TEXAS INSTRUMENTS INC
Form 10-Q
July 29, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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

For the transition period from to

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State of Incorporation)	75-0289970 (I.R.S. Employer Identification No.)
12500 TI Boulevard, P.O. Box 660199, Dallas, Texas (Address of principal executive offices)	75266-0199 (Zip Code)

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

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

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

Yes T No £

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

Large accelerated filer	T		Accelerated filer	£
Non-accelerated filer	£	(Do not check if a smaller reporting company)	Smaller reporting company	£

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

1,261,424,435
Number of shares of Registrant's common stock outstanding as of
June 30, 2009

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	$2,457	$3,351	$4,542	$6,623
Cost of revenue (COR)	1,333	1,602	2,613	3,118
Gross profit	1,124	1,749	1,929	3,505
Research and development (R&D)	369	488	755	1,002
Selling, general and administrative (SG&A)	327	428	631	863
Restructuring expense	85	--	190	--
Operating profit	343	833	353	1,640
Other income (expense) net	13	17	19	49
Income before income taxes	356	850	372	1,689
Provision for income taxes	96	262	95	438
Net income	$260	$588	$277	$1,251
Earnings per common share:				
Basic	$.20	$.44	$.22	$.94
Diluted	$.20	$.44	$.22	$.93
Average shares outstanding (millions):				
Basic	1,267	1,320	1,271	1,323
Diluted	1,272	1,338	1,275	1,341
Cash dividends declared per share of common stock	$.11	$.10	$.22	$.20

See accompanying notes.

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

	For Three Months Ended June 30, 2009	For Three Months Ended June 30, 2008	For Six Months Ended June 30, 2009	For Six Months Ended June 30, 2008
Net income	$260	$588	$277	$1,251
Other comprehensive income (loss):				
Changes in available-for-sale investments:				
Adjustment, net of taxes	10	5	19	(8)
Recognized in net income, net of taxes	1	--	1	(3)
Changes in unrecognized net actuarial loss of defined benefit plans:				
Adjustment, net of taxes	49	11	80	(11)
Recognized in net income, net of taxes	13	7	25	12
Changes in unrecognized prior service cost of defined benefit plans:				
Adjustment, net of taxes	--	(3)	(3)	3
Recognized in net income, net of taxes	(6)	--	(6)	--
Total	67	20	116	(7)
Total comprehensive income	$327	$608	$393	$1,244

See accompanying notes.

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

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$1,765	$ 1,046
Short-term investments	792	1,494
Accounts receivable, net of allowances of ($23) and ($30)	1,244	913
Raw materials	81	99
Work in process	699	837
Finished goods	283	439
Inventories	1,063	1,375
Deferred income taxes	668	695
Prepaid expenses and other current assets	208	267
Total current assets	5,740	5,790
Property, plant and equipment at cost	6,739	7,321
Less accumulated depreciation	(3,799)	(4,017)
Property, plant and equipment, net	2,940	3,304
Long-term investments	632	653
Goodwill	926	840
Acquisition-related intangibles	150	91
Deferred income taxes	909	990
Capitalized software licenses, net	140	182
Overfunded retirement plans	20	17
Other assets	53	56
Total assets	$11,510	$ 11,923
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$421	$ 324
Accrued expenses and other liabilities	931	1,034
Income taxes payable	56	40
Accrued profit sharing and retirement	60	134
Total current liabilities	1,468	1,532
Underfunded retirement plans	502	640
Deferred income taxes	54	59
Deferred credits and other liabilities	273	366
Total liabilities	2,297	2,597
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares. Participating cumulative preferred. None issued	--	--
Common stock, $1 par value. Authorized – 2,400,000,000 shares. Shares issued: June 30, 2009 – 1,739,734,081; December 31, 2008 – 1,739,718,073	1,740	1,740

Paid-in capital	1,045	1,022
Retained earnings	21,163	21,168
Less treasury common stock at cost:		
Shares: June 30, 2009 – 478,309,646; December 31, 2008 – 461,822,215	(14,061)	(13,814)
Accumulated other comprehensive loss, net of taxes	(674)	(790)
Total stockholders' equity	9,213	9,326
Total liabilities and stockholders' equity	$11,510	$11,923

See accompanying notes.

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

	For Six Months Ended June 30, 2009	For Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income	$277	$1,251
Adjustments to net income:		
Depreciation	451	487
Stock-based compensation	97	108
Amortization of acquisition-related intangibles	22	19
Loss on sale of assets	--	6
Deferred income taxes	9	(81)
Increase (decrease) from changes in:		
Accounts receivable	(334)	(60)
Inventories	316	(233)
Prepaid expenses and other current assets	(7)	(75)
Accounts payable and accrued expenses	(18)	(147)
Income taxes payable	(3)	(16)
Accrued profit sharing and retirement	(71)	(99)
Other	69	10
Net cash provided by operating activities	808	1,170
Cash flows from investing activities:		
Additions to property, plant and equipment	(91)	(489)
Purchases of short-term investments	(563)	(362)
Sales and maturities of short-term investments	1,273	1,069
Purchases of long-term investments	(5)	(5)
Redemptions and sales of long-term investments	46	16
Acquisitions, net of cash acquired	(155)	(19)
Net cash provided by investing activities	505	210
Cash flows from financing activities:		
Dividends paid	(280)	(265)
Sales and other common stock transactions	37	165
Excess tax benefit from share-based payments	--	16
Stock repurchases	(351)	(1,307)
Net cash used in financing activities	(594)	(1,391)
Net increase (decrease) in cash and cash equivalents	719	(11)
Cash and cash equivalents, beginning of period	1,046	1,328
Cash and cash equivalents, end of period	$1,765	$1,317

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
Notes to Financial Statements

1. Description of business and significant accounting policies and practices. Texas Instruments (TI) makes, markets and sells high-technology components; about 80,000 customers all over the world buy our products.

Basis of Presentation - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (US GAAP) and except for new accounting standards on business combinations, fair value measurements and earnings per share, on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2008. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended June 30, 2009 and 2008, and the balance sheet as of June 30, 2009, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. The consolidated balance sheet as of December 31, 2008, presented herein is derived from the audited consolidated balance sheet presented in our annual report on Form 10-K at that date. Certain amounts in the prior periods' financial statements have been reclassified to conform to the current period presentation. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by US GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2008. The results for the six-month period are not necessarily indicative of a full year's results.

The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

All dollar amounts in the financial statements and tables in the notes, except share and per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated.

Acquisitions – In the second quarter of 2009, we expanded our microcontroller portfolio by acquiring Luminary Micro for net cash of $51 million and other consideration of $7 million. We recognized $15 million of goodwill, which is not expected to be deductible for tax purposes, $41 million of intangible assets, and $2 million of other net assets and liabilities. We are still in the process of finalizing valuations of certain acquired assets and liabilities, so these provisional measurements are subject to change. The former Luminary Micro operations were integrated into our Embedded Processing segment.

In the first quarter of 2009, we acquired CICLON Semiconductor Device Corporation (CICLON), a designer of high-frequency, high-efficiency power management semiconductors for net cash of $104 million and other consideration of $7 million. This acquisition expands our ability to help customers improve energy efficiency in end-equipment designs, such as high-power computing and server systems. We recognized $70 million of goodwill, which is not expected to be deductible for tax purposes, $40 million of intangible assets, and $1 million of other net assets and liabilities. The former CICLON operations were integrated into our Analog segment.

