers and also allows us to invest in technology that differentiates the features of our products. We have focused on creating a competitive manufacturing cost advantage by increasing factory loadings of our advanced analog 300-millimeter wafers, which have about a 40 percent cost advantage per unpackaged chip over 200-millimeter wafers. 300-millimeter wafers will support the majority of our Analog growth going forward. Additionally, we keep our manufacturing costs low by using mature assets acquired ahead of demand when their prices are most attractive.
- *Broad portfolio of differentiated analog and embedded processing semiconductors.* Our customers need multiple chips for their systems. The breadth of our portfolio means we can solve more of these needs than our competitors, which gives us access to more customers and the opportunity to sell more products and generate more revenue per customer system. We invest more than \$1 billion each year to develop new products for our portfolio, which includes tens of thousands of products.
- *Broadest reach of market channels.* Customers often begin their initial product selection process and design-in journey on our website, and the breadth of our portfolio attracts more customers to our website than any of our competitors. Our web presence, combined with our global sales force that is also greater in size than those of our competitors, are advantages that give us unique access to about 100,000 customers designing TI semiconductors into their end products.
- *Diversity and longevity of our products, markets and customer positions.* Together, the attributes above result in diverse and long-lived positions that deliver high terminal value to our shareholders. Because of the breadth of our portfolio, we are not dependent on any single product, and because of the breadth of our markets we are not dependent on any single application or customer. Some of our products generate revenue for decades, which strengthens the return on our investments.

Our strategic focus, and where we invest the majority of our resources, is on Analog and Embedded Processing, with a particular emphasis on designing and selling those products into the industrial and automotive markets, which we believe represent the best growth opportunities. Analog and embedded processing products sold into industrial and automotive markets provide long product life cycles, intrinsic diversity, and less capital-intensive manufacturing, which we believe offer stability, profitability and strong cash generation. This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth, especially on a per share basis, is important for maximizing shareholder value over the long term. We also believe that free cash flow will be valued only if it is productively invested in the business or returned to shareholders.

The combined effect of these sustainable competitive advantages is that over time we have gained market share in Analog and Embedded Processing and have grown free cash flow. Our business model puts us in a unique class of companies with the ability to grow, generate cash, and return that cash to shareholders.

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

- Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.
- All dollar amounts in the tables are stated in millions of U.S. dollars.
- When we discuss our results:
 - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
 - New products tend not to have a significant impact on our revenue in any given period because we sell such a large number of products.

- From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the “mix” of products shipped.

Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent

- other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.
- Over time, we have been allocating resources from areas like manufacturing support and SG&A into R&D activities.

The recently enacted U.S. Tax Cuts and Jobs Act (the Tax Act) will reduce our annual operating tax rate, which does not include discrete tax items, from 31 percent in 2017 to an ongoing rate of about 18 percent starting in 2019, comprehending the benefits of exports and having manufacturing, R&D and intellectual property in the United States. In 2018, our annual operating tax rate is expected to be about 23 percent, 5 percentage points higher, primarily due to a transitional non-cash expense. For an explanation of the term “annual operating tax rate,” see the Non-GAAP financial information section after the Liquidity and capital resources section.

- In the first quarter of 2017, we adopted ASU 2017-07 related to certain pension and other retiree benefit costs. We applied the new standard on a full retrospective basis for all periods presented in the Consolidated Statements of Income, which have been recast as a result. See Note 2 to the financial statements for more details.

As of January 1, 2017, we no longer recognize royalties as revenue; instead, they are recorded as OI&E. We continue to receive royalties from arrangements involving license rights to our patent portfolio.

- Although we expect royalties to continue for many years, they are of decreasing significance to our core operations.

Results of operations

We continued to perform well in 2017, reflecting our focus on Analog and Embedded Processing, with a particular emphasis on the industrial and automotive markets. These products serve highly diverse markets with thousands of applications and have long-term growth opportunities. In 2017, Analog and Embedded Processing represented 90 percent of revenue. Gross margin of 64.3 percent reflected the quality of our product portfolio, as well as the efficiency of our manufacturing strategy.

Our focus on Analog and Embedded Processing allows us to generate strong cash flow from operations. Our cash flow from operations of \$5.36 billion underscored the strength of our business model. Free cash flow was \$4.67 billion and represented 31.2 percent of revenue, up from 30.5 percent a year ago. During 2017, we returned \$4.66 billion to shareholders through a combination of stock repurchases and dividends, consistent with our strategy to return all of our free cash flow to shareholders. Our dividends represented 45 percent of free cash flow, underscoring their sustainability. Free cash flow is a non-GAAP financial measure. See the Non-GAAP financial information section.

Details of financial results – 2017 compared with 2016

Revenue of \$14.96 billion was up \$1.59 billion, or 12 percent, due to higher revenue from Analog and Embedded Processing.

Gross profit of \$9.61 billion was up \$1.36 billion, or 16 percent, primarily due to higher revenue. As a percentage of revenue, gross profit increased to 64.3 percent from 61.8 percent.

Operating expenses (R&D and SG&A) were \$3.20 billion compared with \$3.10 billion, as we continued our ongoing allocation of resources to R&D activities.

Acquisition charges of \$318 million were non-cash. See Note 13 to the financial statements.

Restructuring charges/other was a charge of \$11 million compared with a credit of \$15 million in 2016. These amounts are included in Other for segment reporting purposes. See Note 3 to the financial statements.

Operating profit was \$6.08 billion, or 40.7 percent of revenue, compared with \$4.86 billion, or 36.3 percent of revenue.

OI&E was \$75 million of income compared with \$155 million in 2016. See Note 13 to the financial statements.

Our Provision for income taxes was \$2.40 billion compared with \$1.34 billion. The increase was due to the enactment of the Tax Act and, to a lesser extent, higher income before income taxes. Our effective tax rate, which includes discrete tax items, was 39 percent in 2017 and 27 percent in 2016. This change was due to tax adjustments made in 2017 as a result of the Tax Act. See Note 6 to the financial statements for a reconciliation of the U.S. statutory income tax rate to the effective tax rate.

Net income was \$3.68 billion compared with \$3.60 billion. EPS was \$3.61 compared with \$3.48.

Segment results – 2017 compared with 2016

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue	\$ 9,900	\$ 8,536	16%
Operating profit	4,468	3,416	31%
Operating profit % of revenue	45.1%	40.0%	

Analog revenue increased due to Power and Signal Chain. High Volume also grew, but to a lesser extent. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing (includes Connected Microcontrollers and Processors product lines)

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue	\$ 3,498	\$ 3,023	16%
Operating profit	1,143	817	40%
Operating profit % of revenue	32.7%	27.0%	

Embedded Processing revenue increased due to growth in both product lines, led by Processors. Operating profit increased primarily due to higher revenue and associated gross profit.

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue	\$ 1,563	\$ 1,811	(14)%
Operating profit *	472	622	(24)%
Operating profit % of revenue	30.2%	34.3%	

* Includes Acquisition charges and Restructuring charges/other

Other revenue declined \$248 million primarily due to custom ASIC products and the move of royalties from revenue to OI&E, which began in the first quarter of 2017. Operating profit decreased \$150 million.

Details of financial results – 2016 compared with 2015

Revenue of \$13.37 billion was up \$370 million, or 3 percent, from 2015 due to higher revenue from Embedded Processing and Analog.

Gross profit was \$8.26 billion, an increase of \$682 million, or 9 percent, due to lower manufacturing costs and, to a lesser extent, higher revenue. Gross profit margin was 61.8 percent compared with 58.3 percent.

Operating expenses were \$1.36 billion for R&D and \$1.74 billion for SG&A. R&D expense increased \$89 million, or 7 percent, due to a combination of our allocation of resources into R&D activities and higher compensation-related costs. SG&A expense increased \$14 million, primarily due to higher compensation-related costs.

Acquisition charges associated with our 2011 acquisition of National Semiconductor were \$319 million compared with \$329 million. These non-cash charges resulted from the amortization of intangible assets. See Note 13 to the financial statements.

Restructuring charges/other was a credit of \$15 million, which included a gain on the sale of intellectual property of \$40 million that was partially offset by \$25 million related to restructuring charges. This compared with a credit of \$71 million in 2015, which included gains on sales of assets of \$83 million that were partially offset by \$12 million related to restructuring charges and other credits. These amounts are included in Other for segment reporting purposes. See Note 3 to the financial statements.

Operating profit was \$4.86 billion, or 36.3 percent of revenue, compared with \$4.32 billion, or 33.2 percent of revenue.

OI&E was \$155 million of income compared with \$16 million of expense. The increase is due to income of \$188 million from settlements related to intellectual property infringement.

Our income tax provision was \$1.34 billion compared with \$1.23 billion. The increase was primarily due to higher income before income taxes, partially offset by a tax benefit for stock compensation. Our annual operating tax rates, which do not include discrete tax items, were 30 percent in 2016 and 29 percent in 2015. Our effective tax rates were 27 percent in 2016 and 29 percent in 2015.

Net income was \$3.60 billion, an increase of \$609 million, or 20 percent. EPS was \$3.48 compared with \$2.82. EPS benefited \$0.13 in 2016 due to the adoption of a stock compensation accounting standard.

Segment results – 2016 compared with 2015

Analog

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenue	\$ 8,536	\$ 8,339	2%
Operating profit	3,416	3,077	11%
Operating profit % of revenue	40.0%	36.9%	

Analog revenue increased due to Power and Signal Chain, while High Volume declined. Operating profit increased due to higher gross profit, which benefited from lower manufacturing costs.

Embedded Processing

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenue	\$ 3,023	\$ 2,787	8%
Operating profit	817	611	34%
Operating profit % of revenue	27.0%	21.9%	

Embedded Processing revenue increased due to Processors and, to a lesser extent, Connected Microcontrollers. Processors revenue increased due to the mix of products shipped. Operating profit increased primarily due to higher revenue and associated gross profit.

Other

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenue	\$ 1,811	\$ 1,874	(3)%
Operating profit *	622	634	(2)%
Operating profit % of revenue	34.3%	33.8%	

* Includes Acquisition charges and Restructuring charges/other

Other revenue decreased due to, in declining order, royalties, custom ASIC products and calculators. This decrease was partially offset by growth in DLP products. Operating profit decreased \$12 million.

Financial condition

At the end of 2017, total cash (Cash and cash equivalents plus Short-term investments) was \$4.47 billion, an increase of \$979 million from the end of 2016.

Accounts receivable were \$1.28 billion at the end of 2017, an increase of \$11 million compared with the end of 2016. Days sales outstanding at the end of 2017 were 31 compared with 33 at the end of 2016.

Inventory was \$1.96 billion at the end of 2017, an increase of \$167 million from the end of 2016. Days of inventory at the end of 2017 were 134 compared with 126 at the end of 2016.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are Cash and cash equivalents, Short-term investments and a variable rate, revolving credit facility. Cash flows from operating activities for 2017 was \$5.36 billion, an increase of \$749 million from 2016 that was driven by an increase in Income before income taxes.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2022. This credit facility also serves as support for the issuance of commercial paper. As of December 31, 2017, our credit facility was undrawn, and we had no commercial paper outstanding.

In 2017, investing activities used \$1.13 billion compared with \$650 million in 2016. For 2017, Capital expenditures were \$695 million compared with \$531 million in 2016. Capital expenditures in both periods were primarily for semiconductor manufacturing equipment. In 2017, we had purchases of short-term investments, net of sales, that used cash of \$460 million compared with \$113 million in 2016. In 2017, we received \$40 million from asset sales compared with none in 2016.

In 2017, financing activities used \$3.73 billion compared with \$3.81 billion in 2016. In 2017, we received net proceeds of \$1.10 billion from the issuance of fixed-rate, long-term debt and repaid \$625 million of maturing debt. In 2016, we received net proceeds of \$499 million from the issuance of fixed-rate, long-term debt and repaid \$1.00 billion of maturing debt. Dividends paid in 2017 were \$2.10 billion compared with \$1.65 billion in 2016. During 2017, the quarterly dividend increased to \$0.62 from \$0.50 per share, resulting in an annualized dividend payment of \$2.48 per share. During 2016, we increased our quarterly dividend to \$0.50 from \$0.38 per share. In 2017, we used \$2.56 billion to repurchase 30.6 million shares of our common stock. This compared with \$2.13 billion used in 2016 to repurchase 35.5 million shares. In 2017, employee exercises of stock options provided cash proceeds of \$483 million compared with \$472 million in 2016.

