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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

☐ **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

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	☒	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 Exchange Act). Yes ☐ No ☒

923,523,523

Number of shares of Registrant's common stock outstanding as of
April 20, 2021

PART I - FINANCIAL INFORMATION

ITEM 1. Financial statements

Consolidated Statements of Income (Millions of dollars, except share and per-share amounts)	For Three Months Ended March 31, 2021	 2020
Revenue	**$ 4,289**	$ 3,329
Cost of revenue (COR)	**1,492**	1,241
Gross profit	**2,797**	2,088
Research and development (R&D)	**386**	377
Selling, general and administrative (SG&A)	**425**	417
Acquisition charges	**47**	50
Operating profit	**1,939**	1,244
Other income (expense), net (OI&E)	**46**	25
Interest and debt expense	**46**	45
Income before income taxes	**1,939**	1,224
Provision for income taxes	**186**	50
Net income	**$ 1,753**	$ 1,174
Earnings per common share (EPS):		
Basic	**$ 1.89**	$ 1.25
Diluted	**$ 1.87**	$ 1.24
Average shares outstanding (millions):		
Basic	**922**	931
Diluted	**935**	943

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:

	2021	2020
Net income	**$ 1,753**	$ 1,174
Income allocated to RSUs	**(8)**	(6)
Income allocated to common stock for diluted EPS	**$ 1,745**	$ 1,168

See accompanying notes.

Consolidated Statements of Comprehensive Income	**For Three Months Ended March 31,**	
(Millions of dollars)	**2021**	**2020**
Net income	**$ 1,753**	$ 1,174
Other comprehensive income (loss)		
Net actuarial losses of defined benefit plans:		
Adjustments, net of tax effect of ($2) and ($3)	**5**	9
Recognized within net income, net of tax effect of ($3) and ($2)	**8**	8
Available-for-sale investments:		
Unrealized gains, net of tax effect of $0 and $0	**—**	2
Other comprehensive income (loss), net of taxes	**13**	19
Total comprehensive income	**$ 1,766**	$ 1,193

See accompanying notes.

Consolidated Balance Sheets		**March 31, 2021**		**December 31, 2020**
(Millions of dollars, except share amounts)				
Assets				
Current assets:				
Cash and cash equivalents	**$**	**2,442**	$	3,107
Short-term investments		**4,244**		3,461
Accounts receivable, net of allowances of ($9) and ($11)		**1,584**		1,414
Raw materials		**183**		180
Work in process		**980**		964
Finished goods		**727**		811
Inventories		**1,890**		1,955
Prepaid expenses and other current assets		**245**		302
Total current assets		**10,405**		10,239
Property, plant and equipment at cost		**5,967**		5,781
Accumulated depreciation		**(2,536)**		(2,512)
Property, plant and equipment		**3,431**		3,269
Goodwill		**4,362**		4,362
Acquisition-related intangibles		**105**		152
Deferred tax assets		**331**		343
Capitalized software licenses		**113**		122
Overfunded retirement plans		**235**		246
Other long-term assets		**657**		618
Total assets	**$**	**19,639**	$	19,351
Liabilities and stockholders' equity				
Current liabilities:				
Current portion of long-term debt	**$**	**—**	$	550
Accounts payable		**567**		415
Accrued compensation		**388**		767
Income taxes payable		**278**		134
Accrued expenses and other liabilities		**467**		524
Total current liabilities		**1,700**		2,390
Long-term debt		**6,250**		6,248
Underfunded retirement plans		**130**		131
Deferred tax liabilities		**88**		90
Other long-term liabilities		**1,305**		1,305
Total liabilities		**9,473**		10,164
Stockholders' equity:				
Preferred stock, $25 par value. Authorized – 10,000,000 shares; none issued		**—**		—
Common stock, $1 par value. Authorized – 2,400,000,000 shares				
Shares issued – 1,740,815,939		**1,741**		1,741
Paid-in capital		**2,391**		2,333
Retained earnings		**42,860**		42,051
Treasury common stock at cost				
Shares: March 31, 2021 – 817,573,099; December 31, 2020 – 821,461,787		**(36,479)**		(36,578)
Accumulated other comprehensive income (loss), net of taxes (AOCI)		**(347)**		(360)
Total stockholders' equity		**10,166**		9,187
Total liabilities and stockholders' equity	**$**	**19,639**	$	19,351

See accompanying notes.