The results of operations of these acquisitions have been included in our financial statements from their respective acquisition dates and were not significant for either the three or six month periods of 2009. Pro forma information for the comparable periods of 2008 to reflect these acquisitions would not be materially different from amounts reported.

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

Fair Values of Financial Instruments – The fair values of our derivative financial instruments were not significant at June 30, 2009. Our investments in cash equivalents, short-term investments and certain long-term investments are carried at fair value and are disclosed in Note 6. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments.

Changes in Accounting Standards – In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP provides additional guidance and disclosure requirements regarding the recognition and measurement of contingent assets acquired and contingent liabilities assumed in a business combination where the fair value of the contingent assets and liabilities cannot be determined as of the acquisition date. This FSP was effective for us for acquisitions occurring after January 1, 2009. The adoption of this FSP has not had a significant impact on our financial condition or results of operations, and its future impact will be dependent upon the specific terms of future business combinations.

In April 2009, the FASB issued the following three FSPs:

- FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides additional guidance to companies for determining fair values of financial instruments for which there is no active market or quoted prices may represent distressed transactions. The guidance includes a reaffirmation of the need to use judgment in certain circumstances.

- FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, requires companies to provide additional fair value information for certain financial instruments in interim financial statements, similar to what is currently required to be disclosed on an annual basis.

- FSP FAS 115-2, FAS 124-2, and EITF 99-20-2, Recognition and Presentation of Other-Than-Temporary Impairments, amends the existing guidance regarding impairments for investments in debt securities. Specifically, it changes how companies determine if an impairment is considered to be other-than-temporary and the related accounting. This standard also requires increased disclosures.

These FSPs apply to both interim and annual periods and were effective for us beginning April 1, 2009. The adoption of these standards did not have an impact on our financial condition or results of operations.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued, and specifically requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for us beginning with the quarter ending June 30, 2009 and will be applied prospectively.

In June 2009, the FASB concurrently issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140, and SFAS No. 167, Amendments to FASB Interpretation No. 46(R), that change the way entities account for securitizations and other transfers of financial instruments. In addition to increased disclosure, these standards eliminate the concept of qualifying special purpose entities and change the test for consolidation of variable interest entities. These standards will be effective for us as of January 1, 2010. We have evaluated these standards and believe they will have no impact on our financial condition or results of operations.

In June 2009, the FASB also issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles (a replacement of FASB Statement No. 162). This standard establishes the FASB Accounting Standards Codification™ (Codification) as the single source of authoritative US GAAP. The Codification does not create any new GAAP standards but incorporates existing accounting and reporting standards into a new topical structure. The Codification will be effective for us July 1, 2009, and beginning with the third quarter interim report, a new referencing system will be used to identify authoritative accounting standards, replacing the existing references to SFAS, EITF, FSP, etc. Existing standards will be designated by their Accounting Standards

Codification (ASC) topical reference and new standards will be designated as Accounting Standards Updates, with a year and assigned sequence number.

2. Restructuring activities. In October 2008, we announced actions that, when complete, will reduce annualized expenses by more than $200 million in our Wireless segment, especially our baseband operation. Additionally, in January 2009 we announced actions that included employment reductions to align our spending with weakened demand. Combined, these actions, when complete, will eliminate about 3,900 jobs and will reduce our annualized costs by more than $700 million. The total restructuring charges for these actions are expected to be about $460 million and will continue through the fourth quarter of 2009.

We recognized $230 million in restructuring charges related to these actions in the fourth quarter of 2008. Additionally, we recognized $105 million in the first quarter of 2009 and $85 million in the second quarter of 2009 as detailed below.

The table below reflects the changes in accrued restructuring balances related to the 2008 and 2009 actions:

	Severance and Benefits	Impairments and Other Charges	Total
Restructuring charges recognized in the quarter ending December 31, 2008	$ 218	$ 12	$ 230
Non-cash charges	(30)*	(7)	(37)
Payments	(2)	--	(2)
Remaining accrual at December 31, 2008	$ 186	$ 5	$ 191
Restructuring charges recognized in the quarter ending March 31, 2009	98	7	105
Non-cash charges	(8)*	--	(8)
Payments	(62)	--	(62)
Remaining accrual at March 31, 2009	$ 214	$ 12	$ 226
Restructuring charges recognized in the quarter ending June 30, 2009	79	6	85
Non-cash credits	4 *	2	6
Payments	(89)	(3)	(92)
Remaining accrual at June 30, 2009	$ 208	$ 17	$ 225

* Reflects charges and credits for post-employment benefit plan settlement, curtailment and special termination benefits.

Restructuring charges recognized by segment in the periods of 2009 are as follows:

	For Three Months Ended June 30, 2009	For Six Months Ended June 30, 2009
Analog	$ 35	$ 77
Embedded Processing	18	37
Wireless	23	55
Other	9	21
Total restructuring charges	$ 85	$ 190

3. Stock-based compensation. We have several stock-based employee compensation plans, which are more fully described in Note 3 in our 2008 annual report on Form 10-K.

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

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2009	2008	2009	2008

COR	$8	$11	$18	$21
R&D	14	15	28	32
SG&A	25	28	51	55
Total	$47	$54	$97	$108

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These amounts include expense related to non-qualified stock options, restricted stock units (RSUs) and stock options offered under our employee stock purchase plan.

4. Income taxes. Federal income taxes have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. As of June 30, 2009, the estimated annual effective tax rate for 2009 is about 27 percent, which differs from the 35 percent statutory corporate tax rate primarily due to the effects of non-U.S. tax rates. Included in the tax provision for the first six months of 2009 were $5 million in discrete tax benefits primarily related to earnings of non-U.S. subsidiaries. The tax provision in the year-ago period included discrete tax benefits of $79 million, which were primarily due to our decision to indefinitely reinvest the accumulated earnings of a non-U.S. subsidiary.

During the second quarter of 2009 a $90 million payment was made in respect of U.S. tax return audits for the years 2003 through 2006 for all settled audit adjustments on which the adjustment amount had been agreed with the IRS. The audit adjustments had been previously reflected in our FIN 48 liability and the payment had no income statement impact. Other U.S. tax audit issues for these years remain unresolved and subject to issue resolution processes. A $20 million tax interest payment was also made in the second quarter of 2009 for the interest liability already accrued on the same agreed U.S. tax audit adjustments.

5. Earnings per share (EPS). In 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, and it became effective for us beginning January 1, 2009. Under this standard, unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our RSUs, are considered participating securities for purposes of calculating EPS. Under the two-class method required by EITF 03-6-1, 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. This FSP requires retrospective application for periods prior to the effective date and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. The adoption of this FSP resulted in a decrease of $.01 per share to the previously reported basic EPS for the three months and six months ended June 30, 2008, and no change to the previously reported diluted EPS.

