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

# FORM 10-K

(mark one)

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

For the fiscal year ended December 31, 2013

OR

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

for the transition period from ____________ to ______________

Commission File Number 1-3761

# TEXAS INSTRUMENTS INCORPORATED
**(Exact name of Registrant as specified in its charter)**

| **Delaware** | **75-0289970** |
|---|---|
| **(State of Incorporation)** | **(I.R.S. Employer Identification No.)** |
| **12500 TI Boulevard, P.O. Box 660199, Dallas, Texas** | **75266-0199** |
| **(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 | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $1.00 | The NASDAQ Global Select Market |

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

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

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

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 x No ☐

Insert 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 x No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ☐ |
| Non-accelerated filer ☐ | 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 x

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $37,754,545,231 as of June 28, 2013.

1,084,213,991 (Number of shares of common stock outstanding as of January 31, 2014)

Parts I, II and IV hereof incorporate information by reference to the Registrant's 2013 annual report to stockholders. Part III hereof incorporates information by reference to the Registrant's proxy statement for the 2014 annual meeting of stockholders.

## PART I

### ITEM 1. Business.

**Company Overview**

At Texas Instruments (TI), we design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in 35 countries. We have three segments: Analog, Embedded Processing 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.

Financial information with respect to our segments and our operations outside the United States is contained in Note 16 to the financial statements captioned "Segment and geographic area data" in TI's 2013 annual report to stockholders and is incorporated herein by reference to such report. Risks attendant to our foreign operations are described in Item 1A, "Risk Factors."

***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 products, more than 100,000 orderable parts, are integrated circuits that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

We sell catalog and application-specific standard semiconductor products, both of which we market to multiple customers. Catalog products are designed for use by many customers and/or many applications and are sold through both distribution and direct channels. The vast majority of our catalog products are differentiated. We also sell catalog commodity products, but they account for a small percentage of our revenue. The life cycles of catalog products generally span multiple years, with some products continuing to sell for decades after their initial release. Application-specific standard products (ASSPs) are designed for use by a smaller number of customers and are targeted to a specific application. The life cycles of ASSPs are generally determined by end-equipment upgrade cycles and can be as short as 12 to 24 months, although some can be used across multiple generations of customers' products.

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. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in every electronic device, whether plugged into a wall or running off a battery. We estimate that we sell our Analog products to more than 100,000 customers. Our Analog products are used in many markets, particularly personal electronics and industrial.

Sales of our Analog products generated about 60 percent of our revenue in 2013. According to external sources, the worldwide market for analog semiconductors was about $40 billion in 2013. Our Analog segment's revenue in 2013 was $7.2 billion, or about 18 percent of this fragmented market, the leading position. We believe that we are well positioned to increase our market share over time.

Our Analog segment includes the following major product lines: High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA).

HVAL products: These include high-volume integrated analog products for specific applications and high-volume catalog products. HVAL products support applications like automotive safety devices, touch screen controllers, low voltage motor drivers and integrated motor controllers.

Power products: These include both catalog products and ASSPs that help customers manage power in electronic systems. Our broad portfolio of Power products is designed to enhance the efficiency of powered devices using battery management solutions, portable power conversion devices, power supply controls and point-of-load products.

HPA products: These include catalog analog products that we market to many different customers who use them in manufacturing a wide range of products. HPA products include high-speed data converters, amplifiers, sensors, high reliability products, interface products and precision analog products that are typically used in systems that require high performance. HPA products generally have long life cycles, often more than 10 years.

SVA products: These include a broad portfolio of power management, data converter, interface and operational amplifier catalog analog products used in manufacturing a wide range of products. SVA products support applications like video and data interface products, electrical fault/arc detection systems and mobile lighting and display systems. SVA products generally have long life cycles, often more than 10 years. SVA consists primarily of products that we acquired through our purchase of National Semiconductor Corporation in 2011.

**Embedded Processing**

Embedded Processing products are the “brains” of many electronic devices. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. The devices vary from simple, low-cost products used in electric toothbrushes to highly specialized, complex devices used in wireless basestation communications infrastructure equipment. Our Embedded Processing products are used in many markets, particularly industrial and automotive.

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

Sales of Embedded Processing products generated about 20 percent of our revenue in 2013. According to external sources, the worldwide market for embedded processors was about $17 billion in 2013. Our Embedded Processing segment’s revenue in 2013 was $2.4 billion. This was the number two position and represented about 14 percent of this fragmented market. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Processors, Microcontrollers and Connectivity.

Processor products: These include digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors run an industry-standard operating system and perform multiple complex tasks, often communicating with other systems.

Microcontroller products: Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. Microcontrollers tend to have minimal requirements for memory and program length, with no operating system and low software complexity. Analog components that control or interface with sensors and other systems are often integrated into microcontrollers.

Connectivity products: Connectivity products enable electronic devices to seamlessly connect and transfer data, and the requirements for speed, data capability, distance and power vary depending on the application. Our Connectivity products support many wireless technologies to meet these requirements, including low-power wireless network standards like Zigbee® and other technologies like Bluetooth®, WiFi and GPS. Our Connectivity products are usually designed into customer devices alongside our processor and microcontroller products, enabling data to be collected, transmitted and acted upon.

**Other**

Other includes revenue from our smaller product lines, such as DLP® (primarily used in projectors to create high-definition images), certain custom semiconductors known as application-specific integrated circuits (ASICs) and calculators. It includes royalties received for our patented technology that we license to other electronics companies and revenue from transitional supply agreements related to acquisitions and divestitures. We also include revenue from our baseband products and from our OMAP™ applications processors and connectivity products sold into smartphones and consumer tablets, all of which are product lines that we previously announced we are exiting and are collectively referred to as “legacy wireless products.” Revenue from legacy wireless products declined throughout the year, and our exit from these products is complete. Other generated $2.6 billion of revenue in 2013.

We also include in Other restructuring charges and certain acquisition-related charges, as these charges are not used in evaluating the results of or in allocating resources to our segments. Acquisition-related charges include certain fair-value adjustments, restructuring charges, transaction expenses, acquisition-related retention bonuses and amortization of intangible assets. Other also includes certain corporate-level items, such as litigation expenses, environmental costs, insurance proceeds, and assets and liabilities associated with our centralized operations, such as our worldwide manufacturing, facilities and procurement operations.

Markets for Our Products

The table below lists the major markets that used our products in 2013 and the approximate percentage of our 2013 product revenue that the market represented. The chart also lists the sectors within those markets into which our products were most frequently sold.

| Market | Sectors |
|---|---|
| **Industrial**<br>(24% of product revenue) | Appliances<br>Building automation<br>Display<br>Electronic point of sale<br>Factory automation and control<br>Industrial transportation<br>Lighting<br>Medical/healthcare/fitness<br>Motor drives<br>Smart grid<br>Space/avionics/defense<br>Test and measurement<br>Other (education, toys, musical instruments, etc.) |
| **Automotive**<br>(13% of product revenue) | Advanced driver assistance systems (ADAS)<br>Body<br>Hybrid/electric vehicle and powertrain<br>Infotainment and cluster<br>Passive safety |
| **Personal electronics**<br>(37% of product revenue) | Gaming<br>Mobile phones<br>Personal and notebook computers<br>Printers and other peripherals<br>Storage<br>Tablets<br>TV/set-top box/audio<br>Wearables (non-medical) |
| **Communications equipment**<br>(16% of product revenue) | Enterprise switching<br>Residential gateway<br>Telecom infrastructure<br>Wireless infrastructure |
| **Enterprise systems**<br>(6% of product revenue) | High-performance computing<br>Projectors<br>Servers<br>Thin client |
| **Calculators**<br>(4% of product revenue) | Graphing and educational calculators |

***Market Characteristics***

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing processes. Semiconductor prices and manufacturing costs tend to decline over time as manufacturing processes and product life cycles mature.

Market cycle

The "semiconductor cycle" is an important concept that refers to the ebb and flow of supply and 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. These are typically referred to as upturns and downturns in the semiconductor cycle. The semiconductor cycle is affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

Seasonality

Our revenue is subject to some seasonal variation. Our semiconductor revenue tends to be weaker in the first and fourth quarters when compared to the second and third quarters. Calculator revenue is tied to the U.S. back-to-school season and is therefore at its highest in the second and third quarters.

Competitive landscape

The analog and embedded processing markets are highly fragmented. As a result, we face significant global competition from dozens of large and small companies in each of those markets, including both broad-based suppliers and niche suppliers. Our competitors also include emerging companies, particularly in Asia, that sell products into the same markets in which we operate.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and depth of the sales network, technological innovation, product development execution, technical support, customer service, quality, reliability, price and scale. The primary competitive factors for our Analog products include design proficiency, a diverse product portfolio to meet wide-ranging customer needs, manufacturing process technologies that provide differentiated levels of performance, applications and sales support, and manufacturing expertise and capacity. The primary competitive factors for our Embedded Processing products are the ability to design and cost-effectively manufacture products, system-level knowledge about targeted end markets, installed base of software, software expertise, applications and sales support, and a product's performance, integration and power characteristics.

***Manufacturing***

Semiconductor manufacturing begins with 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, the wafer is cut into individual units and each unit is assembled into a package that then is usually retested. The entire process takes place in highly specialized facilities and requires an average of 12 weeks, with most products completing within 8 to 16 weeks.

The cost and lifespan of the equipment and processes we use to manufacture semiconductors vary by technology. Our Analog products and most of our Embedded Processing products can be manufactured using mature and stable, and therefore less expensive, equipment than is needed for manufacturing advanced logic products, such as some of our processor products.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation. 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, potentially lowering our profit margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, potentially benefiting our profit margins.

We expect to maintain sufficient internal manufacturing capacity to meet the vast majority of our production needs. To supplement our manufacturing capacity and maximize our responsiveness to customer demand and return on capital, we utilize the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2013, we sourced about 20 percent of our total wafers from external foundries and about 35 percent of our assembly/test services from subcontractors.

In 2013, we closed older wafer fabrication facilities in Hiji, Japan, and Houston, Texas. In December 2013, we acquired an assembly/test facility in the Hi-Tech Zone of Chengdu, China, adjacent to our existing fabrication facility in Chengdu.

***Inventory***

Our inventory practices differ by product, but we generally maintain inventory levels that are consistent with our expectations of customer demand. Because of the longer product life cycles of catalog products and their inherently lower risk of obsolescence, we generally carry more inventory of those products than application-specific products. Additionally, we sometimes maintain product inventory in unfinished wafer form, as well as higher finished-goods inventory of low-volume catalog products, allowing greater flexibility in periods of high demand. We also have consignment inventory programs in place for our largest customers and some distributors.

***Design Centers***

Our design centers provide design, engineering and product application support as well as after-sales customer service. The design centers are strategically located around the world to take advantage of key technical and engineering talent and proximity to key customers.

***Customers***

Our products are sold to original equipment manufacturers (OEMs), original design manufacturers (ODMs) and companies within the electronics manufacturing services industry (EMSI). An OEM designs and sells products under its own brand that it manufactures in-house or has manufactured by others. An ODM designs and manufactures products for other companies, which then sell those products under their own brand. EMSI companies manufacture, distribute and provide repair services for electronic products for OEMs. In addition, we sell to customers through distributors. In 2013, no single customer accounted for 10 percent or more of our revenue.

***Sales and Distribution***

We market and sell our semiconductor products through a direct sales force and distributors. We have sales or marketing offices in 34 countries worldwide and have expanded our sales networks in the emerging markets of China, India and Eastern Europe over the last few years. Distributors located around the world account for about 55 percent of our revenue. Our distributors maintain an inventory of our products and sell directly to a wide range of customers. They also sell products from our competitors. Our distribution network holds a mix of distributor-owned and TI-consigned inventory. Over time, we expect this mix will continue to shift more toward consignment. We sell our calculator products primarily through retailers and instructional dealers.

***Acquisitions, Divestitures and Investments***

From time to time we consider acquisitions and divestitures that may strengthen or better focus our business portfolio. We also make investments directly or indirectly in private companies. Investments are focused primarily on next-generation technologies and markets strategic to us. In September 2011, we acquired National Semiconductor Corporation.

***Backlog***

We define backlog as of a particular date as firm purchase orders with a customer-requested delivery date within a specified length of time. As customer requirements and industry conditions change, orders may be, under certain circumstances, subject to cancellation or modification of terms such as pricing, quantity or delivery date. Customer order placement practices continually evolve based on customers’ individual business needs and capabilities, as well as industry supply and capacity considerations. Accordingly, our backlog at any particular date may not be indicative of revenue for any future period. Our backlog of orders was $1.06 billion at December 31, 2013, and $1.17 billion at December 31, 2012.

*Raw Materials*

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

*Intellectual Property*

We own many patents, and have many patent applications pending, in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and continually add patents to that portfolio. We also have agreements with numerous companies involving license rights and anticipate that other license agreements may be negotiated in the future. In general, our license agreements have multi-year terms and may be renewed after renegotiation.

Our semiconductor patent portfolio is an ongoing contributor to our revenue. We do not consider our business materially dependent upon any one patent or patent license, although taken as a whole, our rights and the products made and sold under patents and patent licenses are important to our business.

We often participate in industry initiatives to set technical standards. Our competitors may participate in the same initiatives. Participation in these initiatives may require us to license certain of our patents to other companies on reasonable and non-discriminatory terms.

We own trademarks that are used in the conduct of our business. These trademarks are valuable assets, the most important of which are “Texas Instruments” and our corporate monogram. Other valuable trademarks include DLP® and OMAP™.

*Research and Development*

Our R&D expense was $1.52 billion in 2013, compared with $1.88 billion in 2012 and $1.72 billion in 2011. Our primary areas of R&D investment are Analog and Embedded Processing products.

We conduct most of our R&D internally. However, we also closely engage with a wide range of third parties, including software suppliers, universities and select external industry consortia, and we collaborate with our foundry suppliers on semiconductor manufacturing technology.

From time to time we may terminate R&D projects before completion or decide not to manufacture and sell a developed product. We do not expect that all of our R&D projects will result in products that are ultimately released for sale, or that our projects will contribute significant revenue until at least a few years following completion.