Consolidated Statements of Cash Flows	For Three Months Ended March 31,	
(Millions of dollars)	2021	2020
Cash flows from operating activities		
Net income	$ 1,753	$ 1,174
Adjustments to net income:		
Depreciation	179	186
Amortization of acquisition-related intangibles	47	50
Amortization of capitalized software	15	14
Stock compensation	61	63
Gains on sales of assets	(1)	—
Deferred taxes	8	(34)
Increase (decrease) from changes in:		
Accounts receivable	(170)	(242)
Inventories	65	(2)
Prepaid expenses and other current assets	73	(88)
Accounts payable and accrued expenses	69	—
Accrued compensation	(379)	(353)
Income taxes payable	131	147
Changes in funded status of retirement plans	28	27
Other	(29)	(91)
Cash flows from operating activities	1,850	851
Cash flows from investing activities		
Capital expenditures	(308)	(161)
Proceeds from asset sales	1	—
Purchases of short-term investments	(2,782)	(646)
Proceeds from short-term investments	2,000	1,638
Other	(20)	(5)
Cash flows from investing activities	(1,109)	826
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	749
Repayment of debt	(550)	—
Dividends paid	(940)	(841)
Stock repurchases	(100)	(1,641)
Proceeds from common stock transactions	196	146
Other	(12)	(9)
Cash flows from financing activities	(1,406)	(1,596)
Net change in cash and cash equivalents	(665)	81
Cash and cash equivalents at beginning of period	3,107	2,437
Cash and cash equivalents at end of period	$ 2,442	$ 2,518

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.

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

Segment information

	For Three Months Ended March 31,	
	2021	**2020**
Revenue:		
Analog	**$ 3,280**	$ 2,460
Embedded Processing	**767**	653
Other	**242**	216
Total revenue	**$ 4,289**	$ 3,329
Operating profit:		
Analog	**$ 1,646**	$ 1,025
Embedded Processing	**287**	182
Other (a)	**6**	37
Total operating profit	**$ 1,939**	$ 1,244

(a) Includes acquisition charges and restructuring charges/other

Geographic area information

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

	For Three Months Ended March 31, 2021	2020
Revenue:		
United States	**$ 393**	$ 390
Asia (a)	**2,858**	2,027
Europe, Middle East and Africa	**682**	619
Japan	**239**	190
Rest of world	**117**	103
Total revenue	**$ 4,289**	$ 3,329

(a) Revenue from products shipped into China was $2.3 billion and $1.7 billion in the first quarters of 2021 and 2020, respectively, which includes shipments to customers that manufacture in China and then export end products to their customers around the world, as well as distributors that transship inventory through China to service other countries.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2020. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended March 31, 2021 and 2020, and the Consolidated Balance Sheet as of March 31, 2021, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2020. The results for the three-month periods are not necessarily indicative of a full year's results.

Significant accounting policies and practices

Earnings per share (EPS)

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

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

	For Three Months Ended March 31,					
	2021			2020		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	**$ 1,753**			$ 1,174		
Income allocated to RSUs	**(8)**			(6)		
Income allocated to common stock	**$ 1,745**	**922**	**$ 1.89**	$ 1,168	931	$ 1.25
Dilutive effect of stock compensation plans		**13**			12	
Diluted EPS:						
Net income	**$ 1,753**			$ 1,174		
Income allocated to RSUs	**(8)**			(6)		
Income allocated to common stock	**$ 1,745**	**935**	**$ 1.87**	$ 1,168	943	$ 1.24

Potentially dilutive securities representing 3 million and 9 million shares of common stock that were outstanding during the first quarters of 2021 and 2020, respectively, were excluded from the computation of diluted earnings per common share during these periods because their effect would have been anti-dilutive.

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

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

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

We do not use derivatives for speculative or trading purposes.

Fair values of financial instruments
The fair values of our derivative financial instruments were not material as of March 31, 2021. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. As of March 31, 2021, the carrying value of long-term debt, including the current portion, was $6.25 billion, and the estimated fair value was $6.74 billion. The estimated fair value is measured using broker-dealer quotes, which are Level 2 inputs. See Note 4 for a description of fair value and the definition of Level 2 inputs.