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

	For Three Months Ended June 30, 2009			For Three Months Ended June 30, 2008		
	Income	Shares	EPS	Income	Shares	EPS
Basic EPS:						
Net Income	$260			$588		
Less income allocated to RSUs	(2)			(4)		
Net Income allocated to common stock for EPS calculation	$258	1,267	$0.20	$584	1,320	$0.44
Adjustment for dilutive shares:						
Stock-based compensation plans		5			18	
Diluted EPS:						
Net Income	$260			$588		
Less income allocated to RSUs	(2)			(4)		
Net Income allocated to common stock for EPS calculation	$258	1,272	$0.20	$584	1,338	$0.44

	For Six Months Ended June 30, 2009 Income	Shares	EPS	For Six Months Ended June 30, 2008 Income	Shares	EPS
Basic EPS:						
Net Income	$277			$1,251		
Less income allocated to RSUs	(2)			(8)		
Net Income allocated to common stock for EPS calculation	$275	1,271	$0.22	$1,243	1,323	$0.94
Adjustment for dilutive shares:						
Stock-based compensation plans		4			18	
Diluted EPS:						
Net Income	$277			$1,251		
Less income allocated to RSUs	(2)			(8)		
Net Income allocated to common stock for EPS calculation	$275	1,275	$0.22	$1,243	1,341	$0.93

Options to purchase 139 million and 87 million shares of common stock that were outstanding during the second quarters of 2009 and 2008, and 140 million and 87 million shares outstanding during the six months of 2009 and 2008, were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

6. Valuation of debt and equity investments and certain liabilities. We present investments on our balance sheets as cash equivalents, short-term investments or long-term investments. This presentation reflects both the liquidity and intended use of the investments.

Debt and equity investments

Our accounting policy is to 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 securities consist primarily of money market funds and debt securities. Available-for-sale securities are stated at fair value, which is generally based on market prices, broker quotes or, when necessary, financial models (see fair value discussion below). We record other-than-temporary losses (impairments) on these securities in OI&E in our statement of income, and all other unrealized gains and losses as an increase or decrease, net of taxes, in accumulated other comprehensive income (AOCI) on our balance sheet.

Trading securities are stated at fair value based on market prices. Our trading securities consist exclusively of mutual funds that hold a variety of debt and equity investments that are intended to generate returns that offset changes in certain deferred compensation liabilities. We record changes in the fair value of our trading securities and the related deferred compensation liabilities in selling, general and administrative (SG&A) expense in our statement of income.

Our other investments are not measured at fair value but are accounted for using either the equity method or cost method of accounting. These investments consist of interests in venture capital funds and non-marketable equity securities. Gains or losses on 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.

We determine cost or amortized cost, as appropriate, on a specific identification basis.

Details of our investments and related unrealized gains and losses included in AOCI are as follows:

	June 30, 2009			December 31, 2008		
	Cash & Cash Equivalents	Short-term Investments	Long-term Investments	Cash & Cash Equivalents	Short-term Investments	Long-term Investments
Measured at fair value:						
Available-for-sale						
Money market funds	$1,577	$ --	$ --	$796	$ --	$ --
Corporate obligations	--	481	--	50	590	--
U.S. government agency and Treasury securities	--	288	--	--	654	--
Mortgage-backed and other available-for-sale securities	--	23	2	--	250	--
Auction-rate securities	--	--	463	--	--	482
Trading						
Mutual funds	--	--	102	--	--	96
Total debt and equity investments measured at fair value	$1,577	$ 792	$ 567	$846	$ 1,494	$ 578
Other measurement basis:						
Equity method investments	--	--	43	--	--	53
Cost method investments	--	--	22	--	--	22
Cash on hand	188	--	--	200	--	--
Total debt and equity investments	$1,765	$ 792	$ 632	$1,046	$ 1,494	$ 653
Amounts included in AOCI from available-for-sale securities:						
Unrealized gains (pre-tax)	$--	$ 2	$ --	$--	$ 6	$ --
Unrealized losses (pre-tax)	$--	$ 8	$ 30	$--	$ 19	$ 53

All of our corporate obligations are insured by either the Federal Deposit Insurance Corporation (FDIC) or the U.K. government.

As of June 30, 2009, unrealized losses included in AOCI were primarily associated with auction-rate securities. As of December 31, 2008, unrealized losses included in AOCI were primarily associated with auction-rate securities and mortgage-backed securities. The change in unrealized losses from December 31, 2008 was primarily due to improvement in fair values of the investments held as well as the effects of redemptions and sales since that date.

As of June 30, 2009, we have determined that our investments classified as available-for-sale with unrealized losses are not other-than-temporarily impaired. We expect to recover the entire cost basis of these securities. Other than cash and cash equivalents, we do not intend to sell these investments, nor do we expect to be required to sell these investments. For the six months ended June 30, 2009, we did not recognize in earnings any credit losses related to our investments.

For the six months ended June 30, 2009, the proceeds from sales of available-for-sale securities were $740 million. Gross realized gains and losses from the sales of these securities were not significant for any periods presented.

The following table presents the aggregate maturities of investments in debt securities classified as available-for-sale at June 30, 2009:

Due	Fair Value
One year or less	$ 1,883
One to three years	463
Greater than three years (auction-rate securities)	463
Investments with serial maturities (primarily mortgage-backed securities)	23

Fair value

We measure and report our financial assets and liabilities under the provisions of SFAS 157, Fair Value Measurement. Effective January 1, 2009, we adopted the provisions of SFAS 157 for non-financial assets and liabilities. The adoption of SFAS 157 for non-financial assets and liabilities did not have a significant impact on our financial condition or results of operations.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

Level 2 – Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

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

Investments in auction-rate securities are our only Level 3 assets. Auction-rate securities are debt instruments with variable interest rates that historically would periodically reset through an auction process. There is currently no active market for auction-rate securities, so we use a discounted cash flow (DCF) model to determine the estimated fair value of these investments as of each quarter end. The assumptions used in preparing the DCF model include estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions we consider relevant factors including: the formula for each security that defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the guarantees by the U.S. Department of Education of the underlying student loans and additional credit enhancements provided through other means; and, publicly available pricing data for student loan asset-backed securities that are not subject to auctions. Our estimate of the rate of return required by investors to own these securities also considers the current reduced liquidity for auction-rate securities.

To date, we have collected all interest on all of our auction-rate securities when due and expect to continue to do so in the future. The principal associated with failed auctions will not be accessible until successful auctions resume, a buyer is found outside of the auction process, or issuers use a different form of financing to replace these securities. Meanwhile, issuers continue to repay principal over time from cash flows prior to final maturity, or make final payments when they come due according to contractual maturities ranging from 14 to 38 years. All of our auction-rate securities are backed by pools of student loans substantially guaranteed by the U.S. Department of Education and we continue to believe that the credit quality of these securities is high based on this guarantee. As of June 30, 2009, all but one of these securities were rated AAA/Aaa by the major credit rating agencies, with the remaining security (with a par value of $25 million) rated AAA/Baa1. While our ability to liquidate auction-rate investments is likely to be limited for some period of time, we do not believe this will materially impact our ability to fund our working capital needs, capital expenditures, dividend payments or other business requirements.

The table below sets forth, by level, our assets and liabilities that were accounted for at fair value as of June 30, 2009. The table does not include cash on hand and also does not include assets and liabilities that are measured at historical cost or any basis other than fair value.