***Executive Officers of the Registrant***

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

| Name | Age | Position |
|---|---|---|
| Niels Anderskouv | 44 | Senior Vice President |
| Stephen A. Anderson | 52 | Senior Vice President |
| Brian T. Crutcher | 41 | Senior Vice President |
| R. Gregory Delagi | 51 | Senior Vice President |
| David K. Heacock | 53 | Senior Vice President |
| Joseph F. Hubach | 56 | Senior Vice President, Secretary and General Counsel |
| Sami Kiriaki | 53 | Senior Vice President |
| Kevin P. March | 56 | Senior Vice President and Chief Financial Officer |
| Robert K. Novak | 48 | Senior Vice President |
| Kevin J. Ritchie | 57 | Senior Vice President |
| John J. Szczsponik, Jr. | 53 | Senior Vice President |
| Richard K. Templeton | 55 | Director; Chairman of the Board; President and Chief Executive Officer |
| Teresa L. West | 53 | Senior Vice President |
| Darla H. Whitaker | 48 | Senior Vice President |

The term of office of the above-listed officers is from the date of their election until their successor shall have been elected and qualified. All executive officers of the company have been employees of the company for more than five years. Mses. West and Whitaker and Messrs. Anderson, Delagi, Heacock, Hubach, March, Novak, Ritchie and Templeton have served as executive officers of the company for more than five years. Mr. Szczsponik became an executive officer of the company in 2009. Messrs. Crutcher and Kiriaki became executive officers of the company in 2010. Mr. Anderskouv became an executive officer of the company in 2012.

***Employees***

At December 31, 2013, we had 32,209 employees.

***Available Information***

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

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

**ITEM 1A. Risk Factors.**

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

community’s expectations, changes in our and/or the investment community’s expectations for our future results and other factors, many of which are beyond our control.

Cyclicality in the Semiconductor Market May Affect Our Performance.

Semiconductor products are the principal source of our revenue. The semiconductor market historically has been cyclical and subject to significant and often rapid increases and decreases in product demand. These changes could have adverse effects on our results of operations, and on the market price of our securities. The results of our operations may be adversely affected in the future if demand for our semiconductors decreases or if this market or key end-equipment markets grow at a significantly slower pace than management expects.

Our Margins May Vary over Time.

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

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

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

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

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

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

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

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

We benefit from royalty revenue generated from various patent license agreements. The amount of such revenue depends in part on negotiations with new licensees, and with existing licensees in connection with renewals of their licenses. There is no guarantee that such negotiations will be successful. Future royalty revenue also depends on the strength and enforceability of our patent portfolio and our enforcement efforts, and on the sales and financial stability of our licensees. Additionally,

consolidation of our licensees may negatively affect our royalty revenue. Royalty revenue from licensees is not always uniform or predictable, in part due to the performance of our licensees and in part due to the timing of new license agreements or the expiration and renewal of existing agreements.

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

Our customer base includes companies in a wide range of markets, but we generate a significant amount of revenue from sales to customers in the personal electronics market, particularly the mobile phone sector, and from sales to industrial customers. Decline in one of these markets could have a material adverse effect on the demand for our products and our results of operations and financial condition.

Our Global Operations Subject Us to Complex Laws, Regulations and Policies and Risks Associated with International Political, Economic or Other Conditions.

We have facilities in 35 countries worldwide. About 85 percent of our revenue comes from shipments to locations outside the United States; in particular, shipments of products into China typically represent a large portion of our revenue. Our global operations subject us to complex U.S. and foreign laws, regulations and policies relating to, for example, trade and export controls, anti-bribery, antitrust and privacy. Violations of or changes in these laws, regulations and policies could result in fines, penalties, and sanctions that could adversely affect our results of operations. Operating internationally also exposes us to political and economic conditions, security risks, health conditions and possible disruptions in transportation, communications and information technology networks of the various countries in which we operate. Any of these could result in an adverse effect on our business operations and our financial results. Additionally, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

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

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

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

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

Our Results of Operations Could be Adversely Affected by Our Distributors' Promotion of Competing Product Lines or Our Distributors' Financial Performance.

In 2013, about 55 percent of our revenue was generated from sales of our products to distributors. Our distributors carry competing product lines, and our sales could be affected if our distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us.

Our Results of Operations and Financial Condition Could be Adversely Affected if a Customer or a Distributor Suffers a Loss with Respect to Our Inventory.

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

Incorrect Forecasts of Customer Demand Could Adversely Affect Our Results of Operations.

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

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

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

Our inability to timely implement new manufacturing technologies or install manufacturing equipment could adversely affect our results of operations. We subcontract a portion of our wafer fabrication and assembly and testing of our integrated circuits. We also depend on third parties to provide advanced logic manufacturing process technology development. A limited number of third parties perform these functions, and we do not have long-term contracts with all of them. Reliance on these third parties involves risks, including possible shortages of capacity in periods of high demand, the third parties' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost effective and appropriate manner and the possibility of third parties imposing increased costs on us.

Our Results of Operations Could be Affected by Changes in Tax-Related Matters.

We have facilities in 35 countries worldwide and as a result are subject to taxation and audit by a number of taxing authorities. Tax rates vary among the jurisdictions in which we operate. Our results of operations could be affected by market opportunities or decisions we make that cause us to increase or decrease operations in one or more countries, or by changes in applicable tax rates or audits by the taxing authorities in countries in which we operate.

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

Our Operations Could be Affected by Changes in Environmental, Safety and Health Laws and Regulations.

We are subject to environmental, safety and health laws and regulations in the jurisdictions in which we operate our business, particularly those in which we manufacture our products. If we fail to comply with these laws and regulations, we could be subject to fines, penalties or other legal liability. Furthermore, should these laws and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business, particularly if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, or of materials or gases used or emitted into the environment, in connection with the manufacture of our products. There can be no assurance that in all instances a substitute for a prohibited raw material or process would be available, or be available at reasonable cost.

Our Results of Operations Could be Affected by Changes in the Financial Markets.

We maintain bank accounts, one or more multi-year revolving credit agreements, and a portfolio of investments to support the financing needs of the company. Our ability to fund our daily operations, invest in our business, make strategic acquisitions and service our debt obligations requires continuous access to our bank and investment accounts, as well as access to our bank credit lines that support commercial paper borrowings and provide additional liquidity through short-term bank loans. If we are unable to access these accounts and credit lines (for example, due to instability in the financial markets), our results of

operations and financial condition could be adversely affected. Similarly, such circumstances could also restrict our ability to access the capital markets or redeem our investments. If our customers or suppliers are unable to access credit markets and other sources of needed liquidity, we may receive fewer customer orders or be unable to obtain needed supplies, collect accounts receivable or access needed technology.

Material Impairments of Our Goodwill or Intangible Assets Could Adversely Affect Our Results of Operations.

Charges associated with impairments of our goodwill or intangible assets could adversely affect our financial condition and results of operations. Goodwill is reviewed for impairment annually or more frequently if certain impairment indicators arise or upon the disposition of a significant portion of a reporting unit. The review compares the fair value for each reporting unit to its associated book value including goodwill. A decrease in the fair value associated with a reporting unit resulting from, among other things, unfavorable changes in the estimated future discounted cash flow of the reporting unit, may require us to recognize impairments of goodwill. Most of our intangible assets are amortized over their estimated useful lives, but they are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the use of the intangible asset and its eventual disposition is less than the carrying amount of the asset, we would recognize an impairment loss to the extent the carrying amount of the asset exceeds its fair value.

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

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

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

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

Our Debt Could Affect Our Operations and Financial Condition.

From time to time, we issue debt securities with various interest rates and maturities. While we believe we will have the ability to service this debt, our ability to make principal and interest payments when due depends upon our future performance, which will be subject to general economic conditions, industry cycles, and business and other factors affecting our operations, including the other risk factors described under Item 1A, many of which are beyond our control. In addition, our obligation to make principal and interest payments could divert funds that otherwise would be invested in our operations, or cause us to raise funds through such means as the issuance of new debt or equity, or the disposition of assets.

Our Ability to Successfully Implement Business and Organizational Changes Could Affect Our Business Plans and Results of Operations.

From time to time, we undertake business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our strategic objectives. Our failure to successfully implement these changes could adversely affect our business plans and operating results. For example, we may not realize the expected benefits of an acquisition if we are unable to timely and successfully integrate acquired operations, product lines and technology, and our pre-acquisition due diligence may not identify all possible issues and risks that might arise with respect to an acquisition. Further, we may not achieve or sustain the expected growth or cost savings benefits of business and organizational changes, and restructuring charges could differ materially in amount and timing from our expectations.

Our Operating Results and Our Reputation Could be Adversely Affected by Breaches of Our Information Technology Systems.

Breaches of our information technology systems caused by computer viruses, unauthorized access, sabotage, vandalism or terrorism could compromise our information technology networks and result in unauthorized release of our, our customers' or our suppliers' confidential or proprietary information, cause a disruption to our manufacturing and other operations, result in release of employee personal data, or cause us to incur increased information technology protection costs, any of which could adversely affect our operating results and our reputation.

**ITEM 1B. Unresolved Staff Comments.**

Not applicable.

**ITEM 2. Properties.**

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

| | Analog | Embedded Processing |
|---|---|---|
| Dallas, Texas | X | X |
| Sherman, Texas | X | |
| Houston, Texas | | X |
| Tucson, Arizona[1] | X | |
| Santa Clara, California | X | |
| South Portland, Maine | X | |
| Aguascalientes, Mexico[1] | X | |
| Aizu, Japan | X | X |
| Miho, Japan | X | X |
| Tokyo, Japan[1] | X | |
| Chengdu, China[2] | X | |
| Shanghai, China[1] | X | X |
| Bangalore, India[2] | X | X |
| Kuala Lumpur, Malaysia[2] | X | X |
| Melaka, Malaysia[2] | X | |
| Baguio, Philippines[2] | X | X |
| Pampanga (Clark), Philippines[2] | X | X |
| Taipei, Taiwan[2] | X | X |
| Freising, Germany | X | X |
| Greenock, Scotland | X | |

(1) Leased.

(2) Portions of the facilities are leased and owned. This may include land leases, particularly for our non-U.S. sites.

Our facilities in the United States contained approximately 15.6 million square feet at December 31, 2013, of which approximately 0.8 million square feet were leased. Our facilities outside the United States contained approximately 11.4 million square feet at December 31, 2013, of which approximately 2.0 million square feet were leased.

At the end of 2013, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates generally within the next 5 years. We believe our current properties are suitable and adequate for both their intended purpose and our current and foreseeable future needs.

**ITEM 3. Legal Proceedings.**

We are involved in various inquiries and proceedings regarding laws and regulations related to the protection of the environment. These matters involve various parties, including government agencies and, in certain cases, other potentially responsible parties. Although the factual situations and the progress of each of these matters differ, we believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

The Internal Revenue Code requires that companies disclose in their Form 10-K whether they have been required to pay penalties to the Internal Revenue Service for certain transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose. We have not been required to pay any such penalties.

**ITEM 4. Mine Safety Disclosures.**

Not applicable.

## PART II

**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The information contained under the caption "Common stock prices and dividends" in our 2013 annual report to stockholders, and the information concerning the number of stockholders of record at December 31, 2013, contained under the caption "Summary of selected financial data" in such annual report are incorporated herein by reference to such annual report.

The following table shows our repurchases of our common stock in the fourth quarter of 2013:

**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] |
|---|---|---|---|---|
| October 1, 2013 through October 31, 2013 | 9,436,100 | $ 40.32 | 9,436,100 | $ 6.36 billion |
| November 1, 2013 through November 30, 2013 | 6,320,600 | $ 42.23 | 6,320,600 | $ 6.09 billion |
| December 1, 2013 through December 31, 2013 | 2,011,898 | $ 43.03 | 2,011,898 | $ 6.00 billion |
| Total | 17,768,598 [2] | $ 41.31 | 17,768,598 [2] | $ 6.00 billion [3] |

[1] All purchases during the quarter were made under the authorization from our board of directors to purchase up to $7.5 billion of additional shares of TI common stock announced on September 16, 2010. On February 21, 2013, our Board of Directors authorized the purchase of an additional $5.0 billion of our common stock. No expiration date has been specified for these authorizations.

[2] All purchases during the quarter were open-market purchases.

[3] As of December 31, 2013, this amount consisted of the remaining portion of the $7.5 billion authorization authorized in September 2010 and the $5.0 billion authorized in February 2013.

**ITEM 6. Selected Financial Data.**

The information contained under the caption "Summary of selected financial data" for the years 2009 through 2013 in our 2013 annual report to stockholders, is incorporated herein by reference to such annual report.

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The information contained under the caption "Management's discussion and analysis of financial condition and results of operations" in our 2013 annual report to stockholders is incorporated herein by reference to such annual report.

**ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.**

The information contained under the caption "Quantitative and qualitative disclosures about market risk" in our 2013 annual report to stockholders is incorporated herein by reference to such annual report.

**ITEM 8. Financial Statements and Supplementary Data.**

The consolidated financial statements of the company at December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, and the report thereon of the independent registered public accounting firm, on pages 1 through 37 of our 2013 annual report to stockholders, are incorporated herein by reference to such annual report.

The information contained under the caption "Quarterly financial data" in our 2013 annual report to stockholders is also incorporated herein by reference to such annual report.

**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**ITEM 9A. Controls and Procedures.**

Disclosure Controls and Procedures

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of TI's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of TI's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Management's assessment of our internal control over financial reporting is contained under the caption "Report by management on internal control over financial reporting" in our 2013 annual report to stockholders and is incorporated herein by reference to such annual report.

The information contained under the caption "Report of independent registered public accounting firm on internal control over financial reporting" in our 2013 annual report to stockholders is incorporated herein by reference to such annual report.

**ITEM 9B. Other Information.**

Not applicable.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance.**

The information with respect to directors' names, ages, positions, term of office and periods of service, which is contained under the caption "Election of directors" in our proxy statement for the 2014 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

The information with respect to directors' business experience, which is contained under the caption "Board diversity and nominee qualifications" in our proxy statement for the 2014 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

The information with respect to Section 16(a) beneficial ownership reporting compliance contained under the caption of the same name in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

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

Code of Ethics

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

Audit Committee

The information contained under the caption “Committees of the board” with respect to the audit committee and the audit committee financial expert in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

**ITEM 11. Executive Compensation.**

The information contained under the captions “Director compensation” and “Executive compensation” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

The information contained under the caption “Compensation committee interlocks and insider participation” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Equity Compensation Plan Information

The information contained under the caption “Equity compensation plan information” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

Security Ownership of Certain Beneficial Owners and Management

The information that is contained under the captions “Security ownership of certain beneficial owners” and “Security ownership of directors and management” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence.**

The information contained under the caption “Related person transactions” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

The information contained under the caption “Director independence” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

**ITEM 14. Principal Accountant Fees and Services.**

The information with respect to principal accountant fees and services contained under the caption “Proposal to ratify appointment of independent registered public accounting firm” in our proxy statement for the 2014 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules.**

(a) 1 and 2. Financial Statements and Financial Statement Schedules:

The financial statements are listed in the index on page 25 hereof.