3. Income taxes

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

Provision for income taxes is based on the following:

	For Three Months Ended March 31,	
	2021	2020
Taxes calculated using the estimated annual effective tax rate	$ 275	$ 166
Discrete tax items	(89)	(116)
Provision for income taxes	$ 186	$ 50
Effective tax rate	10 %	4 %

4. 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* below. Unrealized gains and losses from available-for-sale debt securities are recorded as an increase or decrease, net of taxes, in AOCI on our Consolidated Balance Sheets and any credit losses on available-for-sale debt securities are recorded as an allowance for credit losses with an offset recognized in OI&E in our Consolidated Statements of Income.

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:

	March 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	$ 1,236	$ —	$ —	$ 886	$ —	$ —
Corporate obligations	253	1,069	—	256	407	—
U.S. government agency and Treasury securities	200	3,175	—	1,340	3,054	—
Mutual funds	—	—	14	—	—	18
Total	1,689	4,244	14	2,482	3,461	18
Other measurement basis:						
Equity-method investments	—	—	52	—	—	27
Non-marketable equity investments	—	—	4	—	—	4
Cash on hand	753	—	—	625	—	—
Total	$ 2,442	$ 4,244	$ 70	$ 3,107	$ 3,461	$ 49

As of March 31, 2021, and December 31, 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 for the first three months of 2021 and 2020.

Proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $2.00 billion and $1.39 billion for the first quarters of 2021 and 2020, 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 March 31, 2021:

	Fair Value
One year or less	$ 4,647
One to two years	50

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

Fair-value considerations

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

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

- *Level 1* – Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date.
- *Level 2* – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data. We utilize a third-party data service to provide Level 2 valuations. We verify these valuations for reasonableness relative to unadjusted quotes obtained from brokers or dealers based on observable prices for similar assets in active markets.
- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of March 31, 2021, and December 31, 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.

	March 31, 2021			December 31, 2020		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Money market funds	**$ 1,236**	**$ —**	**$ 1,236**	$ 886	$ —	$ 886
Corporate obligations	**—**	**1,322**	**1,322**	—	663	663
U.S. government agency and Treasury securities	**3,325**	**50**	**3,375**	4,394	—	4,394
Mutual funds	**14**	**—**	**14**	18	—	18
Total assets	**$ 4,575**	**$ 1,372**	**$ 5,947**	$ 5,298	$ 663	$ 5,961
Liabilities:						
Deferred compensation	**$ 337**	**$ —**	**$ 337**	$ 350	$ —	$ 350
Total liabilities	**$ 337**	**$ —**	**$ 337**	$ 350	$ —	$ 350

5. Postretirement benefit plans

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	
For Three Months Ended March 31,	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Service cost	**$ 5**	$ 4	**$ 1**	$ 1	**$ 9**	$ 8
Interest cost	**8**	9	**3**	3	**9**	9
Expected return on plan assets	**(8)**	(9)	**(3)**	(3)	**(20)**	(18)
Recognized net actuarial loss	**4**	2	**—**	—	**2**	3
Net periodic benefit costs	**9**	6	**1**	1	**—**	2
Settlement losses	**4**	4	**—**	—	**1**	1
Total, including other postretirement losses	**$ 13**	$ 10	**$ 1**	$ 1	**$ 1**	$ 3

6. 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 March 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. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of March 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.

Long-term debt outstanding is as follows:

	March 31, 2021	December 31, 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 2027 at 2.90%	**500**	500
Notes due 2029 at 2.25%	**750**	750
Notes due 2030 at 1.75%	**750**	750
Notes due 2039 at 3.875%	**750**	750
Notes due 2048 at 4.15%	**1,500**	1,500
Total debt	**6,300**	6,850
Net unamortized discounts, premiums and issuance costs	**(50)**	(52)
Total debt, including net unamortized discounts, premiums and issuance costs	**6,250**	6,798
Current portion of long-term debt	**—**	(550)
Long-term debt	**$ 6,250**	$ 6,248

Interest and debt expense was $46 million and $45 million for the first quarters of 2021 and 2020, respectively. This was net of the amortized discounts, premiums and issuance costs. Capitalized interest was not material.