	Fair Value at June 30, 2009	Level 1	Level 2	Level 3
Items measured at fair value on a recurring basis:				
Assets:				
Money market funds	$1,577	$1,577	$--	$--
Corporate obligations	481	--	481	--
U.S. government agency and Treasury securities	288	5	283	--
Mortgage-backed and other securities	25	2	23	--
Auction–rate securities	463	--	--	463
Mutual funds	102	102	--	--
Total assets measured at fair value	$2,936	$1,686	$787	$463
Liabilities:				
Contingent consideration	$18	$--	$--	$18
Deferred compensation liabilities	135	135	--	--
Total liabilities measured at fair value	$153	$135	$--	$18

The liabilities above are a component of deferred credits and other liabilities on our balance sheets.

The following table summarizes the change in the fair values for Level 3 assets and liabilities for the three and six months ended June 30, 2009.

	Level 3 Assets	Level 3 Liabilities
Changes in fair value for the three months ending June 30 (pre-tax):		
Beginning Balance, March 31, 2009	$ 492	$ 7
New contingent consideration	--	3
Change in fair value of contingent consideration - included in operating profit	--	8
Reduction of unrealized losses - included in AOCI	11	--
Redemptions at par	(40)	--
Ending Balance, June 30, 2009	$ 463	$ 18
Changes in fair value for the six months ending June 30 (pre-tax):		
Beginning Balance, December 31, 2008	$ 482	$ --
New contingent consideration	--	10
Change in fair value of contingent consideration - included in operating profit	--	8
Reduction of unrealized losses - included in AOCI	23	--
Redemptions at par	(42)	--
Ending Balance, June 30, 2009	$ 463	$ 18

7. Post-employment benefit plans. Components of net periodic employee benefit cost are as follows:

For three months ended June 30,	U.S. Defined Benefit 2009	U.S. Defined Benefit 2008	U.S. Retiree Health Care 2009	U.S. Retiree Health Care 2008	Non-U.S. Defined Benefit 2009	Non-U.S. Defined Benefit 2008
Service cost	$5	$6	$1	$1	$9	$11
Interest cost	12	13	6	7	15	16
Expected return on plan assets	(12)	(11)	(7)	(7)	(17)	(21)
Amortization of prior service cost	--	--	1	1	(1)	(1)
Recognized net actuarial loss	4	4	2	2	9	1
Net periodic benefit cost	$9	$12	$3	$4	$15	$6
Settlement charges	7	3	--	--	--	--
Curtailment gains	--	--	--	--	(10)	--
Total, including charges and (gains)	$16	$15	$3	$4	$5	$6

For six months ended June 30,	U.S. Defined Benefit 2009	U.S. Defined Benefit 2008	U.S. Retiree Health Care 2009	U.S. Retiree Health Care 2008	Non-U.S. Defined Benefit 2009	Non-U.S. Defined Benefit 2008
Service cost	$10	$12	$2	$2	$20	$22
Interest cost	25	25	13	14	30	31
Expected return on plan assets	(24)	(22)	(14)	(14)	(33)	(42)
Amortization of prior service cost	--	--	1	1	(2)	(2)
Recognized net actuarial loss	8	8	4	4	19	2
Net periodic benefit cost	$19	$23	$6	$7	$34	$11
Settlement charges	7	3	--	--	--	--
Curtailment charges (gains)	--	--	2	--	(10)	--
Special termination benefit charges	6	--	--	--	--	--
Total, including charges and (gains)	$32	$26	$8	$7	$24	$11

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

We accrue for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability, and historically we have experienced a low rate of payments on product claims. Consistent with general industry practice, we enter into formal contracts with certain customers that include negotiated warranty remedies. Typically, under these agreements, our warranty for semiconductor products includes: three years' coverage; an obligation to repair, replace or refund; and a maximum payment obligation tied to the price paid for our products. In some cases, product claims may exceed the price of our products. From time to time, we also negotiate contingent consideration payment arrangements associated with certain acquisitions, which are recorded at fair value.

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

Discontinued Operations Indemnity – In connection with the sale of the former Sensors & Controls business to an affiliate of Bain Capital, LLC in 2006, we have agreed to indemnify the former business, renamed Sensata Technologies, Inc., for specified litigation matters and certain liabilities, including environmental liabilities. Our indemnification obligations with respect to breaches of representations and warranties and the specified litigation matters are generally subject to a total deductible of $30 million and our maximum potential exposure is limited to $300 million.

Subsequent events review – In accordance with SFAS 165, we have evaluated subsequent events through the issuance of these financial statements which occurred on July 29, 2009.

9. Segment data.

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2009	2008	2009	2008
Segment Revenue				
Analog	$ 983	$ 1,287	$ 1,797	$ 2,552
Embedded Processing	350	439	666	865
Wireless	601	902	1,152	1,822
Other	523	723	927	1,384
Total revenue	$ 2,457	$ 3,351	$ 4,542	$ 6,623
Segment Operating Profit				
Analog	$ 96	$ 326	$ 61	$ 698
Embedded Processing	28	101	30	197
Wireless	58	126	44	279
Other	161	280	218	466
Total operating profit	$ 343	$ 833	$ 353	$ 1,640

See Note 2 for restructuring charges impacting segment results for the three months and six months ended June 30, 2009. There were no restructuring charges impacting segment results for the periods ended June 30, 2008.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following should be read in conjunction with the Financial Statements and the related Notes that appear elsewhere in this document. All dollar amounts in the tables in this discussion are stated in millions of U.S. dollars, except per-share amounts.

Overview

At Texas Instruments, we design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930 and are incorporated in Delaware. We are headquartered in Dallas, Texas, and have design, manufacturing or sales operations in more than 30 countries. We have four segments: Analog, Embedded Processing, Wireless and Other. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead, and we therefore focus our resources on these segments.

We were the world's fourth largest semiconductor company in 2008 as measured by revenue, according to an external source. Additionally, we sell calculators and related products.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors come in two basic forms: individual transistors and integrated circuits (generally known as "chips") that combine multiple transistors on a single piece of material to form a complete electronic circuit. Our semiconductors 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. Our portfolio includes products that are integral to almost all electronic equipment.

We sell two general categories of semiconductor products: custom and standard. A custom product is designed for a specific customer for a specific application, is sold only to that customer and is typically sold directly to the customer. A standard product is designed for use by many customers and/or many applications and is generally sold through both distribution and direct channels. Standard products include both proprietary and commodity products.

Additional information regarding each segment's products follows.

Analog

Analog semiconductors change real-world signals – such as sound, temperature, pressure or images – by conditioning them, amplifying them and often converting them to a stream of digital data so the signals can be processed by other semiconductors, such as digital signal processors (DSPs). Analog semiconductors are also used to manage power distribution and consumption. Sales from our Analog segment accounted for about 40 percent of our revenue in 2008. According to WSTS, an industry data-gathering organization, the worldwide market for analog semiconductors was about $36 billion in 2008. Our Analog segment's revenue in 2008 was $4.9 billion, or about 14% of this market, giving us the leading position. We believe that we are well positioned to increase our share over time.

Our Analog product lines are: high-performance analog, high-volume analog & logic and power management.