3. Exhibits

| Designation of Exhibit in this Report | Description of Exhibit |
|---|---|
| 3(a) | Restated Certificate of Incorporation of the Registrant, dated April 18, 1985 (incorporated by reference to Exhibit 3(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(b) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant, dated April 16, 1987 (incorporated by reference to Exhibit 3(b) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(c) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant, dated April 21, 1988 (incorporated by reference to Exhibit 3(c) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(d) | Certificate of Amendment to Restated Certificate of Incorporation of the Registrant, dated April 18, 1996 (incorporated by reference to Exhibit 3(d) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(e) | Certificate of Ownership merging Texas Instruments Automation Controls, Inc. into the Registrant, dated March 28, 1988 (incorporated by reference to Exhibit 3(e) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(f) | Certificate of Elimination of Designations of Preferred Stock of the Registrant, dated March 18, 1994 (incorporated by reference to Exhibit 3(f) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(g) | Certificate of Ownership and Merger merging Tiburon Systems, Inc. into the Registrant, dated November 2, 1995 (incorporated by reference to Exhibit 3(g) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(h) | Certificate of Ownership and Merger merging Tartan, Inc. into the Registrant, dated June 21, 1995 (incorporated by reference to Exhibit 3(h) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(i) | Certificate of Designation relating to the Registrant's Participating Cumulative Preferred Stock, dated June 23, 1998 (incorporated by reference to Exhibit 3(i) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(j) | Certificate of Elimination of Designation of Preferred Stock of the Registrant, dated June 18, 1998 (incorporated by reference to Exhibit 3(j) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(k) | Certificate of Ownership and Merger merging Intersect Technologies, Inc. with and into the Registrant, dated July 15, 1999 (incorporated by reference to Exhibit 3(k) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(l) | Certificate of Ownership and Merger merging Soft Warehouse, Inc. with and into the Registrant, dated September 23, 1999 (incorporated by reference to Exhibit 3(l) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(m) | Certificate of Ownership and Merger merging Silicon Systems, Inc. with and into the Registrant, dated December 17, 1999 (incorporated by reference to Exhibit 3(m) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(n) | Certificate of Amendment to Restated Certificate of Incorporation, dated April 20, 2000 (incorporated by reference to Exhibit 3(n) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(o) | Certificate of Ownership and Merger merging Power Trends, Inc. with and into the Registrant, dated May 31, 2001 (incorporated by reference to Exhibit 3(o) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(p) | Certificate of Ownership and Merger merging Amati Communications Corporation with and into the Registrant, dated September 28, 2001 (incorporated by reference to Exhibit 3(p) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(q) | Certificate of Ownership and Merger merging Texas Instruments San Diego Incorporated with and into the Registrant, dated August 27, 2002 (incorporated by reference to Exhibit 3(q) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |

| Designation of Exhibit in this Report | Description of Exhibit |
|---|---|
| 3(r) | Certificate of Ownership and Merger merging Texas Instruments Burlington Incorporated with and into the Registrant, dated December 31, 2003 (incorporated by reference to Exhibit 3(r) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(s) | Certificate of Ownership and Merger merging Texas Instruments Automotive Sensors and Controls San Jose Inc. with and into the Registrant, dated October 31, 2004 (incorporated by reference to Exhibit 3(s) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 3(t) | Certificate of Elimination of Series B Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K filed June 23, 2008). |
| 3(u) | By-Laws of the Registrant (incorporated by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K filed July 18, 2008). |
| 4(a) | Underwriting Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed May 23, 2011). |
| 4(b) | Indenture (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed May 23, 2011). |
| 4(c) | Officer's Certificate (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed May 23, 2011). |
| 4(d) | Officer’s Certificate setting forth the terms of the Notes (incorporated by reference to Exhibit 4.2 of the Registrant’s Report on Form 8-K filed July 18, 2008). |
| 10(a)(i) | TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a) to the Registrant's Current Report on Form 8-K filed January 7, 2009).[a] |
| 10(a)(ii) | Amendment No. 1 to the TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(ii) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).[a] |
| 10(a)(iii) | Amendment No. 2 to the TI Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).[a] |
| 10(b)(i) | TI Employees Non-Qualified Pension Plan (formerly named the TI Employees Supplemental Pension Plan), effective January 1, 1998 (incorporated by reference to Exhibit 10(b)(i) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |
| 10(b)(ii) | First Amendment to TI Employees Non-Qualified Pension Plan (formerly named the TI Supplemental Pension Plan), effective January 1, 2000 (incorporated by reference to Exhibit 10(b)(ii) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |
| 10(b)(iii) | Second Amendment to TI Employees Non-Qualified Pension Plan (formerly named the TI Supplemental Pension Plan), dated June 21, 2002 (incorporated by reference to Exhibit 10(b)(iii) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |
| 10(b)(iv) | Third Amendment to TI Employees Non-Qualified Pension Plan (formerly named the TI Supplemental Pension Plan), dated July 16, 2002 (incorporated by reference to Exhibit 10 (b)(iv) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |
| 10(b)(v) | Fourth Amendment to TI Employees Non-Qualified Pension Plan (formerly named the TI Supplemental Pension Plan), dated November 21, 2003 (incorporated by reference to Exhibit 10(b)(v) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |
| 10(b)(vi) | TI Employees Non-Qualified Pension Plan II (incorporated by reference to Exhibit 10(b) to the Registrant's Current Report on Form 8-K filed January 7, 2009).[a] |
| 10(c) | Texas Instruments Long-Term Incentive Plan, adopted April 15, 1993 (incorporated by reference to Exhibit 10(c) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |
| 10(d) | Texas Instruments 1996 Long-Term Incentive Plan, adopted April 18, 1996 (incorporated by reference to Exhibit 10(d) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011).[a] |

| Designation of Exhibit in this Report | Description of Exhibit |
|---|---|
| 10(e) | Texas Instruments 2000 Long-Term Incentive Plan as amended October 16, 2008 (incorporated by reference to Exhibit 10(e) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).[(a)] |
| 10(f) | Texas Instruments 2003 Long-Term Incentive Plan as amended October 16, 2008 (incorporated by reference to Exhibit 10(f) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 10(g) | Texas Instruments Executive Officer Performance Plan as amended September 17, 2009 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009).[(a)] |
| 10(h) | Texas Instruments Restricted Stock Unit Plan for Directors, as amended, dated April 16, 1998 (incorporated by reference to Exhibit 10(h) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 10(i) | Texas Instruments Directors Deferred Compensation Plan, as amended, dated April 16, 1998 (incorporated by reference to Exhibit 10(i) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 10(j) | Texas Instruments Stock Option Plan for Non-Employee Directors, as amended, dated November 30, 2000 (incorporated by reference to Exhibit 10(j) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011). |
| 10(k) | Texas Instruments 2003 Director Compensation Plan as amended October 16, 2008 (incorporated by reference to Exhibit 10(k) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008). |
| 10(l) | Form of Stock Option Agreement for Executive Officers under the Texas Instruments 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 10(l) to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2012).[(a)] |
| 10(m) | Form of Restricted Stock Unit Agreement under the Texas Instruments 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 10(m) to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2012).[(a)] |
| 10(n) | Texas Instruments 2009 Long-Term Incentive Plan as amended September 17, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009). |
| 10(o) | Texas Instruments 2009 Director Compensation Plan as amended December 2, 2010 (incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K filed December 7, 2010). |
| 10(p) | Agreement and Plan of Merger (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed April 4, 2011). |
| 12 | Ratio of Earnings to Fixed Charges[(b)] |
| 13 | Portions of Registrant's 2013 Annual Report to Stockholders incorporated by reference herein.[(b)] |
| 21 | List of Subsidiaries of the Registrant.[(b)] |
| 23 | Consent of Independent Registered Public Accounting Firm.[(b)] |
| 31(a) | Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer.[(b)] |
| 31(b) | Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer.[(b)] |
| 32(a) | Section 1350 Certification of Chief Executive Officer.[(b)] |
| 32(b) | Section 1350 Certification of Chief Financial Officer.[(b)] |
| 101.ins | Instance Document |
| 101.sch | XBRL Taxonomy Schema |
| 101.cal | XBRL Taxonomy Calculation Linkbase |
| 101.Def | XBRL Taxonomy Definitions Document |
| 101.lab | XBRL Taxonomy Labels Linkbase |
| 101.pre | XBRL Taxonomy Presentation Linkbase |

(a) Management compensation plans and arrangements.
(b) Filed or furnished herewith.

“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 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 its management:

- Market demand for semiconductors, particularly in markets such as personal electronics, especially the mobile phone sector, and industrial;
- 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;
- Violations of or changes in the complex laws, regulations and policies to which our global operations are subject, and 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, communications and information technology 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;
- Changes in laws and regulations to which TI or its suppliers are or may become subject, such as those imposing fees or reporting or substitution costs relating to the discharge of emissions into the environment or the use of certain raw materials in our manufacturing processes;
- Losses or curtailments of purchases from key customers and the timing and amount of distributor and other customer inventory adjustments;
- Financial difficulties of our distributors or their promotion of competing product lines to TI’s detriment;
- A loss suffered by a customer or distributor of TI with respect to TI-consigned inventory;
- Customer demand that differs from our forecasts;
- The financial impact of inadequate or excess TI inventory that results from demand that differs from projections;
- Impairments of our non-financial assets;

- 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;
- Timely implementation of new manufacturing technologies and installation of manufacturing equipment, and the ability to obtain needed third-party foundry and assembly/test subcontract services;
- TI’s obligation to make principal and interest payments on its debt;
- TI’s ability to successfully integrate and realize opportunities for growth from acquisitions, and our ability to realize our expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Breaches of our information technology systems.

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

SIGNATURE

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

TEXAS INSTRUMENTS INCORPORATED

By: /s/ Kevin P. March

**Kevin P. March**
**Senior Vice President,**
**Chief Financial Officer**
**and Chief Accounting Officer**

Date: February 24, 2014

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Kevin P. March and Joseph F. Hubach, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2013, to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 24th day of February 2014.

| Signature | Title |
|---|---|
| /s/ Ralph W. Babb, Jr.<br>**Ralph W. Babb, Jr.** | Director |
| /s/ Mark A. Blinn<br>**Mark A. Blinn** | Director |
| /s/ Daniel A. Carp<br>**Daniel A. Carp** | Director |
| /s/ Carrie S. Cox<br>**Carrie S. Cox** | Director |
| /s/ Ronald Kirk<br>**Ronald Kirk** | Director |
| /s/ Pamela H. Patsley<br>**Pamela H. Patsley** | Director |
| /s/ Robert E. Sanchez<br>**Robert E. Sanchez** | Director |
| /s/ Wayne R. Sanders<br>**Wayne R. Sanders** | Director |
| /s/ Ruth J. Simmons<br>**Ruth J. Simmons** | Director |
| /s/ Richard K. Templeton<br>**Richard K. Templeton** | Chairman of the Board; Director; President and Chief Executive Officer |
| /s/ Christine Todd Whitman<br>**Christine Todd Whitman** | Director |
| /s/ Kevin P. March<br>**Kevin P. March** | Senior Vice President; Chief Financial Officer; Chief Accounting Officer |

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS
(Item 15(a))


| | **Page Reference to Portions of Annual Report as Set Forth in Exhibit 13** |
|---|---|
| Information incorporated by reference to the Registrant's 2013 annual report to stockholders (items below included herein as Exhibit 13) | |
| Consolidated financial statements: | |
| Income for each of the three years in the period ended December 31, 2013 | 1 |
| Comprehensive income for each of the three years in the period ended December 31, 2013 | 2 |
| Balance sheets at December 31, 2013 and 2012 | 3 |
| Cash flows for each of the three years in the period ended December 31, 2013 | 4 |
| Stockholders' equity for each of the three years in the period ended December 31, 2013 | 5 |
| Notes to financial statements | 6 |
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| Report of independent registered public accounting firm on internal control over financial reporting | 39 |


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

Exhibit 12

Texas Instruments Incorporated and Subsidiaries
Computation of Ratio of Earnings to Fixed Charges
(Millions of dollars)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| EARNINGS: | | | | | |
| Income from continuing operations before income tax | **$ 2,754** | $ 1,935 | $ 2,955 | $ 4,551 | $ 2,017 |
| Equity method investments (gains) and losses | **(6)** | (17) | (5) | (1) | 4 |
| Add: | | | | | |
| Fixed charges (from below) | **105** | 99 | 54 | 15 | 16 |
| Amortization of capitalized interest | **2** | 2 | 3 | 4 | 4 |
| Distributed income from equity investees | **11** | 16 | 11 | 1 | 5 |
| Total earnings | **$ 2,866** | $ 2,035 | $ 3,018 | $ 4,570 | $ 2,046 |
| FIXED CHARGES: | | | | | |
| Total gross interest on debt (expensed) (a) | **$ 104** | $ 104 | $ 48 | $ — | $ — |
| Amortization of debt premium and debt issuance costs | **(9)** | (18) | (6) | — | — |
| Estimated interest element of rental and lease expense | **10** | 13 | 12 | 15 | 16 |
| Total fixed charges | **$ 105** | $ 99 | $ 54 | $ 15 | $ 16 |
| Ratio of earnings to fixed charges | **27.3** | 20.6 | 55.9 | 304.8 | 127.9 |

(a) Capitalized interest was immaterial for 2013, 2012 and 2011.

| Consolidated Statements of Income | For Years Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| **[Millions of dollars, except share and per-share amounts]** | | | |
| Revenue | **$ 12,205** | $ 12,825 | $ 13,735 |
| Cost of revenue (COR) | **5,841** | 6,457 | 6,963 |
| Gross profit | **6,364** | 6,368 | 6,772 |
| Research and development (R&D) | **1,522** | 1,877 | 1,715 |
| Selling, general and administrative (SG&A) | **1,858** | 1,804 | 1,638 |
| Acquisition charges | **341** | 450 | 315 |
| Restructuring charges/other | **(189)** | 264 | 112 |
| Operating profit | **2,832** | 1,973 | 2,992 |
| Other income (expense), net (OI&E) | **17** | 47 | 5 |
| Interest and debt expense | **95** | 85 | 42 |
| Income before income taxes | **2,754** | 1,935 | 2,955 |
| Provision for income taxes | **592** | 176 | 719 |
| Net income | **$ 2,162** | $ 1,759 | $ 2,236 |
| | | | |
| Earnings per common share: | | | |
| Basic | **$ 1.94** | $ 1.53 | $ 1.91 |
| Diluted | **$ 1.91** | $ 1.51 | $ 1.88 |
| | | | |
| Average shares outstanding (millions): | | | |
| Basic | **1,098** | 1,132 | 1,151 |
| Diluted | **1,113** | 1,146 | 1,171 |
| | | | |
| Cash dividends declared per share of common stock | **$ 1.07** | $ 0.72 | $ 0.56 |

See accompanying notes.