We had \$1.66 billion of Cash and cash equivalents and \$2.81 billion of Short-term investments as of December 31, 2017, with our U.S. entities owning about 80 percent of these amounts combined at the end of 2017. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

In 2017, we recorded a provisional tax liability of \$690 million on indefinitely reinvested earnings of our non-U.S. subsidiaries related to the enactment of the Tax Act. This amount will be paid over eight years and is not expected to have a significant impact on our liquidity.

Non-GAAP financial information

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

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

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

	For Years Ended December 31,		
	2017	2016	2015
Cash flow from operations (GAAP)	\$ 5,363	\$ 4,614	\$ 4,397
Capital expenditures	(695)	(531)	(551)
Free cash flow (non-GAAP)	<u>\$ 4,668</u>	<u>\$ 4,083</u>	<u>\$ 3,846</u>
Revenue	<u>\$ 14,961</u>	<u>\$ 13,370</u>	<u>\$ 13,000</u>
Cash flow from operations as a percent of revenue (GAAP)	35.8%	34.5%	33.8%
Free cash flow as a percent of revenue (non-GAAP)	31.2%	30.5%	29.6%

This MD&A also includes references to an annual operating tax rate, a non-GAAP term we use to describe the estimated annual effective tax rate, a GAAP measure that by definition does not include discrete tax items. We believe the term annual operating tax rate more clearly communicates that discrete tax items are excluded from such rate. The term also helps differentiate from the effective tax rate, which includes discrete tax items. No adjustments are made to the estimated annual effective tax rate when using the term annual operating tax rate.

Long-term contractual obligations

Contractual Obligations	Payments Due by Period				
	2018	2019/2020	2021/2022	Thereafter	Total
Long-term debt (a)	\$ 581	\$ 1,385	\$ 1,133	\$ 1,385	\$ 4,484
Purchase commitments (b)	391	601	67	35	1,094
Tax on indefinitely reinvested earnings (c)	55	110	110	415	690
Operating leases (d)	68	94	53	56	271
Deferred compensation plans (e)	15	49	51	112	227
Total (f)	<u>\$ 1,110</u>	<u>\$ 2,239</u>	<u>\$ 1,414</u>	<u>\$ 2,003</u>	<u>\$ 6,766</u>

(a) Includes the related interest payments and amounts classified as the current portion of long-term debt, specifically obligations that will mature within 12 months.

(b) Includes payments for software licenses and contractual arrangements with suppliers where there is a fixed, non-cancellable payment schedule or minimum payments due with a reduced delivery schedule. Excluded from the table are cancellable arrangements.

(c) Includes the provisional amount of the tax on indefinitely reinvested earnings related to the enactment of the Tax Act. See Note 6 to the financial statements for more details.

(d)

Includes minimum payments for leased facilities and equipment and purchases of industrial gases under contracts accounted for as operating leases.

- (e) Includes an estimate of payments for certain liabilities that existed at December 31, 2017.

Excluded from the table are \$300 million of uncertain tax liabilities under ASC 740, as well as any planned future funding contributions to retirement benefit plans. Amounts associated with uncertain tax liabilities have been excluded because of the difficulty in making reasonably reliable estimates of the timing of cash

- (f) settlements with the respective taxing authorities. Regarding future funding of retirement benefit plans, we plan to contribute about \$50 million in 2018, but funding projections beyond 2018 are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plans' asset performance, interest rates and potential U.S. and non-U.S. legislation.

Critical accounting policies

Our accounting policies are more fully described in Note 2 of the consolidated financial statements. As disclosed in Note 2, the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. However, based on facts and circumstances inherent in developing estimates and assumptions, management believes it is unlikely that applying other estimates and assumptions would have a material impact on the financial statements. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require a higher degree of judgment.

Revenue recognition

Based on management's assessment of the revenue recognition criteria, we usually recognize revenue from sales of our products to distributors upon shipment or delivery to the distributors. For our consignment arrangements with distributors, delivery occurs when the distributor pulls product from consignment inventory that we store at designated locations. Recognition is not contingent upon resale of the products to the distributors' customers in either scenario.

Revenue is recognized net of allowances, which are management's estimates of future credits to be granted to distributors under programs common in the semiconductor industry. These allowances are not material and generally include special pricing arrangements, product returns due to quality issues, and incentives designed to maximize growth opportunities.

Allowances are based on analysis of historical data and contractual terms and are recorded when revenue is recognized. We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

Income taxes

In determining Net income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities, and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. In this process, certain relevant criteria are evaluated including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior years that can be used to absorb net operating losses and credit carrybacks, and taxable income in future years. Our judgment regarding future recoverability of our deferred tax assets based on these criteria may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require material adjustments to the deferred tax assets and an accompanying reduction or increase in Net income in the period when such determinations are made. Also, our plans for the permanent reinvestment or eventual repatriation of the accumulated earnings of certain non-U.S. operations could change. Such changes could have a material effect on tax expense in future years.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. Statistical allowances are determined quarterly for raw materials and work-in-process based on historical disposals of inventory for salability and obsolescence reasons. For finished goods, quarterly statistical allowances are determined by comparing inventory levels of individual parts to historical shipments, current backlog and estimated future sales in order to identify inventory judged unlikely to be sold. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. Examples are an end-of-life part or demand with imminent risk of cancellation. Allowances are also calculated quarterly for instances where inventoried costs for

individual products are in excess of market prices for those products. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Changes in accounting standards

See Note 2 to the financial statements for information on new accounting standards.

Off-balance sheet arrangements

As of December 31, 2017, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Commitments and contingencies

See Note 12 to the financial statements for a discussion of our commitments and contingencies.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign exchange risk

The U.S. dollar is the functional currency for financial reporting. Our non-U.S. entities own assets or liabilities denominated in U.S. dollars or other currencies. Exchange rate fluctuations can have a significant impact on taxable income in those jurisdictions, and consequently on our effective tax rate.

Our balance sheet also reflects amounts remeasured from non-U.S. dollar currencies. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by forward currency exchange contracts, based on year-end 2017 balances and currency exchange rates, a hypothetical 10 percent plus or minus fluctuation in non-U.S. currency exchange rates relative to the U.S. dollar would result in a pre-tax currency exchange gain or loss of about \$6 million.

We use these forward currency exchange contracts to reduce the earnings impact exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. For example, at year-end 2017, we had forward currency exchange contracts outstanding with a notional value of \$365 million to hedge net balance sheet exposures (including \$140 million to sell Japanese yen, \$59 million to sell British pound sterling and \$49 million to sell euros). Similar hedging activities existed at year-end 2016.

Interest rate risk

We have the following potential exposure to changes in interest rates: (1) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (2) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2017, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by \$8 million and decrease the fair value of our long-term debt by \$141 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2017 include the following:

- *Investments in mutual funds* – includes mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.
- *Investments in venture capital funds* – includes investments in limited partnerships (accounted for under either the equity or cost method).
- *Equity investments* – includes non-marketable (non-publicly traded) equity securities.

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in deferred compensation liabilities such that a 10 percent increase or decrease in the investments' fair values would not materially affect operating results. Non-marketable equity securities and some venture capital funds are stated at cost. Impairments deemed to be other-than-temporary are expensed in Net income. Investments in the remaining venture capital funds are stated using the equity method. See Note 8 to the financial statements for details of equity and other long-term investments.

ITEM 8. Financial Statements and Supplementary Data.

List of Financial Statements (Item 15(a))

Income for each of the three years in the period ended December 31, 2017

Comprehensive income for each of the three years in the period ended December 31, 2017

Balance sheets at December 31, 2017 and 2016

Cash flows for each of the three years in the period ended December 31, 2017

Stockholders' equity for each of the three years in the period ended December 31, 2017

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

**Consolidated
Statements
of Income**
For Years Ended December 31,
**(Millions
of dollars,
except
share and
per-share
amounts)**

	2017	2016	2015
Revenue	\$ 14,961	\$ 13,370	\$ 13,000
Cost of revenue (COR)	5,347	5,113	5,425
Gross profit	9,614	8,257	7,575
Research and development (R&D)	1,508	1,356	1,267
Selling, general and administrative (SG&A)	1,694	1,742	1,728
Acquisition charges	318	319	329
Restructuring charges/ other	11	(15)	(71)
Operating profit	6,083	4,855	4,322
Other income (expense), net (OI&E)	75	155	(16)
Interest and debt expense	78	80	90
Income before income taxes	6,080	4,930	4,216
Provision for income taxes	2,398	1,335	1,230
Net income	\$ 3,682	\$ 3,595	\$ 2,986
Earnings per common share (EPS):			
Basic	\$ 3.68	\$ 3.54	\$ 2.86
Diluted	\$ 3.61	\$ 3.48	\$ 2.82
Average shares outstanding (millions):			
Basic	991	1,003	1,030
Diluted	1,012	1,021	1,043
Cash dividends declared	\$ 2.12	\$ 1.64	\$ 1.40

per
common
share

As a result of accounting rule ASC 260, which requires a portion of Net income to be allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents, diluted EPS is calculated using the following:

Net income	\$	3,682	\$	3,595	\$	2,986
Income allocated to RSUs		(33)		(44)		(42)
Income allocated to common stock for diluted EPS	\$	3,649	\$	3,551	\$	2,944

See
accompanying
notes.

**Consolidated
Statements
of
Comprehensive
Income**

For Years Ended December 31,

(Millions of dollars)	2017	2016	2015
Net income	\$ 3,682	\$ 3,595	\$ 2,986
Other comprehensive income (loss)			
Net actuarial losses of defined benefit plans:			
Adjustment, net of tax effect of (\$26), \$6 and \$36	92	(43)	(74)
Recognized within Net income, net of tax effect of (\$27), (\$25) and (\$25)	56	51	53
Prior service credit of defined benefit plans:			
Adjustment, net of tax effect of \$1, \$0 and (\$11)	(2)	—	20
Recognized within Net income, net of tax effect of \$1, \$2 and \$0	(5)	(3)	—
Derivative instruments:			
Recognized within Net income, net of tax effect of \$0, \$0 and (\$1)	1	1	1
Other comprehensive	142	6	—

income (loss), net of taxes			
Total comprehensive income	<u>\$</u>	<u>3,824</u>	<u>\$</u> 2,986

See
accompanying
notes.

**Consolidated
Balance Sheets****(Millions of
dollars, except
share amounts)****December 31,****Assets**

Current assets:

	2017	2016
Cash and cash equivalents	\$ 1,656	\$ 1,154
Short-term investments	2,813	2,336
Accounts receivable, net of allowances of (\$8) and (\$17)	1,278	1,267
Raw materials	126	102
Work in process	1,089	954
Finished goods	742	734
Inventories	1,957	1,790
Prepaid expenses and other current assets	1,030	910
Total current assets	8,734	7,457
Property, plant and equipment at cost	4,789	4,923
Accumulated depreciation	(2,125)	(2,411)
Property, plant and equipment	2,664	2,512
Long-term investments	268	235
Goodwill	4,362	4,362
Acquisition-related intangibles	946	1,264
Deferred tax assets	264	374
Capitalized software licenses	110	52
Overfunded retirement plans	208	96
Other long-term assets	86	79
Total assets	\$ 17,642	\$ 16,431

**Liabilities and
stockholders'
equity**

Current liabilities:

Current portion of long-term debt	\$ 500	\$ 631
Accounts payable	466	396
Accrued compensation	722	710
Income taxes payable	128	83
Accrued expenses and other liabilities	442	444
Total current liabilities	2,258	2,264
Long-term debt	3,577	2,978

Underfunded retirement plans	89	129
Deferred tax liabilities	78	33
Other long-term liabilities	1,303	554
Total liabilities	<u>7,305</u>	<u>5,958</u>
Stockholders' equity:		
Preferred stock, \$25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred. None issued.	—	—
Common stock, \$1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	1,776	1,674
Retained earnings	34,662	33,107
Treasury common stock at cost		
Shares: 2017 – 757,657,217; 2016 – 744,831,978	(27,458)	(25,523)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(384)	(526)
Total stockholders' equity	<u>10,337</u>	<u>10,473</u>
Total liabilities and stockholders' equity	<u>\$ 17,642</u>	<u>\$ 16,431</u>

See accompanying notes.