7. Stockholders' equity

Changes in equity are as follows:

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2020	$ 1,741	$ 2,333	$ 42,051	$ (36,578)	$ (360)
2021					
Net income	**—**	**—**	**1,753**	**—**	**—**
Dividends declared and paid ($1.02 per share)	**—**	**—**	**(940)**	**—**	**—**
Common stock issued for stock-based awards	**—**	**(3)**	**—**	**199**	**—**
Stock repurchases	**—**	**—**	**—**	**(100)**	**—**
Stock compensation	**—**	**61**	**—**	**—**	**—**
Other comprehensive income (loss), net of taxes	**—**	**—**	**—**	**—**	**13**
Dividend equivalents on RSUs	**—**	**—**	**(4)**	**—**	**—**
Balance, March 31, 2021	**$ 1,741**	**$ 2,391**	**$ 42,860**	**$ (36,479)**	**$ (347)**

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	AOCI
Balance, December 31, 2019	$ 1,741	$ 2,110	$ 39,898	$ (34,495)	$ (347)
2020					
Net income	—	—	1,174	—	—
Dividends declared and paid ($0.90 per share)	—	—	(841)	—	—
Common stock issued for stock-based awards	—	(77)	—	223	—
Stock repurchases	—	—	—	(1,730)	—
Stock compensation	—	63	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	19
Dividend equivalents on RSUs	—	—	(4)	—	—
Balance, March 31, 2020	$ 1,741	$ 2,096	$ 40,227	$ (36,002)	$ (328)

8. Contingencies

Indemnification guarantees

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

Warranty costs/product liabilities

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

General

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

9. Supplemental financial 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 during the first quarters of 2021 and 2020. The table below details where these transactions are recorded in our Consolidated Statements of Income.

	For Three Months Ended March 31,		
	2021	**2020**	**Impact to Related Statement of Income Lines**
Net actuarial losses of defined benefit plans:			
Recognized net actuarial loss and settlement losses (a)	**$ 11**	$ 10	Decrease to OI&E
Tax effect	**(3)**	(2)	Decrease to provision for income taxes
Recognized within net income, net of taxes	**$ 8**	$ 8	Decrease to net income

(a) Detailed in Note 5.

Stock compensation

Total shares of 4,465,552 were issued from treasury shares during the first quarter of 2021 related to stock compensation.

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

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. 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. 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.

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 and continue to monitor potential impact on our operations.

Performance summary

Our first quarter revenue was $4.29 billion, net income was $1.75 billion and earnings per share (EPS) were $1.87.

Revenue increased 5% sequentially. In addition, revenue increased 29% from the same quarter a year ago due to strong demand in industrial, automotive and personal electronics.

In our core businesses, Analog revenue grew 5% and Embedded Processing grew 7% sequentially. From a year ago, Analog revenue grew 33% and Embedded Processing grew 17%.

Our cash flow from operations of $7.1 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the same period was $6.3 billion and 41% of revenue. This reflects the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

We returned $4.5 billion to shareholders in the past 12 months through dividends and stock repurchases. Over the same period, our dividend represented 56% of free cash flow, underscoring its sustainability.

Results of operations – first quarter 2021 compared with first quarter 2020

Revenue of $4.29 billion increased $960 million, or 29%, due to higher revenue from Analog and, to a lesser extent, Embedded Processing.

Gross profit of $2.80 billion was up $709 million, or 34%, due to higher revenue. As a percentage of revenue, gross profit increased to 65.2% from 62.7%.

Operating expenses (R&D and SG&A) were $811 million compared with $794 million.

Acquisition charges were $47 million compared with $50 million and were non-cash.

Operating profit was $1.94 billion, or 45.2% of revenue, compared with $1.24 billion, or 37.4% of revenue.

OI&E was $46 million of income compared with $25 million of income.

Our provision for income taxes was $186 million compared with $50 million, which increased primarily due to higher income before income taxes. 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. The 2021 rate differs from the 21% U.S. statutory corporate tax rate due to the effect of U.S. tax benefits.

Net income was $1.75 billion compared with $1.17 billion. EPS was $1.87 compared with $1.24.

First quarter 2021 segment results

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

Analog (includes Power and Signal Chain product lines)

	Q1 2021	Q1 2020	Change
Revenue	**$ 3,280**	$ 2,460	33 %
Operating profit	**1,646**	1,025	61 %
Operating profit % of revenue	**50.2 %**	41.7 %	

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

Embedded Processing (includes microcontrollers and processors)

	Q1 2021	Q1 2020	Change
Revenue	**$ 767**	$ 653	17 %
Operating profit	**287**	182	58 %
Operating profit % of revenue	**37.4 %**	27.9 %	

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)

	Q1 2021	Q1 2020	Change
Revenue	**$ 242**	$ 216	12 %
Operating profit*	**6**	37	(84) %
Operating profit % of revenue	**2.5 %**	17.1 %	

* Includes acquisition charges and restructuring charges/other

Other revenue increased $26 million. Operating profit decreased $31 million due to about $50 million of utility costs related to the February winter storm in Texas.