| Consolidated Statements of Comprehensive Income | For Years Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| **[Millions of dollars]** | | | |
| Net income | **$ 2,162** | $ 1,759 | $ 2,236 |
| Other comprehensive income (loss): | | | |
| Available-for-sale investments: | | | |
| Unrealized gains (losses), net of tax benefit (expense) of $0, ($1) and $1 | **—** | 3 | (2) |
| Reclassification to Net income, net of tax benefit (expense) of $0, $0 and ($7) | **—** | — | 12 |
| Net actuarial gains (losses) of defined benefit plans: | | | |
| Adjustment, net of tax benefit (expense) of ($60), $29 and $65 | **105** | (81) | (124) |
| Reclassification to Net income, net of tax benefit (expense) of ($37), ($104) and ($28) | **71** | 160 | 48 |
| Prior service cost of defined benefit plans: | | | |
| Adjustment, net of tax benefit (expense) of $1, $1 and $5 | **(3)** | (2) | (9) |
| Reclassification to Net income, net of tax benefit (expense) of $2, $0 and ($1) | **(3)** | — | 2 |
| Derivative instrument: | | | |
| Change in fair value, net of tax benefit (expense) of $0, $1 and $1 | **—** | (3) | (2) |
| Reclassification to Net income, net of tax benefit (expense) of ($1), $0 and $0 | **1** | — | — |
| Other comprehensive income (loss), net of taxes | **171** | 77 | (75) |
| Total comprehensive income | **$ 2,333** | $ 1,836 | $ 2,161 |

See accompanying notes.

| Consolidated Balance Sheets | December 31, 2013 | 2012 |
|---|---|---|
| [Millions of dollars, except share amounts] | | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ **1,627** | $ 1,416 |
| Short-term investments | **2,202** | 2,549 |
| Accounts receivable, net of allowances of ($22) and ($31) | **1,203** | 1,230 |
| Raw materials | **102** | 116 |
| Work in process | **919** | 935 |
| Finished goods | **710** | 706 |
| Inventories | **1,731** | 1,757 |
| Deferred income taxes | **393** | 473 |
| Prepaid expenses and other current assets | **863** | 805 |
| Total current assets | **8,019** | 8,230 |
| Property, plant and equipment at cost | **6,556** | 6,891 |
| Accumulated depreciation | **(3,157)** | (2,979) |
| Property, plant and equipment, net | **3,399** | 3,912 |
| Long-term investments | **216** | 215 |
| Goodwill, net | **4,362** | 4,362 |
| Acquisition-related intangibles, net | **2,223** | 2,558 |
| Deferred income taxes | **207** | 280 |
| Capitalized software licenses, net | **118** | 142 |
| Overfunded retirement plans | **130** | 68 |
| Other assets | **264** | 254 |
| Total assets | $ **18,938** | $ 20,021 |
| | | |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ **1,000** | $ 1,500 |
| Accounts payable | **422** | 444 |
| Accrued compensation | **554** | 524 |
| Income taxes payable | **119** | 79 |
| Deferred income taxes | **1** | 2 |
| Accrued expenses and other liabilities | **651** | 881 |
| Total current liabilities | **2,747** | 3,430 |
| Long-term debt | **4,158** | 4,186 |
| Underfunded retirement plans | **216** | 269 |
| Deferred income taxes | **548** | 572 |
| Deferred credits and other liabilities | **462** | 603 |
| Total liabilities | **8,131** | 9,060 |
| Stockholders' equity: | | |
| Preferred stock, $25 par value. Authorized – 10,000,000 shares. Participating cumulative preferred. None issued. | **—** | — |
| Common stock, $1 par value. Authorized – 2,400,000,000 shares. Shares issued: 1,740,815,939 | **1,741** | 1,741 |
| Paid-in capital | **1,211** | 1,176 |
| Retained earnings | **28,173** | 27,205 |
| Treasury common stock at cost. Shares: 2013 – 658,012,970; 2012 – 632,636,970 | **(19,790)** | (18,462) |
| Accumulated other comprehensive income (loss), net of taxes | **(528)** | (699) |
| Total stockholders' equity | **10,807** | 10,961 |
| Total liabilities and stockholders' equity | $ **18,938** | $ 20,021 |

See accompanying notes.

| Consolidated Statements of Cash Flows | For Years Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| **[Millions of dollars]** | | | |
| Cash flows from operating activities: | | | |
| Net income | **$ 2,162** | $ 1,759 | $ 2,236 |
| Adjustments to Net income: | | | |
| Depreciation | **879** | 957 | 904 |
| Amortization of acquisition-related intangibles | **336** | 342 | 111 |
| Amortization of capitalized software | **82** | 102 | 93 |
| Stock-based compensation | **287** | 263 | 269 |
| Gain on sales of assets | **(6)** | — | (5) |
| Deferred income taxes | **50** | 130 | 55 |
| Gain on transfer of Japan substitutional pension | **—** | (144) | — |
| Increase (decrease) from changes in: | | | |
| Accounts receivable | **16** | 311 | 112 |
| Inventories | **26** | 5 | (17) |
| Prepaid expenses and other current assets | **(136)** | 162 | (203) |
| Accounts payable and accrued expenses | **(284)** | 99 | 2 |
| Accrued compensation | **18** | (82) | (77) |
| Income taxes payable | **78** | (229) | (85) |
| Changes in funded status of retirement plans | **28** | (198) | (7) |
| Other | **(152)** | (63) | (132) |
| Cash flows from operating activities | **3,384** | 3,414 | 3,256 |
| | | | |
| Cash flows from investing activities: | | | |
| Capital expenditures | **(412)** | (495) | (816) |
| Proceeds from asset sales and insurance recovery | **21** | — | 16 |
| Purchases of short-term investments | **(3,907)** | (2,802) | (3,653) |
| Proceeds from short-term investments | **4,249** | 2,198 | 3,555 |
| Business acquisitions, net of cash acquired | **—** | — | (5,425) |
| Other | **46** | 60 | 151 |
| Cash flows from investing activities | **(3)** | (1,039) | (6,172) |
| | | | |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt and commercial paper borrowings | **986** | 1,492 | 4,697 |
| Repayment of debt and commercial paper borrowings | **(1,500)** | (1,375) | (200) |
| Dividends paid | **(1,175)** | (819) | (644) |
| Stock repurchases | **(2,868)** | (1,800) | (1,973) |
| Proceeds from common stock transactions | **1,314** | 523 | 690 |
| Excess tax benefit from share-based payments | **80** | 38 | 31 |
| Other | **(7)** | (10) | (12) |
| Cash flows from financing activities | **(3,170)** | (1,951) | 2,589 |
| | | | |
| Net change in Cash and cash equivalents | **211** | 424 | (327) |
| Cash and cash equivalents at beginning of year | **1,416** | 992 | 1,319 |
| Cash and cash equivalents at end of year | **$ 1,627** | $ 1,416 | $ 992 |

See accompanying notes.

| Consolidated Statements of Stockholders' Equity | Common Stock | Paid-in Capital | Retained Earnings | Treasury Common Stock | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| **[Millions of dollars, except per-share amounts]** | | | | | |
| Balance, December 31, 2010 | $ 1,740 | $ 1,114 | $ 24,695 | $ (16,411) | $ (701) |
| **2011** | | | | | |
| Net income | — | — | 2,236 | — | — |
| Dividends declared and paid ($.56 per share) | — | — | (644) | — | — |
| Common stock issued for stock-based awards | 1 | (252) | — | 898 | — |
| Stock repurchases | — | — | — | (1,973) | — |
| Stock-based compensation | — | 269 | — | — | — |
| Tax impact from exercise of options | — | 45 | — | — | — |
| Other comprehensive income (loss), net of taxes | — | — | — | — | (75) |
| Dividend equivalents paid on restricted stock units | — | — | (9) | — | — |
| Other | — | 18 | — | 1 | — |
| Balance, December 31, 2011 | 1,741 | 1,194 | 26,278 | (17,485) | (776) |
| **2012** | | | | | |
| Net income | — | — | 1,759 | — | — |
| Dividends declared and paid ($.72 per share) | — | — | (819) | — | — |
| Common stock issued for stock-based awards | — | (337) | — | 823 | — |
| Stock repurchases | — | — | — | (1,800) | — |
| Stock-based compensation | — | 263 | — | — | — |
| Tax impact from exercise of options | — | 56 | — | — | — |
| Other comprehensive income (loss), net of taxes | — | — | — | — | 77 |
| Dividend equivalents paid on restricted stock units | — | — | (13) | — | — |
| Balance, December 31, 2012 | 1,741 | 1,176 | 27,205 | (18,462) | (699) |
| **2013** | | | | | |
| **Net income** | **—** | **—** | **2,162** | **—** | **—** |
| **Dividends declared and paid ($1.07 per share)** | **—** | **—** | **(1,175)** | **—** | **—** |
| **Common stock issued for stock-based awards** | **—** | **(273)** | **—** | **1,540** | **—** |
| **Stock repurchases** | **—** | **—** | **—** | **(2,868)** | **—** |
| **Stock-based compensation** | **—** | **287** | **—** | **—** | **—** |
| **Tax impact from exercise of options** | **—** | **25** | **—** | **—** | **—** |
| **Other comprehensive income (loss), net of taxes** | **—** | **—** | **—** | **—** | **171** |
| **Dividend equivalents paid on restricted stock units** | **—** | **—** | **(19)** | **—** | **—** |
| **Other** | **—** | **(4)** | **—** | **—** | **—** |
| **Balance, December 31, 2013** | **$ 1,741** | **$ 1,211** | **$ 28,173** | **$ (19,790)** | **$ (528)** |

See accompanying notes.

## NOTES TO FINANCIAL STATEMENTS

### 1. Description of business and significant accounting policies and practices

Business

At Texas Instruments (TI), we design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We have two reportable segments, which are established along major categories of products as follows:

- Analog – consists of the following major product lines: High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA). SVA consists primarily of products that we acquired through our purchase of National Semiconductor Corporation (National) in 2011.
- Embedded Processing – consists of the following major product lines: Processors, Microcontrollers and Connectivity.

We report the results of our remaining business activities in Other. As a result of our decision to exit certain product lines, Other also includes our baseband products and our OMAP™ applications processors and connectivity products sold into smartphones and consumer tablets. These products, which we refer to as "legacy wireless products," were part of our former Wireless segment. The Wireless segment was eliminated effective January 1, 2013. To conform to this revised reporting structure, we filed a Form 8-K on May 3, 2013, to recast prior period segment information presented in our Form 10-K for the year ended December 31, 2012. See Note 16 for additional information on our business segments.

Basis of presentation

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

The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated. We have reclassified certain amounts in the prior periods' financial statements to conform to the 2013 presentation. The preparation of financial statements requires the use of estimates from which final results may vary.

In September 2011, we completed the acquisition of National. We accounted for this transaction under Accounting Standards Codification (ASC) 805 – Business Combinations, and the consolidated financial statements include the results of operations of National from the date of acquisition. See Note 2 for more information.

Revenue recognition

We recognize revenue from direct sales of our products to our customers, including shipping fees, when title and risk of loss pass to the customer, which usually occurs upon shipment or delivery, depending upon the terms of the sales order; when persuasive evidence of an arrangement exists; when sales amounts are fixed or determinable; and when collectability is reasonably assured. Revenue from sales of our products that are subject to inventory consignment agreements is recognized consistent with the principles discussed above, but delivery occurs when the customer pulls product from consignment inventory that we store at designated locations. Estimates of product returns for quality reasons and of price allowances, which are based on historical experience, product shipment analysis and customer contractual arrangements, are recorded when revenue is recognized. Allowances include volume-based incentives and special pricing arrangements. In addition, we record allowances for accounts receivable that we estimate may not be collected.

We recognize revenue from direct sales of our products to our distributors, net of allowances, consistent with the principles discussed above. Title transfers to the distributors at delivery or when the products are pulled from consignment inventory, and payment is due on our standard commercial terms; payment terms are not contingent upon resale of the products. We calculate credit allowances based on historical data, current economic conditions and contractual terms. For instance, we sell to distributors at standard published prices, but we may grant them price adjustment credits in response to individual competitive opportunities they may have. To estimate allowances, we use statistical percentages of revenue, determined quarterly, based upon recent historical adjustment trends. We also provide allowances for certain growth-based incentives.

We provide distributors an allowance to scrap certain slow-selling or obsolete products in their inventory, estimated as a negotiated fixed percentage of each distributor's purchases from us. In addition, if we publish a new price for a product that is lower than that paid by distributors for the same product still remaining in each distributor's on-hand inventory, we may credit them for the difference between those prices. The allowance for this type of credit is based on the identified product price difference applied to our estimate of each distributor's on-hand inventory of that product. We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

We determine the amount and timing of royalty revenue based on our contractual agreements with intellectual property licensees. We recognize royalty revenue when earned under the terms of the agreements and when we consider realization of payment to be probable. Where royalties are based on a percentage of licensee sales of royalty-bearing products, we recognize royalty revenue by applying this percentage to our estimate of applicable licensee sales. We base this estimate on historical experience and an analysis of each licensee's sales results. Where royalties are based on fixed payment amounts, we recognize royalty revenue ratably over the term of the royalty agreement. Where warranted, revenue from licensees may be recognized on a cash basis.

We include shipping and handling costs in COR.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was $46 million in 2013, $46 million in 2012 and $43 million in 2011.

Restructuring charges

Restructuring charges may consist of voluntary or involuntary severance-related charges, asset-related charges and other costs due to exit activities. We recognize voluntary termination benefits when the employee accepts the offered benefit arrangement. We recognize involuntary severance-related charges depending on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. If the former, we recognize the charges once they are probable and the amounts are estimable. If the latter, we recognize the charges once the benefits have been communicated to employees.

Restructuring activities associated with assets are recorded as an adjustment to the basis of the asset, not as a liability. When we commit to a plan to abandon a long-lived asset before the end of its previously estimated useful life, we accelerate the recognition of depreciation to reflect the use of the asset over its shortened useful life. When an asset is held to be sold, we write down the carrying value to its net realizable value and cease depreciation. Restructuring actions may be viewed as an impairment indicator requiring testing of the recoverability of intangible assets, including goodwill.