**Consolidated
Statements
of Cash
Flows**

For Years Ended December 31,

**(Millions
of dollars)**

**Cash
flows
from
operating
activities**

	2017	2016	2015
Net income	\$ 3,682	\$ 3,595	\$ 2,986
Adjustments to Net income:			
Depreciation	539	605	766
Amortization of acquisition-related intangibles	318	319	319
Amortization of capitalized software	47	31	48
Stock compensation	242	252	286
Gains on sales of assets	—	(40)	(85)
Deferred taxes	112	(202)	(55)
Increase (decrease) from changes in:			
Accounts receivable	(7)	(108)	77
Inventories	(167)	(99)	93
Prepaid expenses and other current assets	76	(81)	94
Accounts payable and accrued expenses	51	72	(142)
Accrued compensation	(3)	36	7
Income taxes payable	468	333	11
Changes in funded status of retirement plans	21	(73)	(23)
Other	(16)	(26)	15
Cash flows from operating activities	5,363	4,614	4,397

Cash flows from investing activities			
Capital expenditures	(695)	(531)	(551)
Proceeds from asset sales	40	—	110
Purchases of short-term investments	(4,555)	(3,503)	(2,767)
Proceeds from short-term investments	4,095	3,390	2,892
Other	(12)	(6)	14
Cash flows from investing activities	(1,127)	(650)	(302)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	1,099	499	498
Repayment of debt	(625)	(1,000)	(1,000)
Dividends paid	(2,104)	(1,646)	(1,444)
Stock repurchases	(2,556)	(2,132)	(2,741)
Proceeds from common stock transactions	483	472	396
Other	(31)	(3)	(3)
Cash flows from financing activities	(3,734)	(3,810)	(4,294)
Net change in Cash and cash equivalents	502	154	(199)
Cash and cash equivalents at beginning of period	1,154	1,000	1,199
Cash and cash equivalents	\$ 1,656	\$ 1,154	\$ 1,000

at end of
period

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See
accompanying
notes.

Consolidated Statements of Stockholders' Equity (Millions of dollars, except per- share amounts)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2014	\$ 1,741	\$ 1,368	\$ 29,653	\$ (21,840)	\$ (532)
2015					
Net income	—	—	2,986	—	—
Dividends declared and paid (\$1.40 per share)	—	—	(1,444)	—	—
Common stock issued for stock- based awards	—	(116)	—	513	—
Stock repurchases	—	—	—	(2,74)	—
Stock compensation	—	286	—	—	—
Excess tax benefit for stock compensation	—	90	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	—
Dividend equivalents paid on restricted stock units	—	—	(19)	—	—
Other	—	1	—	—	—
Balance, December 31, 2015	1,741	1,629	31,176	(24,068)	(532)
2016					
Net income	—	—	3,595	—	—
Dividends declared and paid (\$1.64 per share)	—	—	(1,646)	—	—
Common stock issued for stock- based awards	—	(204)	—	677	—
Stock repurchases	—	—	—	(2,132)	—

Stock compensation	—	252	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	6
Dividend equivalents paid on restricted stock units	—	—	(18)	—	—
Other	—	(3)	—	—	—
Balance, December 31, 2016	1,741	1,674	33,107	(25,523)	(526)
2017					
Net income	—	—	3,682	—	—
Dividends declared and paid (\$2.12 per share)	—	—	(2,104)	—	—
Common stock issued for stock-based awards	—	(138)	—	621	—
Stock repurchases	—	—	—	(2,556)	—
Stock compensation	—	242	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	142
Dividend equivalents paid on restricted stock units	—	—	(17)	—	—
Other	—	(2)	(6)	—	—
Balance, December 31, 2017	\$ 1,741	\$ 1,776	\$ 34,662	\$ (27,458)	\$ (384)

See accompanying notes.

Notes to financial statements

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

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Beginning January 2017, we reorganized the product lines within our reportable segments – Analog and Embedded Processing – to align our business structure with the way our customers select and buy products. These changes had no effect on either our previously reported consolidated financial statements or our reportable segment amounts. Our two reportable segments are established along major categories of products as follows:

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

We report the results of our remaining business activities in Other. Other includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other includes DLP® products, calculators and custom ASIC products. As of January 1, 2017, we no longer recognize royalties as revenue; instead, they are now recorded as OI&E. Prior period amounts were not material.

In Other, we also include items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include Acquisition charges (see Note 13); restructuring charges (see Note 3); and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

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

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. We have no material intersegment revenue. The accounting policies of the segments are the same as those described below in the summary of significant accounting policies and practices.

Segment information

For Years Ended December 31,				
	2017	2016	2015	
Revenue:				
Analog \$	9,900	\$ 8,536	\$ 8,339	
Embedded Processing	3,498	3,023	2,787	
Other	1,563	1,811	1,874	
Total revenue	<u>\$ 14,961</u>	<u>\$ 13,370</u>	<u>\$ 13,000</u>	
Operating profit:				
Analog \$	4,468	\$ 3,416	\$ 3,077	
Embedded Processing	1,143	817	611	
Other	472	622	634	
Total operating profit	<u>\$ 6,083</u>	<u>\$ 4,855</u>	<u>\$ 4,322</u>	

Operating profit in the prior periods has been recast as a result of our early adoption of a new accounting standard related to pension and other retiree benefit costs. See Note 2 for additional information.

Geographic area information

The following geographic area information includes revenue, based on product shipment destination, and property, plant and equipment, based on physical location. The revenue information is not necessarily indicative of the geographic area in which the end applications containing our products are ultimately consumed because our products tend to be shipped to the locations where our customers manufacture their products. Specifically, many of our products are shipped to our customers in China who may include these parts in the manufacture of their own end products, which they may in turn export to their customers around the world.

For Years Ended December 31,			
	2017	2016	2015
Revenue:			
United States	\$ 1,901	\$ 1,682	\$ 1,612
Asia (a)	8,824	8,024	7,910
Europe, Middle East and Africa	2,907	2,393	2,163
Japan	1,049	1,040	1,127
Rest of world	280	231	188
Total revenue	\$ 14,961	\$ 13,370	\$ 13,000

- (a) Revenue from products shipped into China, including Hong Kong, was \$6.6 billion in 2017, \$6.0 billion in 2016 and \$5.8 billion in 2015.

December 31,			
	2017	2016	2015
Property, plant and equipment:			
United States	\$ 1,469	\$ 1,372	\$ 1,370
Asia (a)	964	908	958
Europe, Middle East and Africa	97	98	130
Japan	118	115	122
Rest of world	16	19	16
Total property, plant and equipment	\$ 2,664	\$ 2,512	\$ 2,596

- (a) Property, plant and equipment at our two sites in the Philippines was \$437 million, \$412 million and \$471 million as of December 31, 2017, 2016 and 2015, respectively.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The basis of these financial statements is comparable for all periods presented herein, except for the adoption of a new accounting standard in 2016 related to stock compensation, which included certain provisions applied prospectively.

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 these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated. We have reclassified certain amounts in the prior periods' financial statements to conform to the 2017 presentation,

retrospectively applying the new accounting standard related to pension and other retiree benefit costs. See *Changes in accounting standards – adopted standards for current period* for further information.

The preparation of financial statements requires the use of estimates from which final results may vary.

Significant accounting policies and practices

Revenue recognition

We recognize revenue from sales of our products, including sales to our distributors, when title and risk of loss pass, which usually occurs upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order; when persuasive evidence of an arrangement exists; when sales amounts are fixed or determinable; and when collectability is reasonably assured. For sales to distributors, payment is due on our standard commercial terms and is not contingent upon resale of the products.

Revenue from sales of our products that are subject to inventory consignment agreements, including consignment arrangements with distributors, is recognized in accordance with the principles discussed above. Delivery occurs when the customer or distributor pulls product from consignment inventory that we store at designated locations.

We recognize revenue net of allowances, which are management's estimates of future credits to be granted to customers or distributors under programs common in the semiconductor industry. These allowances, which are not material, generally include special pricing arrangements, product returns due to quality issues and incentives designed to maximize growth opportunities. Allowances are based on analysis of historical data and contractual terms and are recorded when revenue is recognized. We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

In addition, we record allowances for accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of the accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made.

We recognize in revenue shipping fees, if any, received from customers. We include shipping and handling costs in COR. The majority of our customers pay these fees directly to third parties.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was \$39 million in 2017, \$44 million in 2016 and \$46 million in 2015.

Income taxes

We account for income taxes using an asset and liability approach. We record the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences of events that have been recognized in the financial statements or tax returns. We record a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Other assessed taxes

Some transactions require us to collect taxes such as sales, value-added and excise taxes from our customers. These transactions are presented in our Consolidated Statements of Income on a net (excluded from revenue) basis.

Earnings per share (EPS)

Unvested share-based payment awards that contain non-forfeitable 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 (shares in millions):

	For Years Ended December 31,								
	2017			2016			2015		
	Net Income	Shares	EPS	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:									
Net income	\$ 3,682			\$ 3,595			\$ 2,986		
Income allocated to RSUs	(34)			(45)			(43)		
Income allocated to common stock for basic EPS calculation	\$ 3,648	991	\$ 3.68	\$ 3,550	1,003	\$ 3.54	\$ 2,943	1,030	\$ 2.86
Adjustment for dilutive shares:									
Stock compensation plans		21			18			13	
Diluted EPS:									
Net income	\$ 3,682			\$ 3,595			\$ 2,986		
Income allocated to RSUs	(33)			(44)			(42)		
Income allocated to common stock for diluted EPS calculation	\$ 3,649	1,012	\$ 3.61	\$ 3,551	1,021	\$ 3.48	\$ 2,944	1,043	\$ 2.82

Potentially dilutive securities representing 6 million and 12 million shares of common stock that were outstanding in 2017 and 2015, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive. No potentially dilutive securities were excluded from the computation of diluted earnings per common share during 2016.

Investments

We present investments on our Consolidated Balance Sheets as cash equivalents, short-term investments or long-term investments, which are detailed as follows:

- *Cash equivalents and short-term investments* – We consider investments in debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments. The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns.
- *Long-term investments* – Long-term investments consist of mutual funds, venture capital funds and non-marketable equity securities.
- *Classification of investments* – Depending on our reasons for holding the investment and our ownership percentage, we classify our investments as either available for sale, trading, equity method or cost method, which are more fully described in Note 8. We determine cost or amortized cost, as appropriate, on a specific identification basis.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory. Consigned inventory was \$303 million and \$334 million as of December 31, 2017 and 2016, respectively.

We review inventory quarterly for salability and obsolescence. A statistical allowance is provided for inventory considered unlikely to be sold. The statistical allowance is based on an analysis of historical disposal activity, historical customer shipments, as well as estimated future sales. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. We write off inventory in the period in which disposal occurs.

Property, plant and equipment; acquisition-related intangibles; and other capitalized costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

We regularly review whether facts or circumstances exist that indicate the carrying values of property, plant and equipment or other long-lived assets, including intangible assets, are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Any impairment charge is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

Goodwill and indefinite-lived intangibles

Goodwill is not amortized but is reviewed for impairment annually or more frequently if certain impairment indicators arise. We perform our annual goodwill impairment test as of October 1 for our reporting units, which compares the fair value for each reporting unit to its associated carrying value, including goodwill. See Note 9 for additional information.

Foreign currency

The functional currency for our non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than the U.S. dollar are remeasured into the functional currency. Current assets (except inventories), deferred taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Property, plant and equipment with associated depreciation and inventories are valued at historical exchange rates. Revenue and expense accounts other than depreciation for each month are remeasured at the appropriate daily rate of exchange. Currency exchange gains and losses from remeasurement are credited or charged to OI&E.

Derivatives and hedging

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

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

We do not use derivatives for speculative or trading purposes.

Changes in accounting standards – adopted standards for current period

Accounting Standards Update (ASU) No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory

This standard requires current and deferred taxes resulting from the intra-entity transfer of any assets other than inventory to be recognized for financial reporting purposes when the transfer occurs rather than postpone recognition until the asset has been sold to an outside party, as currently allowed. This standard is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings and is effective for interim and annual periods beginning January 1, 2018. We elected to adopt this standard in the first quarter of 2017. The effect on our financial position and results of operations was not material.

ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

This standard amends the income statement presentation of the components of net periodic benefit cost for defined benefit pension and other postretirement plans. This standard requires us to: (1) disaggregate the current service cost component from the other components of net periodic benefit cost (the “other components”) and present it in the same line items on the statement of income as other current compensation costs for related employees and (2) present the other components outside of operating profit (i.e., in OI&E). This standard is required to be applied retrospectively and is effective for interim and annual periods beginning January 1, 2018. We elected to adopt this standard as of January 1, 2017. Adoption of this standard did not impact Revenue, Net income, Earnings per common share or Cash flows from operating activities. The following components on the Consolidated Statements of Income were affected:

	For The Years Ended December 31,			
	2016		2015	
	Reported	Recast	Reported	Recast
COR	\$ 5,130	\$ 5,113	\$ 5,440	\$ 5,425
Gross profit	8,240	8,257	7,560	7,575
R&D	1,370	1,356	1,280	1,267
SG&A	1,767	1,742	1,748	1,728
Operating profit:				
Analog	3,380	3,416	3,048	3,077
Embedded Processing	801	817	596	611
Other	618	622	630	634
Total operating profit	4,799	4,855	4,274	4,322
OI&E	211	155	32	(16)

Changes in accounting standards – standards not yet adopted

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures, which we are currently evaluating. It is effective for interim and annual reporting periods beginning January 1, 2018. This standard permits early adoption and the use of either the retrospective or cumulative-effect transition method.

We plan on adopting this standard using the cumulative-effect (i.e., modified retrospective) transition method, which will result in an adjustment to retained earnings for the cumulative effect of applying this guidance to contracts in process as of January 1, 2018. Under this approach, we will not restate the prior financial statements presented.

Based on our current assessment, we do not expect the new standard to have a material impact on our financial position and results of operations, as it is not expected to materially change the manner or timing in which we recognize revenue. We recognize revenue on sales to customers and distributors upon satisfaction of our performance obligations when the goods are shipped. For consignment sales, we recognize revenue when the goods are pulled from consignment inventory.

Beginning January 1, 2017, we no longer recognize in revenue royalty income from licensing our patent portfolios; however, we are still required to apply the recognition, measurement and disclosure provisions of this new standard to our royalty income. We believe the most significant impact of the new standard will be to accelerate the timing of recognizing royalty income in OI&E, although the effect of such change on the results of operations and financial position recognized in any individual reporting period is not expected to be material. This change will have no effect on the recognition and timing of cash flows over any affected periods.

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

This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We do not plan to adopt this standard early. We are currently evaluating the potential impact of this standard on our financial position, but we do not expect it to have a material impact on our results of operations.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which requires waiting to recognize a loss until it is probable of having been incurred. There are other provisions within the standard that affect how impairments of other financial assets may be recorded and presented, and that expand disclosures. This standard will be effective for our interim and annual periods beginning January 1, 2020, and permits earlier application but not before periods beginning January 1, 2019. The standard will be applied using a modified retrospective approach. We are currently evaluating the potential impact of this standard, but we do not expect it to have a material impact on our financial position and results of operations.

Other standards

We do not expect the following standards to have a material impact on our financial position and results of operations. We plan to adopt these standards as of their effective dates.

ASU	Description	Effective Date
ASU No. 2016-01	<i>Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i>	January 1, 2018
ASU No. 2017-01	<i>Business Combinations (Topic 805): Clarifying the Definition of a Business</i>	January 1, 2018
ASU No. 2017-05	<i>Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i>	January 1, 2018
ASU No. 2017-12	<i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i>	January 1, 2019

3. Restructuring charges/other

Restructuring charges/other is comprised of the following components:

For Years Ended December 31,			
	2017	2016	2015
Restructuring charges (a)	\$ 11	\$ 25	\$ 14
Gains on sales of assets	—	(40)	(83)
Other	—	—	(2)
Restructuring charges/other	\$ 11	\$ (15)	\$ (71)

(a) Includes severance and benefits, accelerated depreciation, changes in estimates or other exit costs.

Restructuring charges/other are recognized in Other for segment reporting purposes.

Restructuring charges

Beginning January 2017, we reorganized the product lines within our two reportable segments. We recognized a related \$18 million of restructuring charges for severance and benefit costs in 2016 and an additional \$3 million in 2017. Any further charges are not expected to be material. As of December 31, 2017, \$16 million has been paid to terminated employees for severance and benefits.

We announced in January 2016 our intention to phase out a manufacturing facility in Greenock, Scotland. We are moving production from this facility to more cost-effective 200-millimeter TI manufacturing facilities in Germany, Japan and Maine. Total restructuring charges, primarily severance and related benefit costs associated with the expected reduction of about 350 jobs, are estimated to be about \$40 million. We recognized charges of \$8 million in 2017, \$7 million in 2016 and \$17 million in 2015. These charges were comprised of severance and benefits costs, as well as accelerated depreciation. The remaining charges are expected to be recognized through 2019.

Changes in accrued restructuring balances

	2017	2016	2015
Balance, January 1	\$ 40	\$ 32	\$ 57
Restructuring charges	11	25	14
Non-cash items (a)	(1)	(6)	—
Payments	(21)	(11)	(39)
Balance, December 31	\$ 29	\$ 40	\$ 32

(a) Reflects charges for impacts of accelerated depreciation and changes in exchange rates.

The restructuring accrual balances are primarily reported as a component of either Accrued expenses and other liabilities or Other long-term liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment.

Gains on sales of assets

In 2016, we recognized a gain of \$40 million on the sale of intellectual property.

We recognized \$83 million of gains on sales of assets in 2015. This included \$48 million associated with the sale of a site in Plano, Texas, and \$34 million associated with the sale of a manufacturing facility in Houston, Texas.

4. Stock compensation

We have stock options outstanding to participants under long-term incentive plans. The option price per share may not be less than the fair market value of our common stock on the date of the grant. The options have a 10-year term and generally vest ratably over four years. Our options continue to vest after the option recipient retires.

We also have RSUs outstanding under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock on the vesting date, which is generally four years after the date of grant. Upon vesting, the shares are issued without payment by the grantee. Our RSUs continue to vest after the recipient retires. Holders of RSUs receive an annual cash payment equivalent to the dividends paid on our common stock.

We have options and RSUs outstanding to non-employee directors under director compensation plans. The plans generally provide for annual grants of stock options and RSUs, a one-time grant of RSUs to each new non-employee director and the issuance of TI common stock upon the distribution of stock units credited to deferred compensation accounts established for such directors.

We also have an employee stock purchase plan under which options are offered to all eligible employees in amounts based on a percentage of the employee's compensation, subject to a cap. Under the plan, the option price per share is 85 percent of the fair market value on the exercise date.

Total stock compensation expense recognized is as follows:

	For Years Ended December 31,		
	2017	2016	2015
COR	\$ 36	\$ 40	\$ 47
R&D	59	60	60
SG&A	147	152	169
Acquisition charges	—	—	10
Total	<u>\$ 242</u>	<u>\$ 252</u>	<u>\$ 286</u>

These amounts include expenses related to non-qualified stock options, RSUs and stock options offered under our employee stock purchase plan and are net of estimated forfeitures.

We recognize compensation expense for non-qualified stock options and RSUs on a straight-line basis over the minimum service period required for vesting of the award, adjusting for estimated forfeitures based on historical activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis. Options issued under our employee stock purchase plan are expensed over a three-month period.

Fair-value methods and assumptions

We account for all awards granted under our various stock compensation plans at fair value. We estimate the fair values for non-qualified stock options using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	For Years Ended December 31,		
	2017	2016	2015
Weighted average grant date fair value, per share	\$ 16.49	\$ 10.03	\$ 9.49
Weighted average assumptions used:			
Expected volatility	24%	25%	22%
Expected lives (in years)	7.2	7.3	7.3
Risk-free interest rates	2.36%	1.72%	1.64%
Expected dividend yields	2.52%	2.87%	2.52%

We determine expected volatility on all options granted using available implied volatility rates. We believe that market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates.

We determine expected lives of options based on the historical option exercise experience of our optionees using a rolling 10-year average. We believe the historical experience method is the best estimate of future exercise patterns currently available.

Risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

Expected dividend yields are based on the annualized approved quarterly dividend rate and the current market price of our common stock at the time of grant. No assumption for a future dividend rate change is included unless there is an approved plan to change the dividend in the near term.

The fair value per share of RSUs is determined based on the closing price of our common stock on the date of grant.

Our employee stock purchase plan is a discount-purchase plan and consequently the Black-Scholes-Merton option-pricing model is not used to determine the fair value per share of these awards. The fair value per share under this plan equals the amount of the discount.

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans are as follows:

	Stock Options		RSUs	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Grant Date Fair Value per Share
Outstanding grants, December 31, 2016	52,265,788	\$ 41.89	12,332,379	\$ 44.44
Granted	6,474,732	79.28	1,604,469	79.52
Stock options exercised/RSUs vested	(13,313,019)	37.13	(4,419,464)	33.65
Forfeited and expired	(672,908)	57.12	(291,741)	54.34
Outstanding grants, December 31, 2017	44,754,593	48.49	9,225,643	55.40

The weighted average grant date fair values per share of RSUs granted in 2017, 2016 and 2015 were \$79.52, \$53.98 and \$53.22, respectively. In 2017, 2016 and 2015, the total grant date fair values of shares vested from RSU grants were \$149 million, \$178 million and \$114 million, respectively.

As of December 31, 2017, the number of shares remaining available for future issuance under these plans was 53,595,374.

Summarized information about stock options outstanding as of December 31, 2017, is as follows:

Exercise Price Range	Stock Options Outstanding			Options Exercisable	
	Number Outstanding (Shares)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable (Shares)	Weighted Average Exercise Price per Share
\$ 14.47 to 20.00	1,230,810	1.1	\$ 14.97	1,230,810	\$ 14.97
20.01 to 30.00	2,559,613	1.9	23.86	2,559,613	23.86
30.01 to 40.00	9,441,380	4.3	33.02	9,441,380	33.02
40.01 to 50.00	7,466,229	6.1	44.10	4,403,409	44.10
50.01 to 60.00	17,689,385	7.6	53.42	4,472,432	53.61
60.01 to 70.00	—	—	—	—	—
	6,347,174	9.1	79.19	6,470	71.03

70.01 to 80.00					
80.01 to 97.29	20,002	9.7	88.81	—	—
14.47 to 97.29	44,754,593	6.4	48.49	22,114,114	37.34

In 2017, 2016 and 2015, the aggregate intrinsic values (i.e., the difference in the closing market price on the date of exercise and the exercise price paid by the optionee) of options exercised were \$632 million, \$424 million and \$290 million, respectively.

Summarized information as of December 31, 2017, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, is as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest) (a)		Options Exercisable
Number of outstanding (shares)	43,804,402		22,114,114
Weighted average remaining contractual life (in years)	6.3		4.8
Weighted average exercise price per share	\$ 48.12	\$	37.34
Intrinsic value (millions of dollars)	2,467	\$	1,484

- (a) Includes effects of expected forfeitures of approximately 1 million shares. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was \$2,504 million.

As of December 31, 2017, the total future compensation cost related to equity awards not yet recognized in our Consolidated Statements of Income was \$237 million, consisting of \$108 million related to unvested stock options and \$129 million related to unvested RSUs. The \$237 million is expected to be recognized as follows: \$123 million in 2018, \$73 million in 2019, \$37 million in 2020 and \$4 million in 2021.

Employee stock purchase plan

Options outstanding under the employee stock purchase plan as of December 31, 2017, had an exercise price equal to 85 percent of the fair market value of TI common stock on the date of automatic exercise. The automatic exercise occurred on January 2, 2018, resulting in an exercise price of \$89.74 per share. Of the total outstanding options, none were exercisable as of December 31, 2017.

Employee stock purchase plan transactions are as follows:

	Employee Stock Purchase Plan (Shares)		Exercise Price
Outstanding grants, December 31, 2016	283,400	\$	62.55
Granted	984,536		55.19
Exercised	(1,065,757)		67.62
Outstanding grants, December 31, 2017	202,179		89.74

The weighted average grant date fair values per share of options granted under the employee stock purchase plans in 2017, 2016 and 2015 were \$12.99, \$9.79 and \$7.89, respectively. In 2017, 2016 and 2015, the total intrinsic value of options exercised under these plans was \$13 million, \$12 million and \$12 million, respectively.

As of December 31, 2017, the number of shares remaining available for future issuance under this plan was 35,402,636.

Effect on shares outstanding and treasury shares

Treasury shares were acquired in connection with the board-authorized stock repurchase program. As of December 31, 2017, \$9.24 billion of stock repurchase authorizations remain, and no expiration date has been specified.