High-performance analog products: These include standard analog semiconductors, such as amplifiers, data converters, low-power radio frequency devices and interface semiconductors (our standard analog portfolio includes more than 15,000 products), that we market to many different customers (nearly 80,000) who use them in a wide range of products across the industrial, communications, computing and consumer markets. High-performance analog products generally have long life cycles, often 10 to 20 years.

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

Power management products: These include both standard and custom semiconductors that help customers manage power in any type of electronic system. We design and manufacture power management semiconductors for both portable devices (battery-powered devices, such as handheld consumer electronics, laptop computers and cordless power tools) and line-powered systems (products that require an external electrical source, such as computers, digital TVs, wireless base stations and high-voltage industrial equipment).

Embedded Processing

Our Embedded Processing products include our DSPs (other than DSPs specific to our Wireless segment) and microcontrollers. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Microcontrollers are designed to control a set of specific tasks for electronic equipment. Sales of Embedded Processing products accounted for about 15 percent of our revenue in 2008. The worldwide market for embedded processors was about $17 billion in 2008. According to external sources, we have about 10 percent market share in this fragmented market, and we believe we are well positioned to increase our share over time.

An important characteristic of 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 customers prefer to re-use software from one product generation to the next. We make and sell standard, or catalog, Embedded Processing products used in many different applications and custom Embedded Processing products used in specific applications, such as communications infrastructure equipment and automotive.

Wireless

Cell phones require a modem or “baseband” to connect to the wireless carrier’s network. Many of today’s advanced cell phones also require an applications processor to run the phone’s software and services, and semiconductors to enable connectivity to Bluetooth® devices, WiFi networks or GPS location services. We design, make and sell products to satisfy each of these requirements. Wireless products are typically sold in high volumes and our Wireless portfolio includes both standard (or merchant) products and custom products. Sales of Wireless products accounted for about 25 percent of our revenue in 2008, and a significant portion of our Wireless sales were to a single customer.

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

Our Wireless segment has been shifting focus from baseband chips, a market with shrinking competitive barriers and slowing growth rates, to applications processors, a market we expect will grow faster than the baseband market. Consistent with this shift in market focus, we are concentrating our Wireless investments on our applications processors and connectivity products and have discontinued further development of merchant baseband products. While we continue to sell custom baseband products, we are also decreasing custom baseband investments and expect substantially all of this revenue to cease by the end of 2012.

Other

Our Other segment includes revenue from smaller semiconductor product lines and handheld graphing and scientific calculators, and from royalties received for our patented technology that we license to other electronics companies. The semiconductor products in our Other segment include DLP® products (primarily used to create high-definition images for business and home theater projectors, televisions and movie projectors), reduced-instruction set computing (RISC) microprocessors (designed to provide very fast computing and often implemented in servers) and custom semiconductors known as application-specific integrated circuits (ASICs). This segment accounted for about 20 percent of our revenue in 2008.

Inventory

While our inventory practices differ by product, we generally maintain inventory levels that are consistent with our expectations of customer demand.

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

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

As a result of the following multi-year trends, we now tend to carry relatively higher levels of inventory (as measured in days of inventory) than in past years: standard products have become a larger part of our portfolio; we have increased consignment programs with our largest customers; and our distributors now carry relatively less inventory on average than in the past.

We manage calculator inventory consistent with expected seasonality.

Manufacturing

Semiconductor manufacturing begins with the wafer fabrication manufacturing process: a sequence of photo-lithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is tested and the wafer is cut into pieces called chips. Each chip is assembled into a package that then may be retested. The entire process typically requires between twelve and eighteen weeks and takes place in highly specialized facilities.

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

Most of our Analog semiconductors require a lower level of capital investment in manufacturing and equipment than is needed for equivalent production levels of our Embedded Processing and Wireless semiconductors, which are manufactured using advanced logic wafer manufacturing equipment. While analog chips benefit from unique, proprietary wafer manufacturing processes, these processes can be applied using older, less expensive equipment. In addition, these processes and equipment remain usable for much longer than the manufacturing processes and equipment required for advanced logic wafer manufacturing.

To supplement our internal advanced logic wafer fabrication capacity, maximize our responsiveness to customer demand and minimize our overall capital expenditures, our wafer manufacturing strategy utilizes the capacity of outside suppliers, commonly known as foundries. Our strategy involves installing internal wafer fabrication capacity to a level we believe will remain fully utilized over the equipment’s useful lifetime and then outsourcing remaining capacity needs to foundries. In 2008, external foundries provided about 50 percent of the fabricated wafers for our advanced logic manufacturing needs. We expect the proportion of our advanced logic wafers provided by foundries will increase over time. We expect to maintain sufficient internal wafer fabrication capacity to meet substantially all our analog production needs.

In addition to using foundries to supplement our wafer fabrication capacity, we selectively use subcontractors to supplement our assembly/test capacity. We generally use subcontractors for assembly/test of products that would be less cost-efficient to complete in-house (e.g., relatively low-volume products that are unlikely to keep internal equipment fully utilized), or in the event demand temporarily exceeds our internal capacity. We believe we often have a cost advantage in maintaining internal assembly/test capacity. Accordingly, we have recently opened an environmentally efficient assembly/test facility in the Philippines, and the facility is in the initial stages of production.

This internal/external manufacturing strategy is designed to reduce the level of our required capital expenditures, and thereby reduce our subsequent levels of depreciation. Expected end results include less fluctuation in our profit margins due to changing product demand, and lower cash requirements for expanding and updating our manufacturing capabilities. As our internal manufacturing efforts shift to a higher percentage of analog products, an increasing proportion of our capital expenditures is devoted to assembly/test facilities and equipment. This is primarily due to the lower capital needs of analog wafer manufacturing equipment.

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing methods. Chip prices and manufacturing costs tend to decline over time as manufacturing methods and product life cycles mature. Typically, new chips are produced in limited quantities at first and then ramp to high-volume production over time. Consequently, new products tend not to have a significant impact on revenue for one or more quarters after they are introduced. In the discussion below, changes in our shipments are caused by changing demand for our products unless otherwise noted.

Market cycle

The “semiconductor cycle” is an important concept that refers to the ebb and flow of supply, with relatively stable demand. 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. This cycle is affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

Seasonality

Our revenue and operating results are subject to some seasonal variation. Sales of our semiconductor products are seasonally weaker in the first quarter than in other quarters, particularly for products sold into cell phones and consumer electronics applications that have stronger sales later in the year as manufacturers prepare for the holiday selling season. Calculator revenue is tied to the U.S. back-to-school season and, as a result, is at its highest in the second and third quarters. Royalty revenue is not always uniform or predictable, in part due to the performance of our licensees and in part due to the timing of new license agreements or the expiration and renewal of existing agreements.

Tax considerations

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

Second-quarter 2009 results

Our second-quarter revenue was $2.46 billion, our net income was $260 million and earnings per share (EPS) were $0.20.

After sharp inventory corrections in our markets during the prior two quarters, our revenue levels are beginning to more closely reflect end demand. As it will likely take some time before the economy strengthens, we have aligned our operations and expenses to be consistent with the weak environment. As a result, we are seeing healthy trends in our profitability.

Analog was the biggest driver of sequential revenue growth this quarter with all three product lines contributing. Of particular note, our High-Volume Analog & Logic product line is now showing early signs of progress from our efforts over the past couple of years to reinvigorate growth.