Income taxes

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

Other assessed taxes

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

Earnings per share (EPS)

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

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

| | **2013** | | | **2012** | | | **2011** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Net Income** | **Shares** | **EPS** | **Net Income** | **Shares** | **EPS** | **Net Income** | **Shares** | **EPS** |
| Basic EPS: | | | | | | | | | |
| Net income | **$ 2,162** | | | $ 1,759 | | | $ 2,236 | | |
| Income allocated to RSUs | **(37)** | | | (31) | | | (35) | | |
| Income allocated to common stock for basic EPS calculation | **$ 2,125** | **1,098** | **$ 1.94** | $ 1,728 | 1,132 | $ 1.53 | $ 2,201 | 1,151 | $ 1.91 |
| Adjustment for dilutive shares: | | | | | | | | | |
| Stock-based compensation plans | | **15** | | | 14 | | | 20 | |
| Diluted EPS: | | | | | | | | | |
| Net income | **$ 2,162** | | | $ 1,759 | | | $ 2,236 | | |
| Income allocated to RSUs | **(36)** | | | (31) | | | (34) | | |
| Income allocated to common stock for diluted EPS calculation | **$ 2,126** | **1,113** | **$ 1.91** | $ 1,728 | 1,146 | $ 1.51 | $ 2,202 | 1,171 | $ 1.88 |

There were no potentially dilutive securities to exclude from the computation of diluted earnings per common share during 2013. Potentially dilutive securities representing 52 million and 24 million shares of common stock that were outstanding during 2012 and 2011, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

Investments

We present investments on our balance sheets as cash equivalents, short-term investments or long-term investments. Specific details are as follows:

- *Cash equivalents and short-term investments:* We consider investments in debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments. The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns.
- *Long-term investments:* Long-term investments consist of mutual funds, venture capital funds and non-marketable equity securities.
- *Classification of investments:* Depending on our reasons for holding the investment and our ownership percentage, we classify investments in securities as available for sale, trading, or equity- or cost-method investments, which are more fully described in Note 9. We determine cost or amortized cost, as appropriate, on a specific identification basis.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory. Consigned inventory was $202 million and $169 million as of December 31, 2013 and 2012, respectively.

We review inventory quarterly for salability and obsolescence. A specific allowance is provided for inventory considered unlikely to be sold. Remaining inventory includes a salability and obsolescence allowance based on an analysis of historical disposal activity. We write off inventory in the period in which disposal occurs.

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

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease

term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

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

Goodwill and indefinite-lived intangibles

Goodwill is not amortized but is reviewed for impairment annually or more frequently if certain impairment indicators arise. We perform our annual goodwill impairment test as of October 1 for our reporting units, which compares the fair value for each reporting unit to its associated carrying value including goodwill. See Note 10 for additional information.

Foreign currency

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

Derivatives and hedging

In connection with the issuance of variable-rate long-term debt in May 2011, we entered into an interest rate swap designated as a hedge of the variability of cash flows related to interest payments. Gains and losses from changes in the fair value of the interest rate swap were credited or charged to Accumulated other comprehensive income (loss), net of taxes (AOCI). We repaid this long-term debt in the second quarter of 2013, and this interest rate swap was settled for no gain or loss. In association with the issuance of long-term debt, we 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 also 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 do not use derivatives for speculative or trading purposes.

Changes in accounting standards

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This standard clarifies that a previously-issued standard on disclosure requirements relating to offsetting (or netting) financial instruments applies only to derivatives, repurchase agreements and certain securities lending transactions. This standard was effective as of the first quarter of 2013 and did not have a material impact on our financial disclosures as the derivatives to which it applies are not significant.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This standard requires an entity to disclose information about amounts reclassified out of AOCI. This standard was effective as of the first quarter of 2013. See Note 15 for the required disclosure.

**2. Acquisition-related charges**

We incurred various costs as a result of the 2011 acquisition of National that are included in Other, consistent with how management measures the performance of its segments. These total acquisition-related charges are as follows:

| | For Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Amortization of intangible assets | **$ 323** | $ 325 | $ 87 |
| Retention bonuses | **7** | 57 | 46 |
| Stock-based compensation | **11** | 17 | 50 |
| Severance and other benefits: | | | |
| Employment reductions announced at closing | **—** | 16 | 29 |
| Change of control | **—** | — | 41 |
| Transaction and other costs | **—** | 35 | 62 |
| As recorded in Acquisition charges | **341** | 450 | 315 |
| Distributor contract termination | **—** | 21 | — |
| Inventory related | **—** | — | 96 |
| Property, plant and equipment related | **—** | — | 15 |
| As recorded in COR | **—** | 21 | 111 |
| Total acquisition-related charges | **$ 341** | $ 471 | $ 426 |

Acquisition charges
The amount of recognized amortization of intangible assets resulting from the National acquisition is based on estimated useful lives. See Note 10 for additional information.

Retention bonuses reflect amounts paid to former National employees who fulfilled agreed-upon service period obligations and were recognized ratably over the required service period.

Stock-based compensation was recognized for the accelerated vesting of equity awards upon the termination of employees, with additional compensation being recognized over the applicable vesting period for the remaining grantees.

Severance and other benefits costs were for former National employees who were terminated after the closing date. These costs totaled $70 million for the year ended December 31, 2011, with $41 million in charges related to change of control provisions under existing employment agreements and $29 million in charges for announced employment reductions affecting about 350 jobs. All of these jobs were eliminated by the end of 2012 as a result of redundancies and cost efficiency measures, with $16 million of additional expense recognized in 2012. Of the $86 million in cumulative charges recognized through December 31, 2013, $3 million was paid in 2013, $65 million was paid in 2012 and $14 million was paid in 2011. The remaining $4 million will be paid in future years.

Transaction and other costs include various expenses incurred in connection with the National acquisition. In 2011, we also incurred bridge financing costs.

COR
In 2011, we discontinued using one of National's distributors. We acquired the distributor's inventory at fair value, resulting in an incremental charge of $21 million to COR upon sale of the inventory in 2012.

At acquisition, we recognized costs associated with the adjustments to write up the value of acquired inventory and property, plant and equipment to fair value. These costs are in addition to the normal expensing of the acquired assets based on their carrying or book value prior to the acquisition. The total fair-value write-up of $96 million for the acquired inventory was expensed as that inventory was sold. The total fair-value write-up for the acquired property, plant and equipment was $436 million. In the fourth quarter of 2011, depreciation was $15 million. It continues at a declining rate and is no longer separately disclosed as an acquisition-related charge.

### 3. Restructuring charges/other

Restructuring charges/other is comprised of the following components:

| | For Years Ended December 31, | | | |
|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **Cumulative Since January 1, 2011** |
| Restructuring charges by action: | | | | |
| 2013 actions | | | | |
| Severance and benefits cost | **$ 49** | $ — | $ — | $ 49 |
| 2012 Wireless action | | | | |
| Severance and benefits cost | **30** | 245 | — | 275 |
| Accelerated depreciation | **6** | 3 | — | 9 |
| Other exit costs | **2** | 103 | — | 105 |
| | **38** | 351 | — | 389 |
| Prior actions | | | | |
| Severance and benefits cost | **6** | 6 | 107 | 119 |
| Accelerated depreciation | **5** | 18 | 5 | 28 |
| Other exit costs | **28** | 25 | — | 53 |
| | **39** | 49 | 112 | 200 |
| Total restructuring charges | **126** | 400 | 112 | $ 638 |
| Other: | | | | |
| Gain on technology transfer | **(315)** | — | — | |
| Gain on transfer of Japan substitutional pension | **—** | (144) | — | |
| Other | **—** | 8 | — | |
| Restructuring charges/other | **$ (189)** | $ 264 | $ 112 | |

Restructuring charges/other are recognized in Other. Restructuring actions related to the acquisition of National are discussed in Note 2 and the associated costs are reflected in the Acquisition charges line of our Consolidated statements of income.

2013 actions
In January 2014, we announced cost-saving actions in Embedded Processing and in Japan to reduce expenses and focus our investments on markets with greater potential for sustainable growth and strong long-term returns, which we expect to be substantially complete by mid-2015. Cost reductions include the elimination of about 1,100 jobs worldwide. Total restructuring charges related to these actions are expected to be about $80 million, all of which will be severance and related benefit costs. In the fourth quarter of 2013, we recorded restructuring charges of $49 million related to the action in Embedded Processing, and the remainder related to Japan is expected to be recognized in the first quarter of 2014. As of December 31, 2013, no payments related to these restructuring charges have been made.

2012 Wireless action
In 2012, we announced a restructuring of our Wireless business to reduce expenses and focus our investments on markets with greater potential for sustainable growth and strong long-term returns. This action is now complete, eliminating about 1,700 jobs worldwide. We recognized $389 million in cumulative restructuring charges, including a $90 million impairment of goodwill. As of December 31, 2013, $180 million has been paid to terminated employees for severance and benefits.

Prior actions
In 2012, we announced closure of two older semiconductor manufacturing facilities in Houston, Texas, and Hiji, Japan. Each facility employed about 500 people. We recognized $200 million in cumulative restructuring charges related to these closures with both complete by the end of 2013. As of December 31, 2013, $97 million has been paid to terminated employees for severance and benefits.

As of December 31, 2013 and 2012, we carried immaterial liabilities related to actions commenced in 2008 and 2009. The related expense was recognized in periods prior to 2011.

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

| | 2013 Actions | 2012 Wireless Action | | Prior Actions | | |
|---|---|---|---|---|---|---|
| | Severance and Benefits | Severance and Benefits | Other Charges | Severance and Benefits | Other Charges | Total |
| Accrual at December 31, 2010 | $ — | $ — | $ — | $ 22 | $ 8 | $ 30 |
| Restructuring charges | — | — | — | 107 | 5 | 112 |
| Non-cash items (a) | — | — | — | (11) | (5) | (16) |
| Payments | — | — | — | (9) | (1) | (10) |
| Remaining accrual at December 31, 2011 | — | — | — | 109 | 7 | 116 |
| Restructuring charges | — | 245 | 106 | 6 | 43 | 400 |
| Non-cash items (a) | — | — | (106) | 3 | (18) | (121) |
| Payments | — | (4) | — | (19) | (23) | (46) |
| Remaining accrual at December 31, 2012 | — | 241 | — | 99 | 9 | 349 |
| **Restructuring charges** | **49** | **30** | **8** | **6** | **33** | **126** |
| **Non-cash items (a)** | **—** | **—** | **(6)** | **(5)** | **(11)** | **(22)** |
| **Payments** | **—** | **(176)** | **(2)** | **(90)** | **(24)** | **(292)** |
| **Remaining accrual at December 31, 2013** | **$ 49** | **$ 95** | **$ —** | **$ 10** | **$ 7** | **$ 161** |

(a) Reflects charges for goodwill impairment, stock-based compensation, impacts of postretirement benefit plans and accelerated depreciation.

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

Other

*Gain on technology transfer*

During the second quarter of 2013, we entered into an agreement to transfer wireless connectivity technology to a customer. This technology was associated with the former Wireless business, and we recognized a gain of $315 million on this transfer.

*Gain on transfer of Japan substitutional pension*

During the third quarter of 2012, we transferred the obligations and assets of the substitutional portion of our Japan pension plan to the government of Japan, resulting in a net gain of $144 million. See Note 11 for additional details.

**4. Losses associated with the 2011 earthquake in Japan**

In March 2011, a magnitude 9.0 earthquake struck near our semiconductor manufacturing facilities in Japan. Our manufacturing site in Miho suffered substantial damage. We maintain earthquake insurance policies in Japan for limited coverage for property damage and business interruption losses.

In 2011, we incurred cumulative gross operating losses of $101 million related to the earthquake and associated events in Japan. These losses related to property damage, the underutilization expense we incurred from having our manufacturing assets only partially loaded and costs associated with recovery teams assembled from across the world. Gross operating losses did not comprehend any lost revenue.

These losses were offset by $36 million in cumulative insurance proceeds related to property damage claims, of which $13 million was received in 2012 and $23 million was received in 2011. Almost all of these costs and proceeds are included in COR in our Consolidated statements of income and are recorded in Other.

In addition, we recognized $172 million in cumulative insurance proceeds through December 31, 2012, of which $135 million was received in 2012 and $37 million was received in 2011, related to business interruption claims. These proceeds are recorded as revenue in our Consolidated statements of income and in Other.

In the third quarter of 2012, we completed discussions with our insurers and their advisors. All claims related to these events have been settled and the proceeds received.

**5. Stock-based compensation**

We have stock options outstanding to participants under various long-term incentive plans. We also have assumed stock options that were granted by companies that we later acquired. Unless the options are acquisition-related replacement options, the option price per share may not be less than 100 percent of the fair market value of our common stock on the date of the grant. Substantially all the options have a ten-year term and vest ratably over four years. Our options generally continue to vest after the option recipient retires.

We also have RSUs outstanding under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock on the vesting date, which is generally four years after the date of grant. Upon vesting, the shares are issued without payment by the grantee. Beginning with 2013 grants, RSUs generally continue to vest after the recipient retires. Holders of most RSUs receive an annual cash payment equal to the dividends paid on our common stock.

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

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

Total stock-based compensation expense recognized was as follows:

| | For Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Stock-based compensation expense recognized in: | | | |
| COR | **$ 49** | $ 48 | $ 40 |
| R&D | **67** | 71 | 58 |
| SG&A | **160** | 127 | 121 |
| Acquisition charges | **11** | 17 | 50 |
| Total | **$ 287** | $ 263 | $ 269 |

These amounts include expense related to non-qualified stock options, RSUs and stock options offered under our employee stock purchase plan and are net of expected forfeitures.

We issue awards of non-qualified stock options generally with graded vesting provisions (e.g., 25 percent per year for four years). Generally, we recognize the related compensation expense on a straight-line basis over the minimum service period required for vesting of the award, adjusting for expected forfeiture activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis.

Our RSUs generally vest four years after the date of grant. We recognize the related compensation expense on a straight-line basis over the vesting period, adjusting for expected forfeiture activity. Beginning with 2013 grants, RSUs issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis.

Fair-value methods and assumptions

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Weighted average grant date fair value, per share | **$ 6.78** | $ 8.31 | $ 10.37 |
| Weighted average assumptions used: | | | |
| Expected volatility | **26%** | 30% | 30% |
| Expected lives (in years) | **7.4** | 7.1 | 6.9 |
| Risk-free interest rates | **1.43%** | 1.40% | 2.61% |
| Expected dividend yields | **2.56%** | 2.10% | 1.51% |

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

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

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

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

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

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

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans during 2013 were as follows:

| | Stock Options | | RSUs | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price per Share | Shares | Weighted Average Grant Date Fair Value per Share |
| Outstanding grants, December 31, 2012 | 99,639,098 | $ 27.73 | 23,375,234 | $ 25.91 |
| **Granted** | **12,975,548** | **32.84** | **5,137,727** | **33.70** |
| **Vested RSUs** | **—** | **—** | **(5,741,981)** | **17.09** |
| **Forfeited and expired** | **(2,176,832)** | **30.58** | **(1,878,958)** | **29.38** |
| **Exercised** | **(45,507,274)** | **27.26** | **—** | **—** |
| **Outstanding grants, December 31, 2013** | **64,930,540** | **$ 28.98** | **20,892,022** | **$ 29.94** |

The weighted average grant date fair value of RSUs granted during the years 2013, 2012 and 2011 was $33.70, $31.60 and $33.20 per share, respectively. For the years ended December 31, 2013, 2012 and 2011, the total grant date fair value of shares vested from RSU grants was $98 million, $120 million and $155 million, respectively.