Our current practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. The following table reflects the changes in our treasury shares:

	<u>Stock Options</u>	<u>RSUs</u>	<u>Treasury Shares</u>
Balance, December 31, 2014			694,189,127
Repurchases			51,384,339
Shares used for:			
Stock options/ RSUs	(11,953,455)	(3,386,415)	
Stock applied to exercises or taxes	8,562	845,164	
ESPP	(1,532,264)	—	
Director deferred stock units	—	—	(7,531)
Total issued	<u>(13,477,157)</u>	<u>(2,541,251)</u>	<u>(16,018,408)</u>
Balance, December 31, 2015			729,547,527
Repurchases			35,480,036
Shares used for:			
Stock options/ RSUs	(14,516,606)	(5,639,666)	
Stock applied to exercises or taxes	—	1,336,476	
ESPP	(1,362,202)	—	
Director deferred stock units	—	—	(13,587)
Total issued	<u>(15,878,808)</u>	<u>(4,303,190)</u>	<u>(20,181,998)</u>
Balance, December 31, 2016			744,831,978
Repurchases			30,570,129
Shares used for:			
Stock options/ RSUs	(13,313,019)	(4,419,464)	
Stock applied to exercises or taxes	—	1,058,100	
ESPP	(1,065,757)	—	
Director deferred stock units	—	—	(4,750)
Total issued	<u>(14,378,776)</u>	<u>(3,361,364)</u>	<u>(17,740,140)</u>
Balance, December 31, 2017			757,657,217

The effects on cash flows are as follows:

For Years Ended December 31,			
	2017	2016	2015
Proceeds from common stock transactions (a)	\$ 483	\$ 472	\$ 396
Tax benefit realized from stock compensation	\$ 341	\$ 255	\$ 171
Reduction to deferred tax asset	(91)	(105)	(81)
Excess tax benefit for stock compensation	\$ 250	\$ 150	\$ 90

(a) Net of taxes paid for employee shares withheld of \$83 million in 2017, \$70 million in 2016 and \$46 million in 2015.

5. Profit sharing plans

Profit sharing benefits are generally formulaic and determined by one or more subsidiary or company-wide financial metrics. We pay profit sharing benefits primarily under the company-wide TI Employee Profit Sharing Plan. This plan provides for profit sharing to be paid based solely on TI's operating margin for the full calendar year. Under this plan, TI must achieve a minimum threshold of 10 percent operating margin before any profit sharing is paid. At 10 percent operating margin, profit sharing will be 2 percent of eligible payroll. The maximum amount of profit sharing available under the plan is 20 percent of eligible payroll, which is paid only if TI's operating margin is at or above 35 percent for a full calendar year.

We recognized \$355 million, \$346 million and \$309 million of profit sharing expense under the TI Employee Profit Sharing Plan in 2017, 2016 and 2015, respectively.

6. Income taxes

Income before income taxes is comprised of the following components:

	For Years Ended December 31,		
	2017	2016	2015
U.S.	\$ 5,130	\$ 3,953	\$ 3,218
Non-U.S.	950	977	998
Total	<u>\$ 6,080</u>	<u>\$ 4,930</u>	<u>\$ 4,216</u>

Provision for income taxes is comprised of the following components:

	For Years Ended December 31,								
	2017			2016			2015		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
U.S. federal	\$ 2,101	\$ 51	\$ 2,152	\$ 1,289	\$ (124)	\$ 1,167	\$ 1,110	\$ (72)	\$ 1,038
Non-U.S.	173	61	234	238	(80)	158	168	14	182
U.S. state	12	—	12	10	—	10	7	3	10
Total	<u>\$ 2,286</u>	<u>\$ 112</u>	<u>\$ 2,398</u>	<u>\$ 1,537</u>	<u>\$ (204)</u>	<u>\$ 1,335</u>	<u>\$ 1,285</u>	<u>\$ (55)</u>	<u>\$ 1,230</u>

Principal reconciling items from the U.S. statutory income tax rate to the effective tax rate (Provision for income taxes as a percentage of Income before income taxes) are as follows:

	For Years Ended December 31,		
	2017	2016	2015
U.S. statutory income tax rate	35.0%	35.0%	35.0%
U.S. Tax Act	12.7	—	—
U.S. excess tax benefit for stock compensation	(4.1)	(3.0)	—
Non-U.S. effective tax rates	(2.5)	(3.7)	(4.0)
U.S. tax benefit for manufacturing	(1.6)	(1.5)	(1.6)
U.S. R&D tax credit	(1.1)	(1.2)	(1.3)
Impact of changes to uncertain tax positions	0.7	0.6	0.2
U.S. non-deductible expenses	0.2	0.3	0.3
Other	0.1	0.6	0.6
Effective tax rate	<u>39.4%</u>	<u>27.1%</u>	<u>29.2%</u>

The U.S. Tax Cuts and Jobs Act (the Tax Act) was enacted on December 22, 2017. The Tax Act reduces the U.S. statutory income tax rate from 35 percent to 21 percent and requires companies to pay a tax on indefinitely reinvested earnings of certain non-U.S. subsidiaries that were previously tax deferred. We have not completed our accounting for the tax effects of enactment of the Tax Act. We have made reasonable estimates of the tax on indefinitely reinvested earnings and the effects on our existing deferred tax balances. This resulted in additional tax expense in 2017 of \$773 million, an increase of 12.7 percentage points to our effective tax rate. The combined effects of the tax on indefinitely reinvested earnings and the revaluation of our deferred tax balances are included as a component of income tax expense from continuing operations.

Details on provisional amounts are as follows:

Indefinitely reinvested earnings – The tax on indefinitely reinvested earnings is based on our non-U.S. post-1986 earnings and profits (E&P) that we previously deferred from U.S. income taxes, and resulted in an increase in income tax expense of \$714 million. We have not yet completed our calculation of the total

- post-1986 E&P for these non-U.S. subsidiaries. Further, the tax on indefinitely reinvested earnings is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 non-U.S. E&P previously deferred from U.S. income taxes and finalize the amounts held in cash or other specified assets.

Deferred tax assets and liabilities – We remeasured deferred tax assets and liabilities based on the U.S. statutory income tax rate of 21 percent. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or potentially

- give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our deferred tax balance was \$59 million.

The Tax Act also included the global intangible low-taxed income (GILTI) tax for years beginning in 2018. We will account for the effects of GILTI as a component of income tax expense in the future period in which the tax arises.

The earnings represented by non-cash operating assets, such as fixed assets and certain inventory, will continue to be permanently reinvested outside the United States. The tax on indefinitely reinvested earnings eliminates any additional U.S. taxation of these earnings upon repatriation to the United States. Consequently, no U.S. tax provision has been made for the future remittance of these earnings. However, withholding taxes in certain non-U.S. jurisdictions will be incurred upon repatriation of available cash to the United States. A provision has been made for deferred taxes on these undistributed earnings to the extent that dividend payments from these subsidiaries are expected to result in a withholding tax liability. As of December 31, 2017, we have no basis differences that would result in material unrecognized deferred tax liabilities.

Our effective tax rate is affected by U.S. tax benefits and tax rates applicable to our operations in many of the jurisdictions in which we operate, most of which were lower than the U.S. statutory income tax rate prior to enactment of the Tax Act. These non-U.S. tax rates are generally statutory in nature and without expiration.

The primary components of deferred tax assets and liabilities are as follows:

	December 31,	
	2017	2016
Deferred tax assets:		
Deferred loss and tax credit \$ carryforwards	256	\$ 214
Accrued expenses	119	219
Stock compensation	107	220
Inventories and related reserves	93	145
Retirement costs for defined benefit and retiree health care	38	82
Other	9	81
Total deferred tax assets, before valuation allowance	622	961
Valuation allowance	(165)	(128)
Total deferred tax assets, after valuation allowance	457	833
Deferred tax liabilities:		
Acquisition-related intangibles and fair-value adjustments	(207)	(460)
International earnings	(64)	(32)
Total deferred tax liabilities	(271)	(492)
Net deferred tax asset	\$ 186	\$ 341

The deferred tax assets and liabilities based on tax jurisdictions are presented on our Consolidated Balance Sheets as follows:

	December 31,	
	2017	2016

Deferred tax assets	\$	264	\$	374
Deferred tax liabilities		(78)		(33)
Net deferred tax asset	\$	186	\$	341

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. Valuation allowances increased by \$37 million in 2017 and decreased by \$58 million in 2016. These changes had no impact to Net income in 2017 and had a \$63 million benefit to Net income in 2016.

We have U.S. and non-U.S. tax loss carryforwards of approximately \$6 million, none of which will expire before the year 2027.

Cash payments made for income taxes, net of refunds, were \$1.80 billion, \$1.15 billion and \$1.17 billion in 2017, 2016 and 2015, respectively.

Uncertain tax positions

We operate in a number of tax jurisdictions, and our income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the matters challenged by authorities are typically complex, their ultimate outcome is uncertain. Before any benefit can be recorded in our financial statements, we must determine that it is “more likely than not” that a tax position will be sustained by the appropriate tax authorities. We recognize accrued interest related to uncertain tax positions and penalties as components of OI&E.

The changes in the total amounts of uncertain tax positions are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance, January 1	\$ 243	\$ 84	\$ 108
Additions based on tax positions related to the current year	17	4	11
Additions for tax positions of prior years	42	189	3
Reductions for tax positions of prior years	(1)	(2)	(21)
Settlements with tax authorities	(1)	(32)	(17)
Balance, December 31	<u>\$ 300</u>	<u>\$ 243</u>	<u>\$ 84</u>
Interest income (expense) recognized in the year ended December 31	<u>\$ (19)</u>	<u>\$ 4</u>	<u>\$ 8</u>
Interest receivable (payable) as of December 31	<u>\$ (38)</u>	<u>\$ 13</u>	<u>\$ 9</u>

The liability for uncertain tax positions is a component of Other long-term liabilities on our Consolidated Balance Sheets.

All of the \$300 million and the \$243 million liabilities for uncertain tax positions as of December 31, 2017 and 2016, respectively, are comprised of positions that, if recognized, would lower the effective tax rate. If these liabilities are ultimately realized, \$13 million and \$12 million of existing deferred tax assets in 2017 and 2016, respectively, would also be realized. These deferred tax assets are related to refunds from counterparty jurisdictions resulting from procedures for relief from double taxation.

As of December 31, 2017, the statute of limitations remains open for U.S. federal tax returns for 2010 and following years. Audit activities related to our U.S. federal tax returns through 2012 have been completed except for certain pending tax treaty procedures for relief from double taxation. The procedures for relief from double taxation pertain

to U.S. federal tax returns for the years 2006 through 2011. The audit of the U.S. federal tax returns for 2013 through 2015 is underway.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the United States, our subsidiaries are no longer subject to income tax audits for years before 2007.

7. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts, the fair value of which was not material as of December 31, 2017. Our forward foreign currency exchange contracts outstanding as of December 31, 2017, had a notional value of \$365 million to hedge our non-U.S. dollar net balance sheet exposures, including \$140 million to sell Japanese yen, \$59 million to sell British pound sterling and \$49 million to sell euros.

Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. Our postretirement plan assets are carried at fair value or net asset value per share. 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. The carrying value of our long-term debt approximates the fair value as measured using broker-dealer quotes, which are Level 2 inputs. See Note 8 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

We are subject to counterparty risks from financial institutions, customers and issuers of debt securities. Financial instruments that could subject us to concentrations of credit risk are primarily cash deposits, cash equivalents, short-term investments and accounts receivable. To manage our credit risk exposure, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on cash deposits and financial derivative contracts to financial institutions with investment-grade ratings.

Concentrations of credit risk with respect to accounts receivable are limited due to our large number of customers and their dispersion across different industries and geographic areas. We maintain allowances for expected returns, disputes, adjustments, incentives and collectability. These allowances are deducted from accounts receivable on our Consolidated Balance Sheets.

Details of these accounts receivable allowances are as follows:

	2017	2016	2015
Balance, January 1	\$ 17	\$ 7	\$ 12
Amounts charged (credited) to operating results	(9)	10	(5)
Recoveries and write-offs, net	—	—	—
Balance, December 31	\$ 8	\$ 17	\$ 7

Major customer

No end customer accounted for 10 percent or more of revenue in 2017 or 2016. In 2015, Apple Inc. accounted for approximately 11 percent of revenue, recognized primarily in our Analog segment.

8. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

We classify our investments as available for sale, trading, equity method or cost method. Most of our investments are classified as available for sale.

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

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

Our other investments are not measured at fair value but are accounted for using either the equity method or cost method. These investments consist of interests in venture capital funds and other non-marketable equity securities. Gains and losses from equity-method investments are reflected in OI&E based on our ownership share of the investee's financial results. Gains and losses on cost-method investments are recorded in OI&E when realized or when an impairment of the investment's value is warranted based on our assessment of the recoverability of each investment.