Financial condition

At the end of the first quarter of 2021, total cash (cash and cash equivalents plus short-term investments) was $6.69 billion, an increase of $118 million from the end of 2020.

Accounts receivable were $1.58 billion, an increase of $170 million compared with the end of 2020. Days sales outstanding at the end of the first quarter of 2021 were 33 compared with 31 at the end of 2020.

Inventory was $1.89 billion, a decrease of $65 million from the end of 2020. Days of inventory at the end of the first quarter of 2021 were 114 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 a variable-rate, revolving credit facility. Cash flows from operating activities for the first three months of 2021 were $1.85 billion, an increase of $999 million from the year-ago period due to higher net income and lower cash used for working capital.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to $2 billion until March 2024. This credit facility also serves as support for the issuance of commercial paper. As of March 31, 2021, our credit facility was undrawn, and we had no commercial paper outstanding.

Investing activities for the first three months of 2021 used $1.11 billion compared with providing cash of $826 million in the year-ago period. Capital expenditures were $308 million compared with $161 million in the year-ago period and were primarily for semiconductor manufacturing equipment and facilities in both periods. Short-term investments used cash of $782 million compared with providing cash of $992 million in the year-ago period.

Financing activities for the first three months of 2021 used $1.41 billion compared with $1.60 billion in the year-ago period. In 2021, we retired maturing debt of $550 million. In the year-ago period, we received net proceeds of $749 million from the issuance of fixed-rate, long-term debt. Dividends paid were $940 million compared with $841 million in the year-ago period, reflecting an increase in the dividend rate. We used $100 million to repurchase 0.6 million shares of our common stock compared with $1.64 billion used in the year-ago period to repurchase 14.9 million shares. Employee exercises of stock options provided cash proceeds of $196 million compared with $146 million in the year-ago period.

We had $2.44 billion of cash and cash equivalents and $4.24 billion of short-term investments as of March 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 12 Months Ended March 31, 2021	For 12 Months Ended March 31, 2020	Change
Cash flow from operations (GAAP)	**$ 7,138**	$ 6,393	12 %
Capital expenditures	**(796)**	(757)	
Free cash flow (non-GAAP)	**$ 6,342**	$ 5,636	13 %
Revenue	**$ 15,421**	$ 14,118	
Cash flow from operations as a percentage of revenue (GAAP)	**46.3 %**	45.3 %	
Free cash flow as a percentage of revenue (non-GAAP)	**41.1 %**	39.9 %	

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

Long-term contractual obligations

Information regarding long-term contractual obligations is in Item 7 of our Form 10-K for the year ended December 31, 2020. Additionally, we retired $550 million of maturing debt during the first quarter of 2021.

ITEM 4. Controls and procedures

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

PART II – OTHER INFORMATION

ITEM 1A. Risk factors

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

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
January 1, 2021 through January 31, 2021	—	$ —	—	$ 10.63 billion
February 1, 2021 through February 28, 2021	584,953	170.20	304,186	10.58 billion
March 1, 2021 through March 31, 2021	272,678	172.35	272,678	10.53 billion
Total	857,631 (b)	$ 170.88 (b)	576,864	$ 10.53 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, 280,767 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 March 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. Exhibits

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

† Filed or furnished herewith.

Notice regarding forward-looking statements

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

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

- The duration and scope of the COVID-19 pandemic, government and other third-party responses to it and the consequences for the global economy, including to our business and the businesses of our suppliers, customers and distributors;
- Economic, social and political conditions, and natural events in the countries in which we, our customers or our suppliers operate, including global trade policies;
- Market demand for semiconductors, particularly in the industrial and automotive markets, and customer demand that differs from forecasts;
- Our ability to compete in products and prices in an intensely competitive industry;
- Evolving cybersecurity and other threats relating to our information technology systems or those of our customers or suppliers;
- Our ability to successfully implement and realize opportunities from strategic, business and organizational changes, or our ability to realize our expectations regarding the amount and timing of 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 our most recent Form 10-K. 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.

SIGNATURE

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

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Rafael R. Lizardi
Rafael R. Lizardi
Senior Vice President and
Chief Financial Officer

Date: April 28, 2021