Operationally, we performed well. Despite low visibility at the start of the quarter, our factories were able to respond to a surge in demand resulting in 18 percent sequential growth in revenue. At the same time, our internal inventory again declined, and by working with our distributors we were able to further reduce their inventory of our products by about 10 percent.

We continue to focus on strengthening our core businesses of Analog and Embedded Processing. In the quarter, we acquired Luminary Micro, which expanded our Embedded Processing portfolio by more than 140 advanced, 32-bit microcontroller products. Many of our 2,000 field sales representatives and applications engineers already are working with these products to help customers solve a wide variety of system needs.

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

	For Three Months Ended		
	June 30, 2009	June 30, 2008	Mar. 31, 2009
Revenue	$ 2,457	$ 3,351	$ 2,086
Cost of revenue	1,333	1,602	1,280
Gross profit	1,124	1,749	806
Research and development (R&D)	369	488	386
Selling, general and administrative (SG&A)	327	428	305
Restructuring costs	85	-	105
Operating profit	343	833	10
Other income (expense) net	13	17	5
Income before income taxes	356	850	15
Provision for income taxes	96	262	(2)
Net income	$ 260	$ 588	$ 17
Earnings per common share:			
Basic	$ .20	$ .44	$ .01
Diluted	$ .20	$ .44	$ .01
Average shares outstanding (millions):			
Basic	1,267	1,320	1,275
Diluted	1,272	1,338	1,277
Cash dividends declared per share of common stock	$ .11	$ .10	$ .11
Percentage of revenue:			
Gross profit	45.7 %	52.2 %	38.6 %
R&D	15.0 %	14.6 %	18.5 %
SG&A	13.3 %	12.8 %	14.6 %
Operating profit	14.0 %	24.9 %	0.5 %

Details of Financial Results

Revenue for the second quarter of 2009 was $2.46 billion, a decrease of $894 million, or 27 percent, from the year-ago quarter, and an increase of $371 million, or 18 percent, from the prior quarter. Compared with the year-ago quarter, the revenue decline was due to broad-based declines in shipments of products across all segments resulting from the downturn in global markets. Compared with the prior quarter, revenue increased primarily due to strength in our Analog segment as well as a seasonal increase in calculator revenue. Revenue was up sequentially in all segments due to higher shipments. From a regional and end-equipment perspective, sequential growth was driven primarily by high-volume equipment manufactured in Asia. Our revenue from sales to Europe and the United States continues to be weak, although these regions are both much smaller in terms of revenue than Asia, and are more heavily dominated by manufacturers who sell into industrial markets. Year-to-date, more than 90% of our revenue is from outside of the United States.

Gross profit for the second quarter of 2009 was $1.12 billion, or 45.7 percent of revenue, a decrease of $625 million, or 36 percent, from the year-ago quarter due to a combination of lower revenue and, to a lesser extent, the impact of underutilized manufacturing assets. This lower utilization of manufacturing assets decreased our gross profit by about $100 million from a year ago. Gross profit increased $318 million, or 39 percent, from the prior quarter due to increased utilization of manufacturing assets and higher revenue. The increased utilization accounted for about $200 million of the increase.

Operating expenses for the second quarter of 2009 were $369 million for R&D and $327 million for SG&A. R&D expense decreased $119 million, or 24 percent, from a year ago primarily due to the combination of the effects of our previously-announced employment reductions, especially in Wireless and, to a lesser extent, our cost-control efforts. R&D expense decreased $17 million, or 4 percent, from the prior quarter due to lower product development costs in Wireless. SG&A expense decreased $101 million, or 24 percent, from the year-ago quarter primarily due to the combination of the effects of employment reductions, and to a lesser extent, cost-control efforts. SG&A increased $22 million, or 7 percent, from the prior quarter due to higher compensation-related costs primarily resulting from improved profitability.

Restructuring costs in the second quarter of 2009 were $85 million, compared with $105 million in the prior quarter. The restructuring costs in the second quarter were for additional severance and benefits costs, primarily for non-U.S. employees (see Note 2 to the Financial Statements for a detailed discussion of these charges and payments made during the quarter). We expect to incur restructuring charges equivalent to about $0.01 of EPS in each of the third and fourth quarters of 2009. As of June 30, 2009, a total of about 3,800 jobs have been eliminated since the first of these actions was announced in October 2008.

For the second quarter of 2009, we had operating profit of $343 million, a decrease of $490 million, or 59 percent, compared with the year-ago quarter, and an increase of $333 million compared with the previous quarter. The decline from a year ago was due to lower gross profit, and to a lesser extent, restructuring charges. Collectively, these factors more than offset lower operating expenses. The increase from the prior quarter was primarily due to higher gross profit, and to a lesser extent, lower restructuring charges.

As of June 30, 2009, the estimated annual effective tax rate for 2009 is expected to be about 27 percent (see Note 4 to the Financial Statements for additional information).

Quarterly income taxes are calculated using the estimated annual effective tax rate.

The tax provision for the second quarter of 2009 was $96 million, compared with $262 million in the year-ago quarter. The decrease in the tax provision from the year-ago quarter was due to lower income before income taxes. For the first quarter of 2009 we had a net tax benefit of $2 million, which included $5 million in discrete tax benefits primarily related to earnings of non-U.S. subsidiaries. The increase in the tax provision for the second quarter of 2009 was due to higher income before income taxes.

In the second quarter of 2009, we had net income of $260 million, or earnings per share of $0.20, compared with net income of $588 million, or earnings per share of $0.44, for the year-ago quarter and $17 million, or $0.01 per share for the prior quarter.

Orders in the second quarter were $2.80 billion, a decrease of 19 percent from the year-ago quarter. Compared with the prior quarter, orders increased 27 percent.

Segment results

Analog

	2Q09	2Q08	2Q09 vs. 2Q08	1Q09	2Q09 vs. 1Q09
Revenue	$983	$1,287	-24 %	$814	21 %
Operating profit (loss)*	96	326	-71 %	(35)	374 %
Operating profit (loss) % of revenue	9.7 %	25.3 %		(4.3)%	
*Includes restructuring expenses of	$35	$--		$42	

Analog revenue decreased 24 percent from the year-ago quarter primarily due to lower shipments of high-volume analog & logic products, and to a lesser extent, high-performance analog products and power management products. Compared with the prior quarter, revenue increased 21 percent, primarily due to increased shipments of high-volume analog & logic products, while shipments of power management and high-performance analog products increased to a lesser extent. Operating profit decreased compared with the year-ago quarter primarily due to lower revenue. Operating profit increased from the previous quarter primarily due to higher revenue.

Embedded Processing

	2Q09		2Q08		2Q09 vs. 2Q08		1Q09		2Q09 vs. 1Q09	
Revenue	$350		$439		-20	%	$316		11	%
Operating profit*	28		101		-72	%	2		1,300	%
Operating profit % of revenue	8.1	%	23.0	%			0.6	%		
*Includes restructuring expenses of	$18		$--				$19			

Embedded Processing revenue decreased 20 percent from the year-ago quarter primarily due to decreased shipments of catalog products, and to a lesser extent, decreased shipments of automotive products. Compared to the prior quarter, revenue increased 11 percent primarily due to higher shipments of catalog products. Shipments of automotive products also increased, although by a lesser amount. Operating profit decreased 72 percent compared to the year ago-quarter, primarily due to lower revenue. Compared to the prior quarter, operating profit increased primarily due to higher revenue.