Details of our investments are as follows:

	December 31, 2017			December 31, 2016		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Measured at fair value:						
Available-for-sale securities:						
Money market funds	\$ 525	\$ —	\$ —	\$ 346	\$ —	\$ —
Corporate obligations	172	698	—	107	544	—
U.S. government agency and Treasury securities	700	2,115	—	490	1,792	—
Trading securities:						
Mutual funds	—	—	236	—	—	201
Total	<u>1,397</u>	<u>2,813</u>	<u>236</u>	<u>943</u>	<u>2,336</u>	<u>201</u>
Other measurement basis:						
Equity-method investments	—	—	26	—	—	25
Cost-method investments	—	—	6	—	—	9
Cash on hand	259	—	—	211	—	—
Total	<u>\$ 1,656</u>	<u>\$ 2,813</u>	<u>\$ 268</u>	<u>\$ 1,154</u>	<u>\$ 2,336</u>	<u>\$ 235</u>

As of December 31, 2017 and 2016, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments in 2017, 2016 and 2015. All of our debt securities classified as available for sale as of December 31, 2017, have maturities within one year.

In 2017, 2016 and 2015, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$4.10 billion, \$3.39 billion and \$2.89 billion, respectively. Gross realized gains and losses from these sales were not material.

Other-than-temporary declines and impairments in the values of our debt and equity investments, which were recognized in OI&E, were not material in 2017, 2016 and 2015.

Fair-value considerations

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

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

- *Level 1* – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.
- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of December 31, 2017 and 2016, we had no Level 3 assets or liabilities, other than certain assets held by our postretirement plans.

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

	December 31, 2017			December 31, 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Money market funds	\$ 525	\$ —	\$ 525	\$ 346	\$ —	\$ 346
Corporate obligations	—	870	870	—	651	651
U.S. government agency and Treasury securities	2,765	50	2,815	2,042	240	2,282
Mutual funds	236	—	236	201	—	201
Total assets	<u>\$ 3,526</u>	<u>\$ 920</u>	<u>\$ 4,446</u>	<u>\$ 2,589</u>	<u>\$ 891</u>	<u>\$ 3,480</u>
Liabilities:						
Deferred compensation	\$ 255	\$ —	\$ 255	\$ 218	\$ —	\$ 218
Total liabilities	<u>\$ 255</u>	<u>\$ —</u>	<u>\$ 255</u>	<u>\$ 218</u>	<u>\$ —</u>	<u>\$ 218</u>

9. Goodwill and acquisition-related intangibles

Goodwill by segment as of December 31, 2017 and 2016, is as follows:

	Goodwill	
Analog	\$	4,158
Embedded Processing		172
Other		32
Total	<u>\$</u>	<u>4,362</u>

We perform our annual goodwill impairment test as of October 1 and determine whether the fair value of each of our reporting units is in excess of its carrying value. Determination of fair value is based upon management estimates and judgment, using unobservable inputs in discounted cash flow models to calculate the fair value of each reporting unit. These unobservable inputs are considered Level 3 measurements, as described in Note 8. In 2017, 2016 and 2015, we determined no impairment was indicated.

The components of Acquisition-related intangibles are as follows:

	Amortization Period (Years)	December 31, 2017			December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	\$ 2,130	\$ 1,361	\$ 769	\$ 2,130	\$ 1,144	\$ 986
Customer relationships	8	810	633	177	810	532	278
Total		<u>\$ 2,940</u>	<u>\$ 1,994</u>	<u>\$ 946</u>	<u>\$ 2,940</u>	<u>\$ 1,676</u>	<u>\$ 1,264</u>

Amortization of acquisition-related intangibles was \$318 million, \$319 million and \$319 million in 2017, 2016 and 2015, respectively. Fully amortized assets are written off against accumulated amortization. Remaining estimated amortization of acquisition-related intangibles is as follows:

	Amortization of Acquisition-Related Intangibles	
2018	\$	318
2019		288
2020		198

10. Postretirement benefit plans

Plan descriptions

We have various employee retirement plans, including defined contribution, defined benefit and retiree health care benefit plans. For qualifying employees, we offer deferred compensation arrangements.

U.S. retirement plans

Our principal retirement plans in the United States are a defined contribution plan; an enhanced defined contribution plan; and qualified and non-qualified defined benefit pension plans. The defined benefit plans were closed to new participants in 1997, and then current participants were allowed to make a one-time election to continue accruing a benefit in the plans, or to cease accruing a benefit and instead to participate in the enhanced defined contribution plan described below.

Both defined contribution plans offer an employer-matching savings option that allows employees to make pre-tax contributions to various investment choices. Employees who elected to continue accruing a benefit in the qualified defined benefit pension plans may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2 percent of the employee's annual eligible earnings. Employees who elected not to continue accruing a benefit in the defined benefit pension plans, and employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2 percent of the employee's annual eligible earnings, plus an employer-matching contribution of up to 4 percent of the employee's annual eligible earnings. Employees hired after December 31, 2003, do not receive the fixed employer contribution of 2 percent of the employee's annual eligible earnings.

As of December 31, 2017 and 2016, as a result of employees' elections, TI's U.S. defined contribution plans held shares of TI common stock totaling 10 million shares and 11 million shares valued at \$1.00 billion and \$796 million, respectively. Dividends paid on these shares in 2017 and 2016 were \$22 million and \$20 million, respectively. Effective April 1, 2016, the TI common stock fund was frozen to new contributions or transfers into the fund.

Our aggregate expense for the U.S. defined contribution plans was \$61 million in 2017 and \$60 million in 2016 and 2015.

The defined benefit pension plans include employees still accruing benefits, as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan. Benefits under the qualified defined benefit pension plan are determined using a formula based upon years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

U.S. retiree health care benefit plan

U.S. employees who meet eligibility requirements are offered medical coverage during retirement. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee's date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the plan's participants. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement.

Non-U.S. retirement plans

We provide retirement coverage for non-U.S. employees, as required by local laws or to the extent we deem appropriate, through a number of defined benefit and defined contribution plans. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

As of December 31, 2017 and 2016, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at \$27 million and \$20 million, respectively. Dividends paid on these shares of TI common stock in 2017 and 2016 were not material.

Effects on our Consolidated Statements of Income and Balance Sheets

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

	U.S. Defined Benefit			U.S. Retiree Health Care			Non-U.S. Defined Benefit		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Service cost	\$ 22	\$ 22	\$ 22	\$ 5	\$ 5	\$ 5	\$ 37	\$ 34	\$ 35
Interest cost	42	42	43	17	20	20	44	52	53
Expected return on plan assets	(41)	(41)	(48)	(17)	(20)	(22)	(62)	(68)	(76)
Amortization of prior service cost (credit)	—	—	—	(4)	(3)	2	(2)	(2)	(2)
Recognized net actuarial loss	14	21	19	3	7	8	28	25	24
Net periodic benefit costs	37	44	36	4	9	13	45	41	34
Settlement losses	36	21	25	—	—	—	2	2	2
Total, including other postretirement losses	\$ 73	\$ 65	\$ 61	\$ 4	\$ 9	\$ 13	\$ 47	\$ 43	\$ 36

With our early adoption of ASU 2017-07, all defined benefit and retiree health care benefit plan expense components other than service cost are recognized in OI&E in our Consolidated Statements of Income. Service cost is recognized within Operating profit. See Note 2 for additional information.

For the U.S. qualified pension and retiree health care plans, the expected return on plan assets component of net periodic benefit cost is based upon a market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets is the fair value adjusted by a smoothing technique whereby certain gains and losses are phased in over a period of three years.

Changes in the benefit obligations and plan assets for defined benefit and retiree health care benefit plans are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2017	2016	2017	2016	2017	2016
Change in plan benefit obligation						
Benefit obligation at beginning of year:	\$ 1,030	\$ 1,033	\$ 434	\$ 463	\$ 2,361	\$ 2,231
Service cost	22	22	5	5	37	34
Interest cost	42	42	17	20	44	52
Participant contributions	—	—	9	10	6	6
Benefits paid	(9)	(9)	(39)	(38)	(90)	(77)
Medicare subsidy	—	—	—	1	—	—
Actuarial loss (gain)	109	27	(15)	(27)	(52)	259

Settlements	(196)	(85)	—	—	(13)	(8)
Plan amendments	—	—	3	—	—	—
Effects of exchange rate changes	—	—	—	—	176	(136)
Benefit obligation at end of year (BO)	<u>\$ 998</u>	<u>\$ 1,030</u>	<u>\$ 414</u>	<u>\$ 434</u>	<u>\$ 2,469</u>	<u>\$ 2,361</u>
Change in plan assets						
Fair value of plan assets at beginning of year:	<u>\$ 1,034</u>	<u>\$ 1,019</u>	<u>\$ 434</u>	<u>\$ 441</u>	<u>\$ 2,309</u>	<u>\$ 2,134</u>
Actual return on plan assets	123	79	44	20	148	227
Employer contributions (qualified plans)	25	15	1	1	56	160
Employer contributions (non-qualified plans)	18	15	—	—	—	—
Participant contributions	—	—	9	10	6	6
Benefits paid	(9)	(9)	(39)	(38)	(90)	(77)
Settlements	(196)	(85)	—	—	(13)	(8)
Effects of exchange rate changes	—	—	—	—	177	(133)
Other	—	—	(55)	—	—	—
Fair value of plan assets at end of year (FVPA)	<u>\$ 995</u>	<u>\$ 1,034</u>	<u>\$ 394</u>	<u>\$ 434</u>	<u>\$ 2,593</u>	<u>\$ 2,309</u>
Funded status (FVPA – BO) at end of year	<u>\$ (3)</u>	<u>\$ 4</u>	<u>\$ (20)</u>	<u>\$ —</u>	<u>\$ 124</u>	<u>\$ (52)</u>

Amounts recognized on our Consolidated Balance Sheets as of December 31, are as follows:

	<u>U.S. Defined Benefit</u>	<u>U.S. Retiree Health Care</u>	<u>Non-U.S. Defined Benefit</u>	<u>Total</u>
2017				
Overfunded retirement plans	58	\$ —	\$ 150	\$ 208
Accrued expenses and other liabilities & Other long-term liabilities	(13)	—	(5)	(18)
Underfunded retirement plans	(48)	(20)	(21)	(89)
Funded status (FVPA – BO) at end of 2017	<u>\$ (3)</u>	<u>\$ (20)</u>	<u>\$ 124</u>	<u>\$ 101</u>
2016				
Overfunded retirement plans	66	\$ 3	\$ 27	\$ 96
Accrued expenses and other liabilities & Other long-term liabilities	(9)	—	(6)	(15)
Underfunded retirement plans	(53)	(3)	(73)	(129)
Funded status (FVPA – BO) at end of 2016	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ (52)</u>	<u>\$ (48)</u>

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about \$50 million to our retirement benefit plans in 2018. The amounts shown for underfunded U.S. defined benefit plans were for non-qualified pension plans, which we do not fund because contributions to them are not tax deductible.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were \$899 million and \$926 million as of December 31, 2017 and 2016, respectively, for the U.S. defined benefit plans, and \$2.33 billion and \$2.22 billion as of December 31, 2017 and 2016, respectively, for the non-U.S. defined benefit plans.

The change in AOCI is as follows:

U.S. Defined Benefit	U.S. Retiree		Non-U.S.			
	Health Care		Defined Benefit		Total	
Net Actuarial Loss	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit	Net Actuarial Loss	Prior Service Credit
\$ 133	\$ 58	\$ (11)	\$ 351	\$ (6)	\$ 542	\$ (17)

AOCI balance, net of taxes, December 31,
2016

Changes in AOCI by category:

Adjustments	28	(41)	3	(105)	—	(118)	3
Recognized within Net income	(51)	(3)	4	(29)	2	(83)	6
Tax effect	8	15	(2)	30	—	53	(2)
Total change to AOCI	(15)	(29)	5	(104)	2	(148)	7
AOCI balance, net of taxes, December 31, 2017	\$ 118	\$ 29	\$ (6)	\$ 247	\$ (4)	\$ 394	\$ (10)

The estimated amounts of net actuarial loss and unrecognized prior service credit included in AOCI as of December 31, 2017, that are expected to be amortized into net periodic benefit cost over the next fiscal year are: \$17 million and none for the U.S. defined benefit plans; \$2 million and (\$3) million for the U.S. retiree health care benefit plan; and \$20 million and (\$2) million for the non-U.S. defined benefit plans.

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets using the same three-level hierarchy of fair-value inputs described in Note 8. With the adoption of ASU 2015-07, certain assets are no longer subject to disclosure by level of fair value but have been included in the tables below to permit reconciliation to the total plan assets.