Summarized information about stock options outstanding at December 31, 2013, is as follows:

| | Stock Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding (Shares) | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price per Share | Number Exercisable (Shares) | Weighted Average Exercise Price per Share |
| $ 9.56 to 10.00 | 1,177 | 0.1 | $ 9.56 | 1,177 | $ 9.56 |
| 10.01 to 20.00 | 5,270,450 | 5.0 | 14.97 | 5,253,929 | 14.97 |
| 20.01 to 30.00 | 20,356,470 | 4.2 | 24.89 | 16,834,288 | 25.25 |
| 30.01 to 40.00 | 39,294,693 | 6.9 | 32.97 | 13,419,619 | 32.97 |
| 40.01 to 42.66 | 7,750 | 9.9 | 42.66 | — | n/a |
| $ 9.56 to 42.66 | 64,930,540 | 5.9 | $ 28.98 | 35,509,013 | $ 26.65 |

During the years ended December 31, 2013, 2012 and 2011, the aggregate intrinsic value (i.e., the difference in the closing market price on the date of exercise and the exercise price paid by the optionee) of options exercised was $427 million, $244 million and $231 million, respectively.

Summarized information as of December 31, 2013, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, is as follows:

| | Outstanding Stock Options (Fully Vested and Expected to Vest) (a) | Options Exercisable |
|---|---|---|
| **Number of outstanding (shares)** | 63,552,430 | 35,509,013 |
| **Weighted average remaining contractual life (in years)** | 5.8 | 4.1 |
| **Weighted average exercise price per share** | $ 28.90 | $ 26.65 |
| **Intrinsic value (millions of dollars)** | $ 954 | $ 613 |

(a) Includes effects of expected forfeitures of approximately 1 million shares. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was $969 million.

As of December 31, 2013, the total future compensation cost related to equity awards not yet recognized in the Consolidated statements of income was $348 million, consisting of $109 million related to unvested stock options and $239 million related to unvested RSUs. The $348 million is expected to be recognized as follows: $173 million in 2014, $119 million in 2015, $50 million in 2016 and $6 million in 2017.

Director deferred compensation

Directors who retire or resign from the board may receive stock distributions for compensation they elected to defer. For these stock distributions, we issued treasury shares of 12,909 in 2013, 6,592 in 2012 and 8,061 in 2011. Director deferred stock activity during 2013 was as follows:

| | Director Deferred Stock (Shares) |
|---|---|
| Outstanding, December 31, 2012 | 129,033 |
| **New shares deferred** | 13,140 |
| **Issued** | (12,909) |
| **Outstanding , December 31, 2013** | 129,264 |

Employee stock purchase plan

Options outstanding under the employee stock purchase plan at December 31, 2013, had an exercise price of $36.64 per share, which is 85 percent of the fair market value of TI common stock on the date of automatic exercise. Of the total outstanding options, none were exercisable at year-end 2013.

Employee stock purchase plan transactions during 2013 were as follows:

| | Employee Stock Purchase Plan (Shares) | Exercise Price |
|---|---|---|
| Outstanding grants, December 31, 2012 | 681,951 | $ 27.47 |
| **Granted** | **2,190,291** | **32.37** |
| **Exercised** | **(2,386,834)** | **30.10** |
| **Outstanding grants, December 31, 2013** | **485,408** | **$ 36.64** |

The weighted average grant date fair value of options granted under the employee stock purchase plans during the years 2013, 2012 and 2011 was $5.71, $4.52 and $4.59 per share, respectively. During the years ended December 31, 2013, 2012 and 2011, the total intrinsic value of options exercised under these plans was $13 million, $13 million and $10 million, respectively.

Effect on shares outstanding and treasury shares
Our current practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. We settled stock option plan exercises and issued director deferred shares using treasury shares of 47,907,017 in 2013, 25,064,951 in 2012 and 27,308,311 in 2011; and previously unissued common shares of none in 2013, 180,955 in 2012 and 390,438 in 2011.

Upon vesting of RSUs, we issued treasury shares of 4,280,559 in 2013, 3,187,490 in 2012 and 3,748,623 in 2011; and previously unissued common shares of none in 2013, 4,593 in 2012, and 73,852 in 2011.

Shares available for future grants and reserved for issuance are summarized below:

| | As of December 31, 2013 | | |
|---|---|---|---|
| **Shares** | **Long-term Incentive and Director Compensation Plans** | **Employee Stock Purchase Plan** | **Total** |
| **Reserved for issuance (a)** | **146,190,489** | **22,750,985** | **168,941,474** |
| **Shares to be issued upon exercise of outstanding options and RSUs** | **(85,951,826)** | **(485,408)** | **(86,437,234)** |
| **Available for future grants** | **60,238,663** | **22,265,577** | **82,504,240** |

(a) Includes 129,264 shares credited to directors' deferred stock accounts that settle in shares of TI common stock. These shares are not included as grants outstanding at December 31, 2013.

Effect on cash flows
Cash received from the exercise of options was $1.314 billion in 2013, $523 million in 2012 and $690 million in 2011. The related net tax impact realized was $25 million, $56 million and $45 million, which includes excess tax benefits realized of $80 million, $38 million and $31 million, in 2013, 2012 and 2011, respectively.

### 6. Profit sharing plans

Profit sharing benefits are generally formulaic and determined by one or more subsidiary or company-wide financial metrics. We pay profit sharing benefits primarily under the company-wide TI Employee Profit Sharing Plan. This plan provides for profit sharing to be paid based solely on TI's operating margin for the full calendar year. Under this plan, TI must achieve a minimum threshold of 10 percent operating margin before any profit sharing is paid. At 10 percent operating margin, profit sharing will be 2 percent of eligible payroll. The maximum amount of profit sharing available under the plan is 20 percent of eligible payroll, which is paid only if TI's operating margin is at or above 35 percent for a full calendar year.

We recognized $161 million, $96 million and $143 million of profit sharing expense under the TI Employee Profit Sharing Plan in 2013, 2012 and 2011, respectively.

## 7. Income taxes

**Income before Income Taxes**

| | U.S. | Non-U.S. | Total |
|---|---|---|---|
| **2013** | **$ 1,507** | **$ 1,247** | **$ 2,754** |
| 2012 | 319 | 1,616 | 1,935 |
| 2011 | 1,791 | 1,164 | 2,955 |

**Provision (Benefit) for Income Taxes**

| | U.S. Federal | Non-U.S. | U.S. State | Total |
|---|---|---|---|---|
| **2013:** | | | | |
| **Current** | **$ 291** | **$ 247** | **$ 4** | **$ 542** |
| **Deferred** | **17** | **33** | **—** | **50** |
| **Total** | **$ 308** | **$ 280** | **$ 4** | **$ 592** |
| 2012: | | | | |
| Current | $ (108) | $ 156 | $ (2) | $ 46 |
| Deferred | 65 | 65 | — | 130 |
| Total | $ (43) | $ 221 | $ (2) | $ 176 |
| 2011: | | | | |
| Current | $ 518 | $ 138 | $ 8 | $ 664 |
| Deferred | 20 | 24 | 11 | 55 |
| Total | $ 538 | $ 162 | $ 19 | $ 719 |

To conform with current period reporting, we reclassified $571 million of 2012 prepaid taxes associated with intercompany profit in ending inventory from Current assets: Deferred income taxes to Prepaid expenses and other current assets on the Consolidated balance sheets.

In the Provision (Benefit) for Income Taxes table above, this change resulted in a reclassification of approximately $65 million and $174 million for 2012 and 2011, respectively, from the deferred provision to the current provision.

Principal reconciling items from income tax computed at the statutory federal rate follow:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Computed tax at statutory rate | **$ 964** | $ 677 | $ 1,034 |
| Non-U.S. effective tax rates | **(156)** | (345) | (245) |
| U.S. R&D tax credit | **(129)** | — | (58) |
| U.S. tax benefit for manufacturing | **(66)** | (158) | (31) |
| Impact of changes to uncertain tax positions | **(14)** | (88) | — |
| Non-deductible expenses | **13** | 42 | 27 |
| Other | **(20)** | 48 | (8) |
| Total provision for income taxes | **$ 592** | $ 176 | $ 719 |

The total provision for 2013 in the reconciliation above includes $79 million of discrete tax benefits primarily for the reinstatement of the U.S. R&D tax credit retroactive to 2012. Included in the Non-U.S. effective tax rates reconciling item are tax benefits from tax holidays of $40 million, $51 million and $18 million in 2013, 2012 and 2011, respectively. The tax benefits relate to our operations in Malaysia and the Philippines, and expire in 2018 and 2017, respectively. The total provision for 2012 includes $252 million of discrete tax benefits primarily for additional U.S. tax benefits for manufacturing related to the years 2000 through 2011.

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

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Deferred income tax assets: | | |
| Deferred loss and tax credit carryforwards | $ 345 | $ 382 |
| Accrued expenses | 265 | 331 |
| Stock-based compensation | 262 | 366 |
| Postretirement benefit costs recognized in AOCI | 262 | 357 |
| Inventories and related reserves | 162 | 163 |
| Other | 175 | 209 |
| | 1,471 | 1,808 |
| Valuation allowance | (219) | (221) |
| | 1,252 | 1,587 |
| Deferred income tax liabilities: | | |
| Acquisition-related intangibles and fair-value adjustments | (804) | (921) |
| Accrued retirement costs for defined benefit and retiree health care | (211) | (243) |
| International earnings | (121) | (102) |
| Property, plant and equipment | (57) | (131) |
| Other | (8) | (11) |
| | (1,201) | (1,408) |
| Net deferred income tax asset | $ 51 | $ 179 |

The deferred income tax assets and liabilities based on tax jurisdictions are presented on the Consolidated balance sheets as follows:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Current deferred income tax assets | $ 393 | $ 473 |
| Noncurrent deferred income tax assets | 207 | 280 |
| Current deferred income tax liabilities | (1) | (2) |
| Noncurrent deferred income tax liabilities | (548) | (572) |
| Net deferred income tax asset | $ 51 | $ 179 |

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. In 2013, we recognized a net decrease of $2 million in our valuation allowance, due to valuation allowances on unutilized tax credits.

We have U.S. and non-U.S. tax loss carryforwards of approximately $124 million, none of which will expire before the year 2023.

A provision has been made for deferred taxes on undistributed earnings of non-U.S. subsidiaries to the extent that dividend payments from these subsidiaries are expected to result in additional tax liability. The remaining undistributed earnings of approximately $6.87 billion at December 31, 2013, have been indefinitely reinvested outside of the U.S.; therefore, no U.S. tax provision has been made for taxes due upon remittance of these earnings. The indefinitely reinvested earnings of our non-U.S. subsidiaries are primarily invested in tangible assets such as inventory and property, plant and equipment. Determination of the amount of unrecognized deferred income tax liability is not practical because of the complexities associated with its hypothetical calculation.

Cash payments made for income taxes, net of refunds, were $569 million, $171 million and $902 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Uncertain tax positions

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

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

| | **2013** | **2012** | **2011** |
|---|---|---|---|
| Balance, January 1 | **$ 184** | $ 210 | $ 103 |
| Additions based on tax positions related to the current year | **7** | 12 | 15 |
| Additions from the acquisition of National | **—** | — | 132 |
| Additions for tax positions of prior years | **19** | 45 | 3 |
| Reductions for tax positions of prior years | **(10)** | (92) | (39) |
| Settlements with tax authorities | **(96)** | 39 | (4) |
| Expiration of the statute of limitations for assessing taxes | **(13)** | (30) | — |
| Balance, December 31 | **$ 91** | $ 184 | $ 210 |
| | | | |
| Interest income (expense) recognized in the year ended December 31 | **$ (10)** | $ 32 | $ 1 |
| | | | |
| Interest payable (receivable) as of December 31 | **$ 5** | $ (8) | $ 3 |

The liability for uncertain tax positions and the interest payable are components of Deferred credits and other liabilities on our December 31, 2013, Consolidated balance sheets.

All of the $91 million liability for uncertain tax positions as of December 31, 2013, are positions that, if recognized, would impact the tax rate. If these tax liabilities are ultimately realized, $76 million of existing deferred tax assets would also be realized, related to refunds from counterparty jurisdictions resulting from procedures for relief from double taxation. Regarding the $91 million liability:

- About $55 million of the liability represents uncertain tax positions for tax years in jurisdictions in which audit assessments have not been made. The liability is primarily related to transfer pricing issues for which procedures for relief from double taxation will mitigate the tax rate impact of any difference between the actual tax assessments and our estimates. The increase in the liability for transfer pricing issues for the next 12 months is expected to be about $6 million.

- About $36 million of the liability represents audit assessments subject to ongoing procedures for relief from double taxation. Settlement of the $36 million is subject to timely completion of the tax treaty processes and some portion of that liability may be settled within the next 12 months. Settlement would not have a significant tax rate impact, as the tax rates of the counterparty jurisdictions are similar.

Within the $184 million liability for uncertain tax positions as of December 31, 2012, are uncertain tax positions totaling $159 million that, if recognized, would impact the tax rate. If these tax liabilities are ultimately realized, $78 million of deferred tax assets would also be realized, primarily related to refunds from counterparty jurisdictions resulting from procedures for relief from double taxation.

As of December 31, 2013, the statute of limitations remains open for U.S. federal tax returns for 2010 and following years. Audit activities related to our U.S. federal tax returns through 2009 have been completed except for certain pending tax treaty procedures for relief from double taxation and the review of refunds claimed on amended returns for years prior to 2010. The procedures for relief from double taxation pertain to U.S. federal tax returns for the years 2004 through 2009.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the U.S., our subsidiaries are no longer subject to income tax audits for years before 2006.

## 8. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts and interest rate swaps, the fair value of which was not material as of December 31, 2013. Our forward foreign currency exchange contracts outstanding as of December 31, 2013, had a notional value of $459 million to hedge our non-U.S. dollar net balance sheet exposures, including $211 million to sell Japanese yen, $120 million to sell euros and $33 million to sell British pound sterling. Prior to the second quarter of 2013, we also held interest rate swaps. See Note 12 for more details.

Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our postretirement plan assets and 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. The carrying value of our long-term debt approximates the fair value as measured using broker-dealer quotes, which are Level 2 inputs. See Note 9 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

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

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

Details of these Accounts receivable allowances are as follows:

| Accounts Receivable Allowances | Balance at Beginning of Year | Additions Charged (Credited) to Operating Results | Recoveries and Write-offs, Net | Balance at End of Year |
|---|---|---|---|---|
| **2013** | **$ 31** | **$ (9)** | **$ —** | **$ 22** |
| 2012 | 19 | 12 | — | 31 |
| 2011 | 18 | 1 | — | 19 |

## 9. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

We classify our investments as available for sale, trading, equity method or cost method. Most of our investments are classified as available for sale.

Available-for-sale and trading securities are stated at fair value, which is generally based on market prices, broker quotes or, when necessary, financial models. See fair-value discussion below. Unrealized gains and losses on available-for-sale securities are recorded as an increase or decrease, net of taxes, in AOCI on our Consolidated balance sheets. We record other-than-temporary impairments on available-for-sale securities in OI&E in our Consolidated statements of income.