Wireless

	2Q09		2Q08		2Q09 vs. 2Q08		1Q09		2Q09 vs. 1Q09	
Revenue	$601		$902		-33	%	$551		9	%
Operating profit (loss)*	58		126		-54	%	(13	)	546	%
Operating profit (loss) % of revenue	9.6	%	14.0	%			(2.4	)%		
*Includes restructuring expenses of	$23		$--				$32			

Wireless revenue decreased 33 percent from the year-ago quarter due to decreased shipments of baseband products, and to a lesser extent, OMAP applications processor products. These decreases were partially offset by increased shipments of connectivity products. Compared with the previous quarter, revenue increased 9 percent primarily due to higher shipments of connectivity products, and to a lesser extent, higher shipments of OMAP applications processor and baseband products. Baseband revenue was $410 million in the second quarter, an increase of 3 percent from the prior quarter and a decrease of 40 percent from a year ago. Operating profit decreased 54 percent compared with the year-ago quarter, due to lower revenue. This segment was profitable this quarter compared with the prior quarter primarily due to the combination of higher revenue and cost reductions.

Other

	2Q09		2Q08		2Q09 vs. 2Q08		1Q09		2Q09 vs. 1Q09	
Revenue	$523		$723		-28	%	$405		29	%
Operating profit*	161		280		-43	%	56		188	%
Operating profit % of revenue	31.0	%	38.7	%			13.8	%		
*Includes restructuring expenses of	$9		$--				$12			

Other revenue decreased 28 percent from the year-ago quarter, primarily due to, in decreasing order, lower royalties and lower shipments of DLP products, calculators and RISC microprocessors. Compared with the previous quarter, revenue increased 29 percent due to a seasonal increase in shipments of calculators, and to a lesser extent, increased shipments of DLP products and RISC microprocessors. Operating profit for the second quarter of 2009 was lower than the year-ago quarter due to lower revenue, which was partially offset by lower operating expenses. Compared with the prior quarter, operating profit increased primarily due to higher revenue.

First six months of 2009 results

For the first six months of 2009, we report the following:

Revenue of $4.54 billion was $2.08 billion, or 31 percent, lower than the year-ago period resulting from the downturn in global markets.

Gross profit was $1.93 billion, a decrease of $1.58 billion, or 45 percent, from the year-ago period primarily due to lower revenue, and to a lesser extent, the impact of lower factory utilization. Lower factory utilization decreased our gross profit by about $425 million from a year ago. Gross profit margin was 42.5 percent of revenue compared with 52.9 percent in the year-ago period.

R&D expense of $755 million decreased 25 percent compared with the year-ago period primarily due to the combination of our employment reductions, particularly in our Wireless and Other segments, and, to a lesser extent cost-control efforts. R&D expense as a percent of revenue was 16.6 percent, compared with 15.1 percent in the year-ago period.

SG&A expense was $631 million, a decrease of 27 percent from $863 million in the year-ago period, primarily due to the combination of cost-control efforts and, to a lesser extent, our employment reductions. SG&A expense as a percent of revenue was 13.9 percent compared with 13.0 percent in the year-ago period.

Restructuring expenses were $190 million.

Operating profit was $353 million, or 7.8 percent of revenue, compared with $1.64 billion, or 24.8 percent of revenue, in the year-ago period. The decrease was due to lower gross profit, and to a lesser extent, higher restructuring expenses.

OI&E was $19 million, a decrease of $30 million from the year-ago period, due to lower interest income.

The tax provision was $95 million, compared with $438 million in the year-ago period. The decrease was due to lower income before income taxes, partially offset by a decrease in discrete tax benefits and the effect of non-U.S. tax rates. Included in the tax provision for 2009 were $5 million in discrete tax benefits primarily related to earnings of non-U.S. subsidiaries. The tax provision in the year-ago quarter included discrete tax benefits of $79 million, which were primarily due to our decision to indefinitely reinvest the accumulated earnings of a non-U.S. subsidiary.

Net income was $277 million, compared with $1.25 billion in the year-ago period. Earnings per share were $0.22 per share, compared with $0.93 per share in the year-ago period.

Orders of $4.99 billion were down 26 percent from the year-ago period.

Analog

	YTD 2009	YTD 2008	YTD 2009 vs. YTD 2008
Revenue	$ 1,797	$ 2,552	-30 %
Operating profit*	61	698	-91 %
Operating profit % of revenue	3.4 %	27.3 %	

*Includes restructuring expenses of	$ 77	$ --	

Analog revenue decreased 30 percent from the year-ago period, primarily due to lower shipments of high-volume analog & logic products. High-performance analog and power management revenue declined to a lesser extent due to decreased shipments. Compared to the year-ago period, operating profit decreased 91 percent, primarily due to lower revenue.

Embedded Processing

	YTD 2009	YTD 2008	YTD 2009 vs. YTD 2008
Revenue	$ 666	$ 865	-23 %
Operating profit*	30	197	-85 %
Operating profit % of revenue	4.5 %	22.8 %	
*Includes restructuring expenses of	$ 37	$ --	

Embedded Processing revenue decreased 23 percent from the year-ago period, primarily due to decreased shipments of catalog products, and to a lesser extent, decreased shipments of automotive products. Compared to the year ago-period, operating profit decreased 85 percent, primarily due to lower revenue.

Wireless

	YTD 2009	YTD 2008	YTD 2009 vs. YTD 2008
Revenue	$ 1,152	$ 1,822	-37 %
Operating profit*	44	279	-84 %
Operating profit % of revenue	3.8 %	15.3 %	
*Includes restructuring expenses of	$ 55	$ --	

Wireless revenue declined 37 percent from the year-ago period primarily due to decreased shipments of baseband products, and to a lesser extent, OMAP applications processor products. These decreases were partially offset by increased shipments of connectivity products. Baseband revenue was $810 million, a decrease of 42 percent from a year ago. Operating profit decreased 84 percent compared with the year-ago period, due to lower revenue.

Other

	YTD 2009	YTD 2008	YTD 2009 vs. YTD 2008
Revenue	$ 927	$ 1,384	-33 %
Operating profit*	218	466	-53 %
Operating profit % of revenue	23.5 %	33.6 %	
*Includes restructuring expenses of	$ 21	$ --	

Other revenue decreased 33 percent from the year-ago period, due to lower shipments of, in decreasing order, RISC microprocessors, DLP products and calculators and lower royalties. Operating profit was lower than the year-ago period due to lower revenue.

Financial condition

At the end of the second quarter of 2009, total cash (cash and cash equivalents plus short-term investments) was $2.56 billion. This was $17 million higher than at the end of 2008.

Accounts receivable were $1.24 billion at the end of the quarter. This was an increase of $331 million from the end of 2008. Days sales outstanding were 46 at the end of the quarter compared with 33 at the end of 2008. Days sales outstanding were unusually low at year end due to a sharp decrease in shipments to customers during the fourth quarter of 2008, particularly in December.