December 31, 2017					
	Level 1	Level 2	Level 3	Other (a)	Total
Assets of U.S. defined benefit plan:					
Fixed income securities and cash equivalents	\$ —	\$ —	\$ —	\$ 654	\$ 654
Equity securities	—	—	—	341	341
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 995</u>	<u>\$ 995</u>
Assets of U.S. retiree health care plan:					
Fixed income securities and cash equivalents	\$ 132	\$ 2	\$ —	\$ 111	\$ 245
Equity securities	—	—	—	149	149
Total	<u>\$ 132</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 260</u>	<u>\$ 394</u>
Assets of non-U.S. defined benefit plans:					
Fixed income securities and cash equivalents	\$ 16	\$ 183	\$ —	\$ 1,646	\$ 1,845
Equity securities	7	23	—	717	747
Other	—	—	1	—	1
Total	<u>\$ 23</u>	<u>\$ 206</u>	<u>\$ 1</u>	<u>\$ 2,363</u>	<u>\$ 2,593</u>

(a) Consists of bond index and equity index funds, measured at net asset value per share.

December 31, 2016					
	Level 1	Level 2	Level 3	Other (a)	Total
Assets of U.S. defined benefit plan:					
Fixed income securities and cash equivalents	\$ —	\$ —	\$ —	\$ 685	\$ 685
Equity securities	—	—	—	349	349
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,034</u>	<u>\$ 1,034</u>

**Assets of U.S.
retiree health
care plan:**

Fixed income securities and cash equivalents	\$ 180	\$ 3	\$ —	\$ 44	\$ 227
Equity securities	—	—	—	207	207
Total	<u>\$ 180</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 251</u>	<u>\$ 434</u>

**Assets of non-
U.S. defined
benefit plans:**

Fixed income securities and cash equivalents	\$ 19	\$ 127	\$ —	\$ 1,508	\$ 1,654
Equity securities	5	18	—	629	652
Other	—	—	3	—	3
Total	<u>\$ 24</u>	<u>\$ 145</u>	<u>\$ 3</u>	<u>\$ 2,137</u>	<u>\$ 2,309</u>

(a) Consists of bond index and equity index funds, measured at net asset value per share.

The investments in our major benefit plans largely consist of low-cost, broad-market index funds to mitigate risks of concentration within market sectors. Our investment policy is designed to better match the interest rate sensitivity of the plan assets and liabilities. The appropriate mix of equity and bond investments is determined primarily through the use of detailed asset-liability modeling studies that look to balance the impact of changes in the discount rate against the need to provide asset growth to cover future service cost. Most of our plans around the world have a greater proportion of fixed income securities with return characteristics that are more closely aligned with changes in the liabilities caused by discount rate volatility. For the U.S. plans, we utilize an option collar strategy to reduce the volatility of returns on investments in U.S. equity funds.

The only Level 3 asset in our worldwide benefit plans for the periods presented is a diversified property fund in a non-U.S. pension plan. These investments are valued using inputs from the fund managers and internal models. Changes to the fair value of this fund since December 31, 2015, have not been material, and are due to redemptions.

Assumptions and investment policies

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2017	2016	2017	2016	2017	2016
Weighted average assumptions used to determine benefit obligations:						
Discount rate	3.75%	4.29%	3.63%	4.08%	1.84%	1.76%
Long-term pay progression	3.30%	3.30%	n/a	n/a	2.96%	3.11%
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	4.21%	4.40%	4.08%	4.40%	1.76%	2.41%
Long-term rate of return on plan assets	4.30%	4.60%	4.10%	4.40%	2.60%	3.18%
Long-term pay progression	3.30%	3.30%	n/a	n/a	3.11%	3.21%

We utilize a variety of methods to select an appropriate discount rate depending on the depth of the corporate bond market in the country in which the benefit plan operates. In the United States, we use a settlement approach whereby a portfolio of bonds is selected from the universe of actively traded high-quality U.S. corporate bonds. The selected portfolio is designed to provide cash flows sufficient to pay the plan's expected benefit payments when due. The resulting discount rate reflects the rate of return of the selected portfolio of bonds. For our non-U.S. locations with a sufficient number of actively traded high-quality bonds, an analysis is performed in which the projected cash flows from the defined benefit plans are discounted against a yield curve constructed with an appropriate universe of high-quality corporate bonds available in each country. In this manner, a present value is developed. The discount rate selected is the single equivalent rate that produces the same present value. For countries that lack a sufficient corporate bond market, a government bond index adjusted for an appropriate risk premium is used to establish the discount rate.

Assumptions for the expected long-term rate of return on plan assets are based on future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. We adjust the results for the payment of reasonable expenses of the plan from plan assets. We believe our assumptions are appropriate based on the investment mix and long-term nature of the plans' investments. Assumptions used for the non-U.S. defined benefit plans reflect the different economic environments within the various countries.

The target allocation ranges for the plans that hold a substantial majority of the defined benefit assets are as follows:

U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
65%	55% - 65%	60% - 100%

Fixed income securities and cash equivalents			
Equity securities	35%	35% - 45%	0% - 40%

We rebalance the plans' investments when they are not within the target allocation ranges.

Weighted average asset allocations as of December 31 are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Fixed income securities and cash equivalents	66%	66%	62%	52%	71%	72%
Equity securities	34%	34%	38%	48%	29%	28%

None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock. As of December 31, 2017, we do not expect to return any of the defined benefit pension plans' assets to TI in the next 12 months.

The following assumed future benefit payments to plan participants in the next 10 years are used to measure our benefit obligations. Almost all of the payments, which may vary significantly from these assumptions, will be made from plan assets and not from company assets.

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
2018	\$ 140	\$ 30	\$ 86
2019	111	31	87
2020	83	31	89
2021	90	30	90
2022	87	30	94
2023 – 2027	410	139	495

Assumed health care cost trend rates for the U.S. retiree health care benefit plan as of December 31 are as follows:

	2017	2016
Assumed health care cost trend rate for next year	7.50%	6.75%
Ultimate trend rate	5.00%	5.00%
Year in which ultimate trend rate is reached	2028	2024

A one percentage point increase or decrease in health care cost trend rates over all future periods would have increased or decreased the accumulated postretirement benefit obligation for the U.S. retiree health care benefit plan as of December 31, 2017, by \$1 million. The service cost and interest cost components of 2017 plan expense would have increased or decreased by less than \$1 million.

Deferred compensation arrangements

We have a deferred compensation plan that allows U.S. employees whose base salary and management responsibility exceed a certain level to defer receipt of a portion of their cash compensation. Payments under this plan are made based on the participant's distribution election and plan balance. Participants can earn a return on their deferred compensation based on notional investments in the same investment funds that are offered in our defined contribution plans.

As of December 31, 2017, our liability to participants of the deferred compensation plans was \$255 million and is recorded in Other long-term liabilities on our Consolidated Balance Sheets. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. As of December 31, 2017, we held \$236 million in mutual funds related to these plans that are recorded in Long-term investments on our Consolidated Balance Sheets, and serve as an economic hedge against changes in fair values of our other deferred compensation liabilities. We record changes in the fair value of the liability and the related investment in SG&A as discussed in Note 8.

11. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of December 31, 2017, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to \$2 billion until March 2022. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of December 31, 2017, our credit facility was undrawn and we had no commercial paper outstanding.

Long-term debt

We retired \$250 million of maturing debt in March 2017 and another \$375 million in June 2017.

In May 2017, we issued an aggregate principal amount of \$600 million of fixed-rate, long-term debt. The offering consisted of the reissuance of \$300 million of 2.75% notes due in 2021 at a premium and the issuance of \$300 million of 2.625% notes due in 2024 at a discount. We incurred \$3 million of issuance and other related costs. The proceeds of the offerings were \$605 million, net of the original issuance discount and premium, and were used for the repayment of maturing debt and general corporate purposes.

In November 2017, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2027. We incurred \$3 million of issuance and other related costs. The proceeds of the offering were \$494 million, net of the original issuance discount, and were used for general corporate purposes.

In May 2016, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2022. We incurred \$3 million of issuance and other related costs. The proceeds of the offering were \$499 million, net of the original issuance discount, and were used toward the repayment of a portion of \$1.0 billion of maturing debt retired in May 2016.

In May 2015, we issued a principal amount of \$500 million of fixed-rate, long-term debt due in 2020. We incurred \$3 million of issuance and other related costs. The proceeds of the offering were \$498 million, net of the original issuance discount, and were used toward the repayment of a portion of the debt that matured in August 2015. We retired \$250 million of maturing debt in April 2015 and another \$750 million in August 2015.

Long-term debt outstanding is as follows:

	December 31,	
	2017	2016
Notes due 2017 at 0.875%	\$ —	\$ 250
Notes due 2017 at 6.60% (assumed with National acquisition)	—	375
Notes due 2018 at 1.00%	500	500
Notes due 2019 at 1.65%	750	750
Notes due 2020 at 1.75%	500	500
Notes due 2021 at 2.75%	550	250
Notes due 2022 at 1.85%	500	500
Notes due 2023 at 2.25%	500	500
Notes due 2024 at 2.625%	300	—
Notes due 2027 at 2.90%	500	—
Total debt	4,100	3,625
Net unamortized discounts, premiums and debt issuance costs	(23)	(16)
Total debt, including net unamortized discounts, premiums and debt issuance costs	4,077	3,609
Current portion of long-term debt	(500)	(631)
Long-term debt	\$ 3,577	\$ 2,978

Interest and debt expense was \$78 million in 2017, \$80 million in 2016 and \$90 million in 2015. This was net of the amortization of the debt discounts, premiums and debt issuance costs. Cash payments for interest on long-term debt were \$75 million in 2017, \$88 million in 2016 and \$99 million in 2015. Capitalized interest was not material.

12. Commitments and contingencies

Purchase commitments

Some of our purchase commitments include payments for software licenses and contractual agreements with suppliers where there is a fixed, non-cancellable payment schedule or minimum payments due with a reduced delivery schedule.

Operating leases

We conduct certain operations in leased facilities and also lease a portion of our data processing and other equipment. In addition, certain long-term supply agreements to purchase industrial gases are accounted for as operating leases. Lease agreements frequently include purchase and renewal provisions and require us to pay taxes, insurance and maintenance costs. Rental and lease expense incurred was \$81 million, \$86 million and \$98 million in 2017, 2016 and 2015, respectively.

As of December 31, 2017, we had committed to make the following minimum payments under our purchase commitments and non-cancellable operating leases:

	Purchase Commitments		Operating Leases
2018	\$ 391	\$	68
2019	367		45
2020	234		49
2021	37		29
2022	30		24
Thereafter	35		56

Indemnification guarantees

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

Warranty costs/product liabilities

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

General

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

13. Supplemental financial information

Acquisition charges

Acquisition charges represent the ongoing amortization of intangible assets resulting from the acquisition of National Semiconductor Corporation. These amounts are included in Other for segment reporting purposes, consistent with how management measures the performance of its segments. See Note 9 for additional information.

Other income (expense), net (OI&E)

	For Years Ended December 31,		
	2017	2016	2015
Royalty income (a)	\$ 119	\$ —	\$ —
Income from settlements related to intellectual property infringement	—	188	—
Pension and other retiree benefit costs (b)	(61)	(56)	(48)
Other (c)	17	23	32
Total	<u>\$ 75</u>	<u>\$ 155</u>	<u>\$ (16)</u>

- (a) As of January 1, 2017, royalties are recorded in OI&E. See Note 1 for additional information.
- (b) Reflects the adoption of ASU 2017-07. See Note 2 for additional information.
- (c) Other includes interest and lease income, investment and currency gains and losses, and tax interest income and expense.