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

Our other investments are not measured at fair value but are accounted for using either the equity method or cost method. These investments consist of interests in venture capital funds and other non-marketable equity securities. Gains and losses from equity-method investments are reflected in OI&E based on our ownership share of the investee’s financial results. Gains and losses on cost-method investments are recorded in OI&E when realized or when an impairment of the investment’s value is warranted based on our assessment of the recoverability of each investment.

Details of our investments are as follows:

| | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Cash and Cash Equivalents | Short-term Investments | Long-term Investments | Cash and Cash Equivalents | Short-term Investments | Long-term Investments |
| **Measured at fair value:** | | | | | | |
| **Available-for-sale securities** | | | | | | |
| Money market funds | **$ 500** | **$ —** | **$ —** | $ 211 | $ — | $ — |
| Corporate obligations | **123** | **217** | **—** | 188 | 325 | — |
| U.S. Government agency and Treasury securities | **787** | **1,985** | **—** | 795 | 2,224 | — |
| **Trading securities** | | | | | | |
| Mutual funds | **—** | **—** | **179** | — | — | 159 |
| Total | **1,410** | **2,202** | **179** | 1,194 | 2,549 | 159 |
| | | | | | | |
| **Other measurement basis:** | | | | | | |
| Equity-method investments | **—** | **—** | **24** | — | — | 34 |
| Cost-method investments | **—** | **—** | **13** | — | — | 22 |
| Cash on hand | **217** | **—** | **—** | 222 | — | — |
| Total | **$ 1,627** | **$ 2,202** | **$ 216** | $ 1,416 | $ 2,549 | $ 215 |

At December 31, 2013 and 2012, we had no significant unrealized gains or losses associated with our available-for-sale investments. We did not recognize any credit losses related to available-for-sale investments for the years ended December 31, 2013 and 2012. During the third quarter of 2012, we sold all of our remaining investments in auction-rate securities.

For the years ended December 31, 2013, 2012 and 2011, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $4.25 billion, $2.20 billion and $3.55 billion, respectively. Gross realized gains and losses from these sales were not significant.

The following table presents the aggregate maturities of investments in debt securities classified as available for sale at December 31, 2013:

| Due | Fair Value |
|---|---|
| One year or less | $ 3,472 |
| One to three years | 140 |

Gross realized gains and losses from sales of long-term investments were not significant for 2013, 2012 or 2011. Other-than-temporary declines and impairments in the values of these investments recognized in OI&E were $5 million, $7 million and $2 million in 2013, 2012 and 2011, respectively.

Fair-value considerations

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

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

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

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

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2013 and 2012. We had no Level 3 assets or liabilities as of December 31, 2013 or 2012. 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.

| | Fair Value December 31, 2013 | Level 1 | Level 2 |
|---|---|---|---|
| **Assets** | | | |
| Money market funds | **$ 500** | **$ 500** | **$ —** |
| Corporate obligations | **340** | **—** | **340** |
| U.S. Government agency and Treasury securities | **2,772** | **2,107** | **665** |
| Mutual funds | **179** | **179** | **—** |
| Total assets | **$ 3,791** | **$ 2,786** | **$ 1,005** |
| **Liabilities** | | | |
| Deferred compensation | **$ 197** | **$ 197** | **$ —** |
| Total liabilities | **$ 197** | **$ 197** | **$ —** |

| | Fair Value December 31, 2012 | Level 1 | Level 2 |
|---|---|---|---|
| **Assets** | | | |
| Money market funds | $ 211 | $ 211 | $ — |
| Corporate obligations | 513 | — | 513 |
| U.S. Government agency and Treasury securities | 3,019 | 1,145 | 1,874 |
| Mutual funds | 159 | 159 | — |
| Total assets | $ 3,902 | $ 1,515 | $ 2,387 |
| **Liabilities** | | | |
| Deferred compensation | $ 174 | $ 174 | $ — |
| Total liabilities | $ 174 | $ 174 | $ — |

The following table summarizes the change in the fair values for Level 3 assets, reflecting the sale of our remaining investments in auction-rate securities in the third quarter of 2012:

| | Level 3 |
|---|---|
| | Auction-rate Securities |
| Balance, December 31, 2011 | $ 134 |
| Change in unrealized loss – included in AOCI | 13 |
| Redemptions | (84) |
| Sales | (63) |
| Balance, September 30, 2012 | $ — |

**10. Goodwill and acquisition-related intangibles**

The following table summarizes the changes in goodwill by segment for the years ended December 31, 2013 and 2012.

| | Analog | Embedded Processing | Other | Total |
|---|---|---|---|---|
| Goodwill, December 31, 2011 | $ 4,158 | $ 172 | $ 122 | $ 4,452 |
| Impairment during 2012 | — | — | (90) | (90) |
| Goodwill, December 31, 2012 and 2013 | $ 4,158 | $ 172 | $ 32 | $ 4,362 |

We performed our annual goodwill impairment test as of October 1, 2013, and determined the fair value of each of our reporting units was in excess of its carrying value. Determination of fair value was based upon management estimates and judgment, using unobservable inputs in discounted cash flow models to calculate the fair value of each reporting unit. These unobservable inputs are considered Level 3 measurements. In conjunction with the restructuring action related to the Embedded Processing segment as discussed in Note 3, we performed an interim qualitative assessment of its goodwill in the fourth quarter of 2013. As a result, we determined no impairment was indicated.

In November 2012, as a result of unsuccessful efforts to divest certain Wireless product lines and the subsequent decision to restructure and wind down those product lines, we reassessed the recoverability of the goodwill associated with the former Wireless segment. We determined its fair value, using a discounted cash flow analysis, was less than the carrying amount and, therefore, performed the required second step of the impairment analysis to determine the amount of the impairment charge. We deducted the fair value of the former Wireless segment from the total of the estimated fair values of the segment's identifiable assets and liabilities, including intangible assets with no carrying value. This calculation resulted in an implied negative fair value of goodwill. As a result, we recognized a non-cash, non-tax deductible impairment charge of $90 million for all the associated goodwill of the former Wireless segment. We recognized this impairment in Restructuring charges/other in the Consolidated statements of income, as discussed in Note 3. There was no impairment of goodwill during 2011 or 2013. As of December 31, 2013, the accumulated impairment of goodwill was $90 million.

The components of acquisition-related intangible assets as of December 31, 2013 and 2012, are as follows:

| | | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|---|
| | Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Acquisition-related intangibles: | | | | | | | |
| Developed technology | 5 - 10 | **$ 2,157** | **$ 526** | **$ 1,631** | $ 2,145 | $ 312 | $ 1,833 |
| Customer relationships | 5 - 8 | **821** | **239** | **582** | 821 | 137 | 684 |
| Other intangibles | 5 | **5** | **3** | **2** | 46 | 36 | 10 |
| In-process R&D | (a) | **8** | **n/a** | **8** | 31 | n/a | 31 |
| Total | | **$ 2,991** | **$ 768** | **$ 2,223** | $ 3,043 | $ 485 | $ 2,558 |

(a) In-process R&D is not amortized until the associated project has been completed. Alternatively, if the associated project is determined not to be viable, it is expensed.

Amortization of acquisition-related intangibles was $336 million, $342 million and $111 million for 2013, 2012 and 2011, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization. Future estimated amortization of acquisition-related intangibles for the years ended December 31 is as follows:

| | | |
|---|---|---|
| 2014 | $ | 321 |
| 2015 | | 319 |
| 2016 | | 319 |
| 2017 | | 318 |
| 2018 | | 318 |
| Thereafter | | 628 |

**11. Postretirement benefit plans**

Plan descriptions

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

*U.S. retirement plans:*

Our principal retirement plans in the U.S. are qualified and non-qualified defined benefit pension plans, all of which were closed to new participants after November 1997; a defined contribution plan; and an enhanced defined contribution plan. The defined benefit pension plans include employees still accruing benefits as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan.

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

At December 31, 2013 and 2012, as a result of employees’ elections, TI’s U.S. defined contribution plans held shares of TI common stock totaling 15 million shares and 20 million shares valued at $678 million and $610 million, respectively. Dividends paid on these shares for 2013 and 2012 were $18 million and $16 million, respectively.

Our aggregate expense for the U.S. defined contribution plans was $62 million in 2013, $70 million in 2012 and $55 million in 2011.

Benefits under the qualified defined benefit pension plan are determined using a formula based upon years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

*U.S. retiree health care benefit plan:*

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

*Non-U.S. retirement plans:*

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

As of December 31, 2013 and 2012, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at $15 million and $13 million, respectively. Dividends paid on these shares of TI common stock for 2013 and 2012 were not material.

Effect on the statements of income and balance sheets

Expense related to defined benefit and retiree health care benefit plans was as follows:

| | U.S. Defined Benefit | | | U.S. Retiree Health Care | | | Non-U.S. Defined Benefit | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2013** | **2012** | **2011** | **2013** | **2012** | **2011** |
| Service cost | **$ 26** | $ 24 | $ 22 | **$ 5** | $ 5 | $ 4 | **$ 41** | $ 45 | $ 41 |
| Interest cost | **45** | 44 | 46 | **20** | 25 | 25 | **61** | 75 | 69 |
| Expected return on plan assets | **(48)** | (50) | (45) | **(24)** | (23) | (21) | **(67)** | (78) | (83) |
| Amortization of prior service cost (credit) | **1** | 1 | 1 | **4** | 3 | 2 | **(3)** | (4) | (4) |
| Recognized net actuarial loss | **21** | 16 | 23 | **11** | 13 | 13 | **31** | 41 | 40 |
| Net periodic benefit costs | **45** | 35 | 47 | **16** | 23 | 23 | **63** | 79 | 63 |
| | | | | | | | | | |
| Settlement losses (a) (b) | **41** | — | — | **—** | — | — | **4** | 193 | — |
| Curtailment losses (gains) | **—** | — | — | **—** | (1) | 5 | **(7)** | — | 2 |
| Special termination benefit losses (gains) (b) | **—** | (1) | 4 | **—** | — | — | **—** | (337) | — |
| Total, including other postretirement losses (gains) | **$ 86** | $ 34 | $ 51 | **$ 16** | $ 22 | $ 28 | **$ 60** | $ (65) | $ 65 |

(a) Includes non-restructuring- and restructuring-related settlement losses.

(b) Transfer of Japan substitutional pension in 2012: In Japan, we maintain employee pension fund plans (EPFs) pursuant to the Japanese Welfare Pension Insurance Law (JWPIL). An EPF consists of two portions: a substitutional portion based on JWPIL-determined minimum old-age pension benefits similar to Social Security benefits in the United States and a corporate portion established at the discretion of each employer. Employers and employees are exempt from contributing to the Japanese Pension Insurance (JPI) if the substitutional portion is funded by an EPF.

The JWPIL was amended to permit each EPF to separate the substitutional portion and transfer those obligations and related assets to the government of Japan. After such a transfer, the employer is required to contribute periodically to JPI, and the government of Japan is responsible for future benefit payments relating to the substitutional portion.

During the third quarter of 2012, our EPF received final approval for such a separation and transferred the obligations and assets of its substitutional portion to the government of Japan. On a pre-tax basis, this resulted in a net gain of $144 million recorded in Restructuring charges/other on our Consolidated statements of income and included in Other, as shown in Note 3. This net gain of $144 million consisted of two parts - a gain of $337 million, representing the difference between the fair values of the obligations settled of $533 million and the assets transferred from the pension trust to the government of Japan of $196 million, offset by a settlement loss of $193 million related to the recognition of previously unrecognized actuarial losses included in AOCI.

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

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

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Change in plan benefit obligation: | | | | | | |
| Benefit obligation at beginning of year | **$ 1,098** | $ 959 | **$ 509** | $ 521 | **$ 2,414** | $ 2,748 |
| Service cost | **26** | 24 | **5** | 5 | **41** | 45 |
| Interest cost | **45** | 44 | **20** | 25 | **61** | 75 |
| Participant contributions | **—** | — | **18** | 17 | **1** | 1 |
| Benefits paid | **(9)** | (45) | **(47)** | (47) | **(81)** | (83) |
| Medicare subsidy | **—** | — | **3** | 5 | **—** | — |
| Actuarial (gain) loss | **(27)** | 116 | **(36)** | (17) | **96** | 222 |
| Settlements | **(178)** | — | **—** | — | **(30)** | (533) |
| Curtailments | **—** | 1 | **—** | (1) | **(28)** | — |
| Special termination benefit losses (gains) | **—** | (1) | **—** | — | **—** | — |
| Plan amendments | **—** | — | **—** | 1 | **—** | — |
| Effects of exchange rate changes | **—** | — | **—** | — | **(237)** | (61) |
| Other | **—** | — | **—** | — | **39** | — |
| Benefit obligation at end of year (BO) | **$ 955** | $ 1,098 | **$ 472** | $ 509 | **$ 2,276** | $ 2,414 |
| | | | | | | |
| Change in plan assets: | | | | | | |
| Fair value of plan assets at beginning of year | **$ 1,071** | $ 914 | **$ 517** | $ 431 | **$ 2,218** | $ 2,211 |
| Actual return on plan assets | **1** | 95 | **41** | 37 | **201** | 207 |
| Employer contributions (funding of qualified plans) | **43** | 104 | **—** | 78 | **62** | 134 |
| Employer contributions (payments for non-qualified plans) | **13** | 3 | **—** | — | **—** | — |
| Participant contributions | **—** | — | **18** | 17 | **1** | 1 |
| Benefits paid | **(9)** | (45) | **(45)** | (46) | **(81)** | (83) |
| Settlements | **(178)** | — | **—** | — | **(30)** | (196) |
| Effects of exchange rate changes | **—** | — | **—** | — | **(232)** | (56) |
| Other | **—** | — | **(46)** | — | **40** | — |
| Fair value of plan assets at end of year (FVPA) | **$ 941** | $ 1,071 | **$ 485** | $ 517 | **$ 2,179** | $ 2,218 |
| | | | | | | |
| Funded status (FVPA – BO) at end of year | **$ (14)** | $ (27) | **$ 13** | $ 8 | **$ (97)** | $ (196) |

Amounts recognized on the balance sheet as of December 31, 2013, were as follows:

| | U.S. Defined Benefit | U.S. Retiree Health Care | Non-U.S. Defined Benefit | Total |
|---|---|---|---|---|
| Overfunded retirement plans | **$ 44** | **$ 16** | **$ 70** | **$ 130** |
| Accrued expenses and other liabilities | **(7)** | **—** | **(5)** | **(12)** |
| Underfunded retirement plans | **(51)** | **(3)** | **(162)** | **(216)** |
| Funded status (FVPA – BO) at end of year | **$ (14)** | **$ 13** | **$ (97)** | **$ (98)** |

Amounts recognized on the balance sheet as of December 31, 2012, were as follows:

| | U.S. Defined Benefit | U.S. Retiree Health Care | Non-U.S. Defined Benefit | Total |
|---|---|---|---|---|
| Overfunded retirement plans | $ 34 | $ 12 | $ 22 | $ 68 |
| Accrued expenses and other liabilities | (8) | — | (6) | (14) |
| Underfunded retirement plans | (53) | (4) | (212) | (269) |
| Funded status (FVPA – BO) at end of year | $ (27) | $ 8 | $ (196) | $ (215) |

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about $50 million to our retirement benefit plans in 2014. The amounts shown for underfunded U.S. defined benefit plans were for non-qualified pension plans. We do not fund these non-qualified plans because contributions to them are not tax deductible until the benefit is actually paid to the employee. As of December 31, 2013 and 2012, the unfunded benefit obligations of the U.S. non-qualified plans were $58 million and $61 million, respectively.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were $882 million and $1.01 billion at year-end 2013 and 2012, respectively, for the U.S. defined benefit plans, and $2.12 billion and $2.23 billion at year-end 2013 and 2012, respectively, for the non-U.S. defined benefit plans.