Inventory was $1.06 billion at the end of the quarter. This was a reduction of $312 million from the end of 2008. Days of inventory at the end of the second quarter were 72, compared with 89 days at the end of 2008. We have aggressively reduced inventory in the first half of 2009, as we align our inventory to more closely match end demand.

Depreciation in the first six months of 2009 was $451 million, a decrease of $36 million from the same period a year ago. Capital spending in the first six months of 2009 totaled $91 million. This was a decrease of $398 million from a year ago primarily due to lower expenditures for semiconductor assembly/test facilities and equipment.

Liquidity and capital resources

Our sources of liquidity are our cash flows from operations, cash and cash equivalents, short-term investments and revolving credit facilities. Cash flow from operations for the first six months of 2009 was $808 million, a decrease of $362 million from the year-ago period. This decrease was due to the decrease in net income, partially offset by changes in working capital used for inventory.

We have $1.76 billion of cash and cash equivalents and $792 million of short-term investments as of June 30, 2009. We have a multi-year $1 billion revolving credit facility and a non-U.S. revolving credit facility of $175 million. As of June 30, 2009, these credit facilities were not being utilized.

For the first six months of 2009, investing activities provided cash of $505 million, compared with $210 million in the year-ago period, primarily due to lower capital expenditures. We also used $155 million for acquisitions in 2009, compared with $19 million in 2008 (see Note 1 to the Financial Statements for additional information).

For the first six months of 2009, net cash used in financing activities was $594 million, compared with $1.39 billion in the year-ago period. We used $351 million of cash in the first six months of 2009 to repurchase 20 million shares of our common stock and paid dividends of $280 million. In the same period last year, we used $1.31 billion of cash to repurchase 42.7 million shares of common stock and paid $265 million in dividends.

In 2009, we expect: an annual effective tax rate of about 27 percent; R&D expense of $1.5 billion; capital expenditures of $300 million; and depreciation of $900 million.

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

Changes in accounting standards

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is contained on page 48 of Exhibit 13 to our Form 10-K for the year ended December 31, 2008, and is incorporated by reference to such exhibit.

ITEM 4. Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective. In 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 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(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
April 1 through April 30, 2009	8,600,500	$ 17.50	8,600,500	$ 3.3 billion
May 1 through May 31, 2009	0	$ --	0	$ 3.3 billion
June 1 through June 30, 2009	4,808,000	$ 20.77	4,808,000	$ 3.2 billion
Total	13,408,500	$ 18.68	13,408,500 (2)	$ 3.2 billion (2)

(1) All purchases during the quarter were made under an authorization to purchase up to $5 billion of additional shares of TI common stock announced on September 21, 2007. No expiration date has been specified for this authorization.

(2) All purchases were made through open-market purchases except for 30,000 shares that were acquired in April through a privately negotiated forward purchase contract with a non-affiliated financial institution. The forward purchase contract was designed to minimize the adverse impact on our earnings from the effect of stock market value fluctuations on the portion of our deferred compensation obligations denominated in TI stock.

ITEM 4. Submission of Matters to a Vote of Security Holders.

At the annual meeting of stockholders held on April 16, 2009, the stockholders elected TI's Board of Directors and voted upon one Board proposal and one stockholder proposal contained within our Proxy Statement dated March 5, 2009.

The Board nominees were elected with the following vote:

Nominee	For	Against	Abstentions	Broker-Non Votes
James R. Adams	1,078,583,378	17,016,030	2,969,154	--
David L. Boren	1,070,746,124	25,015,112	2,807,327	--
Daniel A. Carp	1,066,473,013	29,057,314	2,038,235	--
Carrie S. Cox	1,076,902,930	18,958,962	2,706,672	--
David R. Goode	1,067,406,343	28,171,376	2,990,844	--
Stephen P. MacMillan	1,084,232,824	11,437,458	2,898,282	--
Pamela H. Patsley	1,027,647,082	68,165,137	2,756,345	--
Wayne R. Sanders	1,075,578,266	20,167,634	2,822,664	--

Ruth J. Simmons	1,050,488,157	45,398,641	2,678,864	--
Richard K. Templeton	1,068,332,768	27,882,045	2,353,749	--
Christine Todd Whitman	1,081,978,216	14,030,603	2,559,742	--

The Board proposals were approved with the following vote:

Proposal	For	Against	Abstentions (Other Than Broker Non-Votes)	Broker Non-Votes
Board proposal to ratify the appointment of Ernst & Young LLP as the company's independent registered public accounting firm for 2009	1,087,529,468	9,267,581	1,779,620	--
Board proposal to approve the Texas Instruments 2009 Long-Term Incentive Plan	836,710,324	105,657,589	2,534,693	153,674,063
Board proposal to approve the Texas Instruments 2009 Directors Compensation Plan	843,540,401	99,276,942	2,075,012	153,684,314

The stockholder proposal was rejected with the following vote:

Proposal	For	Against	Abstentions (Other Than Broker Non-Votes)	Broker Non-Votes
Stockholder proposal regarding separation of roles of Chairman and CEO	401,225,183	530,247,976	13,433,656	153,669,854

ITEM 6. Exhibits.

Designation of Exhibits in This Report	Description of Exhibit
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
32.1	Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
32.2	Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*

101.LAB	XBRL Taxonomy Extension Labels Linkbase.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Document*

* Furnished, not filed.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

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

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

- Market demand for semiconductors, particularly in key markets such as communications, entertainment electronics and computing;
- TI's ability to maintain or improve profit margins, including its ability to utilize its manufacturing facilities at sufficient levels to cover its fixed operating costs, in an intensely competitive and cyclical industry;
- TI's ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- TI's ability to compete in products and prices in an intensely competitive industry;
- TI's ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties;
- Expiration of license agreements between TI and its patent licensees, and market conditions reducing royalty payments to TI;
- Economic, social and political conditions in the countries in which TI, its customers or its suppliers operate, including security risks, health conditions, possible disruptions in transportation networks and fluctuations in foreign currency exchange rates;
- Natural events such as severe weather and earthquakes in the locations in which TI, its customers or its suppliers operate;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Changes in the tax rate applicable to TI as the result of changes in tax law, the jurisdictions in which profits are determined to be earned and taxed, the outcome of tax audits and the ability to realize deferred tax assets;
- Losses or curtailments of purchases from key customers and the timing and amount of distributor and other customer inventory adjustments;
- Customer demand that differs from our forecasts;
- The financial impact of inadequate or excess TI inventory that results from demand that differs from projections;
-

The ability of TI and its customers and suppliers to access their bank accounts and lines of credit or otherwise access the capital markets;

- Product liability or warranty claims, claims based on epidemic or delivery failure or recalls by TI customers for a product containing a TI part;
- TI’s ability to recruit and retain skilled personnel; and
- Timely implementation of new manufacturing technologies, installation of manufacturing equipment and the ability to obtain needed third-party foundry and assembly/test subcontract services.

For a more detailed discussion of these factors, see the Risk Factors discussion in Item 1A of our most recent Form 10-K. The forward-looking statements included in this quarterly report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

SIGNATURE

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

TEXAS INSTRUMENTS INCORPORATED

BY: /s/ Kevin P. March
Kevin P. March
Senior Vice President and
Chief Financial Officer

Date: July 29, 2009

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