Prepaid expenses and other current assets

	December 31,	
	2017	2016
Prepaid taxes on intercompany inventory profits, net	\$ 768	\$ 566
Other	262	344
Total	<u>\$ 1,030</u>	<u>\$ 910</u>

Property, plant and equipment at cost

	Depreciable Lives (Years)	December 31,	
		2017	2016
Land	n/a	\$ 127	\$ 127
Buildings and improvements	5 - 40	2,467	2,753
Machinery and equipment	2 - 10	2,195	2,043
Total		<u>\$ 4,789</u>	<u>\$ 4,923</u>

Other long-term liabilities

	December 31,	
	2017	2016
Long-term portion of tax on indefinitely reinvested earnings	\$ 635	\$ —
Other	668	554
Total	<u>\$ 1,303</u>	<u>\$ 554</u>

Accumulated other comprehensive income (loss), net of taxes (AOCI)

	December 31,	
	2017	2016
Postretirement benefit plans:		
Net actuarial loss	\$ (394)	\$ (542)
Prior service credit	10	17
Cash flow hedge derivative instruments	—	(1)
Total	<u>\$ (384)</u>	<u>\$ (526)</u>

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within Net income in 2017, 2016 and 2015. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Years Ended December 31,			Impact to Related Statement of Income Line
	2017	2016	2015	
Net actuarial losses of defined benefit plans:				

Recognized net actuarial loss and Settlement losses (a)	\$ 83	\$ 76	\$ 78	Decrease to OI&E
Tax effect	(27)	(25)	(25)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	<u>\$ 56</u>	<u>\$ 51</u>	<u>\$ 53</u>	Decrease to Net income
Prior service credit of defined benefit plans:				
Amortization of prior service cost (credit) (a)	\$ (6)	\$ (5)	\$ —	Increase to OI&E
Tax effect	1	2	—	Increase to Provision for income taxes
Recognized within Net income, net of taxes	<u>\$ (5)</u>	<u>\$ (3)</u>	<u>\$ —</u>	Increase to Net income
Derivative instruments:				
Amortization of treasury-rate locks	\$ 1	\$ 1	\$ 2	Increase to Interest and debt expense
Tax effect	—	—	(1)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</u>	Decrease to Net income

(a) Detailed in Note 10.

14. Quarterly financial data (unaudited)

As a result of our early adoption of ASU 2017-07, we have recast Gross profit and Operating profit for 2016 to conform to the new presentation. See Note 2 for additional information.

	2017 Quarters				2016 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Revenue	\$ 3,750	\$ 4,116	\$ 3,693	\$ 3,402	\$ 3,414	\$ 3,675	\$ 3,273	\$ 3,008
Gross profit	2,440	2,656	2,374	2,144	2,137	2,284	2,007	1,829
Included in Operating profit:								
Acquisition charges	79	80	79	80	80	80	79	80
Restructuring charges/other	3	1	3	4	(20)	1	2	2
Operating profit	1,563	1,788	1,480	1,252	1,332	1,408	1,131	984
Net income	344	1,285	1,056	997	1,047	1,018	819	711
Basic EPS	\$ 0.35	\$ 1.29	\$ 1.05	\$ 0.99	\$ 1.04	\$ 1.00	\$ 0.81	\$ 0.70
Diluted EPS	\$ 0.34	\$ 1.26	\$ 1.03	\$ 0.97	\$ 1.02	\$ 0.98	\$ 0.79	\$ 0.69

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 1952.

Dallas, Texas

February 22, 2018

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

Not applicable.

ITEM 9A. Controls and Procedures.Disclosure 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 TI's management, including its chief executive officer and chief financial officer, of the effectiveness of the design and operation of TI's 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.

Internal control over financial reporting*Report by management on internal control over financial reporting*

The management of TI is responsible for establishing and maintaining effective internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles. 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 fourth quarter of 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2017, our internal control over financial reporting is effective based on the COSO criteria.

TI's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which immediately follows this report.

To the Shareholders and the Board of Directors of Texas Instruments Incorporated

Opinion on Internal Control over Financial Reporting

We have audited Texas Instruments Incorporated's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Texas Instruments Incorporated (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Texas Instruments Incorporated as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes, and our report dated February 22, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report by management on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Dallas, Texas
February 22, 2018

ITEM 9B. Other Information.

Not applicable.

PART III**ITEM 10. Directors, Executive Officers and Corporate Governance.**

The information with respect to directors' names, ages, positions, term of office and periods of service, which is contained under the caption "Election of directors" in our proxy statement for the 2018 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

The information with respect to directors' business experience, which is contained under the caption "Diversity and qualifications" in our proxy statement for the 2018 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

The information with respect to Section 16(a) beneficial ownership reporting compliance contained under the caption of the same name in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

A list of our executive officers and their biographical information appears in Part I, Item 1 of this report.

Code of Ethics

We have adopted the Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. A copy of the Code can be found on our website at www.ti.com/corporategovernance. We intend to satisfy the disclosure requirements of the SEC regarding amendments to, or waivers from, the Code by posting such information on the same website.

Audit Committee

The information contained under the caption "Committees of the board" with respect to the audit committee and the audit committee financial expert in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 11. Executive Compensation.

The information contained under the captions "Director compensation" and "Executive compensation" in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement, provided that the Compensation Committee report shall not be deemed filed with this Form 10-K.

The information contained under the caption "Compensation committee interlocks and insider participation" in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.Equity compensation plan information

The information contained under the caption "Equity compensation plan information" in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

Security ownership of certain beneficial owners and management

The information that is contained under the captions "Security ownership of certain beneficial owners" and "Security ownership of directors and management" in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The information contained under the captions “Related person transactions” and “Director independence” in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 14. Principal Accountant Fees and Services.

The information with respect to principal accountant fees and services contained under the caption “Proposal to ratify appointment of independent registered public accounting firm” in our proxy statement for the 2018 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

PART IV**ITEM 15. Exhibits, Financial Statement Schedules.**

The financial statements are listed in the index included in Item 8, “Financial Statements and Supplementary Data.”

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended	10-K	001-3761	February 24, 2015	3(a)	
3(b)	By-Laws of the Registrant	8-K	001-3761	December 12, 2016	3	
4(a)	Indenture	8-K	001-3761	May 23, 2011	4.2	
4(b)	Officer's Certificate	8-K	001-3761	May 23, 2011	4.3	
4(c)	Officer's Certificate	8-K	001-3761	May 8, 2013	4.2	
4(d)	Officer's Certificate	8-K	001-3761	March 12, 2014	4.2	
4(e)	Officer's Certificate	8-K	001-3761	May 6, 2015	4.1	
4(f)	Officer's Certificate	8-K	001-3761	May 6, 2016	4.1	
4(g)	Officer's Certificate	8-K	001-3761	May 4, 2017	4.1	
4(h)	Officer's Certificate	8-K	001-3761	November 3, 2017	4.1	
4(i)	The Registrant has omitted certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). The Registrant undertakes to furnish a copy of such instruments to the Securities and Exchange Commission upon request.					
10(a)	TI Deferred Compensation Plan, as amended*	10-K	001-3761	February 24, 2016	10(a)	
10(b)	TI Employees Non-Qualified Pension Plan, effective January 1, 2009, as amended*	10-K	001-3761	February 24, 2016	10(b)	
10(c)	TI Employees	10-K	001-3761	February 24, 2016	10(c)	

	Non-Qualified Pension Plan II*				
10(d)	Texas Instruments Long-Term Incentive Plan, adopted April 15, 1993*	10-K	001-3761	February 24, 2012	10(c)
10(e)	Texas Instruments 2000 Long-Term Incentive Plan as amended October 16, 2008*	10-K	001-3761	February 24, 2015	10(e)
10(f)	Texas Instruments 2003 Long-Term Incentive Plan as amended October 16, 2008	10-K	001-3761	February 24, 2015	10(f)
10(g)	Texas Instruments Executive Officer Performance Plan as amended September 17, 2009*	10-K	001-3761	February 24, 2015	10(g)
10(h)	Texas Instruments Restricted Stock Unit Plan for Directors, as amended, dated April 16, 1998	10-K	001-3761	February 24, 2012	10(h)
10(i)	Texas Instruments Directors Deferred Compensation Plan, as amended, dated April 16, 1998	10-K	001-3761	February 24, 2012	10(i)
10(j)	Texas Instruments 2003 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 24, 2015	10(j)

Designation of Exhibit	Description of Exhibit	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Date of Filing	Exhibit Number	
10(k)	Form of Non-Qualified Stock Option Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(k)	
10(l)	Form of Restricted Stock Unit Award Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan*	10-K	001-3761	February 23, 2017	10(l)	
10(m)	Texas Instruments 2009 Long-Term Incentive Plan as amended April 21, 2016*	DEF 14A	001-3761	March 9, 2016	Appendix B	
10(n)	Texas Instruments 2009 Director Compensation Plan as amended January 19, 2012	10-K	001-3761	February 23, 2017	10(n)	
12	Ratio of Earnings to Fixed Charges					X
21	List of Subsidiaries of the Registrant					X
23	Consent of Independent Registered Public					X

	Accounting Firm		
31(a)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer		X
31(b)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer		X
32(a)	Section 1350 Certification of Chief Executive Officer		X
32(b)	Section 1350 Certification of Chief Financial Officer		X
101.ins	Instance Document		X
101.sch	XBRL Taxonomy Schema		X
101.cal	XBRL Taxonomy Calculation Linkbase		X
101.Def	XBRL Taxonomy Definitions Document		X
101.lab	XBRL Taxonomy Labels Linkbase		X
101.pre	XBRL Taxonomy Presentation Linkbase		X

*Management compensation plans and arrangements

Notice regarding forward-looking statements

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

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

- Market demand for semiconductors, particularly in our end markets;
- Our ability to compete in products and prices in an intensely competitive industry;
- Customer demand that differs from forecasts and the financial impact of inadequate or excess company inventory that results from demand that differs from projections;
- Economic, social and political conditions in the countries in which we, our customers or our suppliers operate, including security risks; global trade policies; political and social instability; health conditions; possible disruptions in transportation, communications and information technology networks; and fluctuations in foreign currency exchange rates;
- Evolving cybersecurity threats to our information technology systems or those of our customers or suppliers;
- Natural events such as severe weather, geological events or health epidemics in the locations in which we, our customers or our suppliers operate;
- Our ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- Timely implementation of new manufacturing technologies and installation of manufacturing equipment, and the ability to obtain needed third-party foundry and assembly/test subcontract services;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Compliance with or changes in the complex laws, rules and regulations to which we are or may become subject, or actions of enforcement authorities, that restrict our ability to manufacture or ship our products or operate our business, or subject us to fines, penalties or other legal liability;
- Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, manufacturing, services, design or communications, or recalls by our customers for a product containing one of our parts;
- Changes in tax law and accounting standards that can impact the tax rate applicable to us, the jurisdictions in which profits are determined to be earned and taxed, adverse resolution of tax audits, increases in tariff rates, and the ability to realize deferred tax assets;
- A loss suffered by one of our customers or distributors with respect to TI-consigned inventory;
- Financial difficulties of our distributors or their promotion of competing product lines to our detriment, or the loss of a significant number of distributors;
- Losses or curtailments of purchases from key customers or the timing and amount of distributor and other customer inventory adjustments;
- Our ability to maintain or improve profit margins, including our ability to utilize our manufacturing facilities at sufficient levels to cover our fixed operating costs, in an intensely competitive and cyclical industry and despite changes in the regulatory environment;
- Our ability to maintain and enforce a strong intellectual property portfolio and maintain freedom of operation in all jurisdictions where we conduct business; or our exposure to infringement claims;
- Instability in the global credit and financial markets that affects our ability to fund our daily operations, invest in the business, make strategic acquisitions, or make principal and interest payments on our debt;
- Increases in health care and pension benefit costs;
- Our ability to recruit and retain skilled engineering, management and technical personnel;
- Our ability to successfully integrate and realize opportunities for growth from acquisitions, or our ability to realize our expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Impairments of our non-financial assets.

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of this report. The forward-looking statements included in this report are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Rafael R. Lizardi
Rafael R. Lizardi
Senior Vice President,
Chief Financial Officer
and Chief Accounting Officer

Date: February 22, 2018

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Rafael R. Lizardi, and Cynthia Hoff Trochu, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2017, to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 22nd day of February 2018.

Signature	Title
/s/ Ralph W. Babb, Jr. Ralph W. Babb, Jr.	Director
/s/ Mark A. Blinn Mark A. Blinn	Director
/s/ Todd M. Bluedorn Todd M. Bluedorn	Director
/s/ Daniel A. Carp Daniel A. Carp	Director
/s/ Janet F. Clark Janet F. Clark	Director
/s/ Carrie S. Cox Carrie S. Cox	Director
/s/ Brian T. Crutcher Brian T. Crutcher	Director, Executive Vice President and Chief Operating Officer
/s/ Jean M. Hobby Jean M. Hobby	Director
/s/ Ronald Kirk Ronald Kirk	Director
/s/ Pamela H. Patsley Pamela H. Patsley	Director
/s/ Robert E. Sanchez Robert E. Sanchez	Director
/s/ Wayne R. Sanders Wayne R. Sanders	Director
/s/ Richard K. Templeton Richard K. Templeton	Director, Chairman of the Board, President and Chief Executive Officer
/s/ Rafael R. Lizardi Rafael R. Lizardi	Senior Vice President, Chief Financial Officer and Chief Accounting Officer