The amounts recorded in AOCI for the years ended December 31, 2013 and 2012, are detailed below by plan type:

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Net Actuarial Loss | Prior Service Cost | Net Actuarial Loss | Prior Service Cost | Net Actuarial Loss | Prior Service Cost | Net Actuarial Loss | Prior Service Cost |
| AOCI balance, December 31, 2012, net of taxes | $ 176 | $ (1) | $ 112 | $ 13 | $ 413 | $ (19) | $ 701 | $ (7) |
| **Changes in AOCI by category in 2013:** | | | | | | | | |
| **Adjustments** | **20** | **—** | **(53)** | **—** | **(132)** | **4** | **(165)** | **4** |
| **Reclassification to Net income** | **(62)** | **(1)** | **(11)** | **(4)** | **(35)** | **10** | **(108)** | **5** |
| **Tax expense (benefit)** | **15** | **—** | **23** | **1** | **59** | **(4)** | **97** | **(3)** |
| **Total change to AOCI in 2013** | **(27)** | **(1)** | **(41)** | **(3)** | **(108)** | **10** | **(176)** | **6** |
| **AOCI balance, December 31, 2013, net of taxes** | **$ 149** | **$ (2)** | **$ 71** | **$ 10** | **$ 305** | **$ (9)** | **$ 525** | **$ (1)** |

The estimated amounts of net actuarial loss and unrecognized prior service cost (credit) included in AOCI as of December 31, 2013, that are expected to be amortized into net periodic benefit cost over the next fiscal year are: $26 million and $1 million for the U.S. defined benefit plans; $7 million and $4 million for the U.S. retiree health care plan; and $26 million and ($2) million for the non-U.S. defined benefit plans.

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets as of December 31, 2013 and 2012, using the same three-level hierarchy of fair-value inputs described in Note 9.

| | Fair Value December 31, 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets of U.S. defined benefit plan** | | | | |
| Money market collective trusts | $ 27 | $ — | $ 27 | $ — |
| U.S. Government agency and Treasury securities | 208 | — | 208 | — |
| U.S. bond funds | 372 | — | 372 | — |
| U.S. equity funds and option collars | 217 | — | 217 | — |
| International equity funds | 80 | — | 80 | — |
| Limited partnerships | 37 | — | — | 37 |
| Total | $ 941 | $ — | $ 904 | $ 37 |
| | | | | |
| **Assets of U.S. retiree health care plan** | | | | |
| Money market collective trusts | $ 45 | $ — | $ 45 | $ — |
| U.S. bond funds | 193 | 193 | — | — |
| U.S. equity funds and option collars | 176 | — | 176 | — |
| International equity funds | 71 | — | 71 | — |
| Total | $ 485 | $ 193 | $ 292 | $ — |
| | | | | |
| **Assets of non-U.S. defined benefit plans** | | | | |
| Cash and money market collective trusts | $ 46 | $ 44 | $ 2 | $ — |
| Local market bond funds | 1,065 | 353 | 712 | — |
| International/global bond funds | 410 | — | 410 | — |
| Local market equity funds | 114 | 6 | 108 | — |
| International/global equity funds | 536 | — | 536 | — |
| Other investments | 8 | — | — | 8 |
| Total | $ 2,179 | $ 403 | $ 1,768 | $ 8 |

| | Fair Value December 31, 2012 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets of U.S. defined benefit plan** | | | | |
| Money market collective trusts | $ 119 | $ — | $ 119 | $ — |
| U.S. Government agency and Treasury securities | 247 | — | 247 | — |
| U.S. bond funds | 368 | — | 368 | — |
| U.S. equity funds and option collars | 219 | — | 219 | — |
| International equity funds | 81 | — | 81 | — |
| Limited partnerships | 37 | — | — | 37 |
| Total | $ 1,071 | $ — | $ 1,034 | $ 37 |
| | | | | |
| **Assets of U.S. retiree health care plan** | | | | |
| Money market collective trusts | $ 49 | $ — | $ 49 | $ — |
| U.S. bond funds | 205 | 205 | — | — |
| U.S. equity funds and option collars | 197 | 46 | 151 | — |
| International equity funds | 66 | — | 66 | — |
| Total | $ 517 | $ 251 | $ 266 | $ — |
| | | | | |
| **Assets of non-U.S. defined benefit plans** | | | | |
| Cash and money market collective trusts | $ 133 | $ 88 | $ 45 | $ — |
| Local market bond funds | 942 | 183 | 759 | — |
| International/global bond funds | 343 | 19 | 324 | — |
| Local market equity funds | 204 | 20 | 184 | — |
| International/global equity funds | 564 | — | 564 | — |
| Other investments | 32 | — | 13 | 19 |
| Total | $ 2,218 | $ 310 | $ 1,889 | $ 19 |

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

The only Level 3 assets in our worldwide benefit plans are certain private equity limited partnerships in our U.S. pension plan and a diversified property fund in a non-U.S. pension plan. These investments are valued using inputs from the fund managers and internal models. The following table summarizes the change in the fair values for Level 3 plan assets for the years ending December 31, 2013 and 2012:

| | Level 3 Plan Assets | |
|---|---|---|
| | U.S. Defined Benefit | Non-U.S. Defined Benefit |
| Balance, December 31, 2011 | $ 35 | $ 18 |
| Redemptions | (2) | — |
| Unrealized gain | 4 | 1 |
| Balance, December 31, 2012 | 37 | 19 |
| **Redemptions** | **—** | **(10)** |
| **Unrealized loss** | **—** | **(1)** |
| **Balance, December 31, 2013** | **$ 37** | **$ 8** |

Assumptions and investment policies

| | Defined Benefit | | U.S. Retiree Health Care | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **Weighted average assumptions used to determine benefit obligations:** | | | | |
| U.S. discount rate | **5.11%** | 4.16% | **4.83%** | 3.97% |
| Non-U.S. discount rate | **3.01%** | 2.80% | | |
| | | | | |
| U.S. average long-term pay progression | **3.50%** | 3.50% | | |
| Non-U.S. average long-term pay progression | **3.11%** | 3.10% | | |
| | | | | |
| **Weighted average assumptions used to determine net periodic benefit cost:** | | | | |
| U.S. discount rate | **4.59%** | 4.92% | **3.94%** | 4.86% |
| Non-U.S. discount rate | **2.74%** | 2.88% | | |
| | | | | |
| U.S. long-term rate of return on plan assets | **5.25%** | 6.00% | **4.75%** | 5.50% |
| Non-U.S. long-term rate of return on plan assets | **3.34%** | 3.83% | | |
| | | | | |
| U.S. average long-term pay progression | **3.60%** | 3.50% | | |
| Non-U.S. average long-term pay progression | **3.01%** | 3.17% | | |

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

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

The table below shows target allocation ranges for the plans that hold a substantial majority of the defined benefit assets.

| **Asset Category** | **U.S. Defined Benefit** | **U.S. Retiree Health Care** | **Non-U.S. Defined Benefit** |
|---|---|---|---|
| Equity securities | 35% | 50% | 0% - 40% |
| Fixed income securities and cash equivalents | 65% | 50% | 60% - 100% |

We intend to rebalance the plans' investments when they are not within the target allocation ranges. Additional contributions are invested consistent with the target ranges and may be used to rebalance the portfolio. The investment allocations and individual investments are chosen with regard to the duration of the obligations of each plan. About half of the assets in the retiree health care benefit plan are invested in a series of Voluntary Employee Benefit Association trusts.

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

| | U.S. Defined Benefit | | U.S. Retiree Health Care | | Non-U.S. Defined Benefit | |
|---|---|---|---|---|---|---|
| **Asset Category** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Equity securities | **35%** | 31% | **51%** | 51% | **30%** | 36% |
| Fixed income securities | **62%** | 58% | **40%** | 40% | **68%** | 58% |
| Cash equivalents | **3%** | 11% | **9%** | 9% | **2%** | 6% |

None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock. As of December 31, 2013, we do not expect to return any of the defined benefit pension plans' assets to TI in the next 12 months.

The following table shows the benefits we expect to pay to participants from the plans in the next ten years. Almost all of the payments will be made from plan assets and not from company assets.

| | U.S. Defined Benefit | U.S. Retiree Health Care | Medicare Subsidy | Non-U.S. Defined Benefit |
|---|---|---|---|---|
| 2014 | $ 208 | $ 36 | $ (4) | $ 81 |
| 2015 | 102 | 37 | (4) | 84 |
| 2016 | 105 | 39 | (4) | 86 |
| 2017 | 104 | 40 | (5) | 91 |
| 2018 | 101 | 41 | (5) | 94 |
| 2019 - 2023 | 421 | 196 | (13) | 521 |

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

| | **2013** | **2012** |
|---|---|---|
| Assumed health care cost trend rate for next year | **7.0%** | 7.0% |
| Ultimate trend rate | **5.0%** | 5.0% |
| Year in which ultimate trend rate is reached | **2022** | 2018 |

A one percentage point increase or decrease in health care cost trend rates over all future periods would have increased or decreased the accumulated postretirement benefit obligation for the U.S. retiree health care plan at December 31, 2013, by $22 million or $18 million, respectively. The service cost and interest cost components of 2013 plan expense would have increased or decreased by $2 million or $1 million, respectively.

Deferred compensation arrangements

We have a deferred compensation plan that allows U.S. employees whose base salary and management responsibility exceed a certain level to defer receipt of a portion of their cash compensation. Payments under this plan are made based on the participant's distribution election and plan balance. Participants can earn a return on their deferred compensation based on notional investments in the same investment funds that are offered in our defined contribution plans. In connection with the National acquisition, we assumed its deferred compensation plan, consisting of obligations and matching assets held in a Rabbi trust.

As of December 31, 2013, our liability to participants of the deferred compensation plans was $197 million and is recorded in Deferred credits and other liabilities on our Consolidated balance sheets. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. Except for the Rabbi trust assets of $37 million, no other assets are held in trust for the deferred compensation plans and so we remain liable to the participants. To serve as an economic hedge against changes in fair values of this liability, we invest in similar mutual funds that are recorded in Long-term investments. We record changes in the fair value of the liability and the related investment in SG&A as discussed in Note 9.

**12. Debt and lines of credit**

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of December 31, 2013, we had a variable-rate revolving credit facility from a consortium of investment-grade banks

that allows us to borrow up to $2 billion through March 2018. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of December 31, 2013, our credit facility was undrawn and we had no commercial paper outstanding.

Long-term debt

In May 2013, we issued an aggregate principal amount of $1.0 billion of fixed-rate long-term debt, with $500 million due in 2018 and $500 million due in 2023. We also incurred $6 million of issuance and other related costs that are being amortized to Interest and debt expense over the term of the debt. The proceeds of the offering were $986 million, net of the original issuance discount and were used toward the repayment of $1.5 billion of maturing debt, including floating-rate notes. In connection with this repayment, we settled a floating-to-fixed interest rate swap, associated with the maturing debt.

In August 2012, we issued an aggregate principal amount of $1.5 billion of fixed-rate long-term debt, with $750 million due in 2015 and $750 million due in 2019. The proceeds of the offering were $1.492 billion, net of the original issuance discount. We also incurred $7 million of issuance and other related costs that are being amortized to Interest and debt expense over the term of the debt.

Long-term debt outstanding as of December 31, 2013 and 2012 is as follows:

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| Floating-rate notes due 2013 (swapped to a 0.922% fixed rate) | **$ —** | $ 1,000 |
| Notes due 2013 at 0.875% | **—** | 500 |
| Notes due 2014 at 1.375% | **1,000** | 1,000 |
| Notes due 2015 at 3.95% (assumed with National acquisition) | **250** | 250 |
| Notes due 2015 at 0.45% | **750** | 750 |
| Notes due 2016 at 2.375% | **1,000** | 1,000 |
| Notes due 2017 at 6.60% (assumed with National acquisition) | **375** | 375 |
| Notes due 2018 at 1.00% | **500** | — |
| Notes due 2019 at 1.65% | **750** | 750 |
| Notes due 2023 at 2.25% | **500** | — |
| | **5,125** | 5,625 |
| Net unamortized premium | **33** | 61 |
| Current portion of long-term debt | **(1,000)** | (1,500) |
| Long-term debt | **$ 4,158** | $ 4,186 |

Interest and debt expense was $95 million in 2013, $85 million in 2012 and $42 million in 2011. This was net of the amortization of the debt premium and other debt issuance costs. Cash payments for interest on long-term debt were $102 million in 2013, $97 million in 2012 and $54 million in 2011. Capitalized interest was not material.

**13. Commitments and contingencies**

Operating leases

We conduct certain operations in leased facilities and also lease a portion of our data processing and other equipment. In addition, certain long-term supply agreements to purchase industrial gases are accounted for as operating leases. Lease agreements frequently include purchase and renewal provisions and require us to pay taxes, insurance and maintenance costs. Rental and lease expense incurred was $120 million, $124 million and $109 million in 2013, 2012 and 2011, respectively.

Capitalized software licenses

We have licenses for certain internal-use electronic design automation software that we account for as capital leases. The related liabilities are apportioned between Accounts payable and Deferred credits and other liabilities on our Consolidated balance sheets, depending on the contractual timing of payments.

Purchase commitments

Some of our purchase commitments entered in the ordinary course of business provide for minimum payments.

As of December 31, 2013, we had committed to make the following minimum payments under our non-cancellable operating leases, capitalized software licenses and purchase commitments:

| | Operating Leases | Capitalized Software Licenses | Purchase Commitments |
|---|---|---|---|
| 2014 | $ 96 | $ 44 | $ 102 |
| 2015 | 81 | 43 | 46 |
| 2016 | 60 | 26 | 31 |
| 2017 | 44 | — | 24 |
| 2018 | 32 | — | 8 |
| Thereafter | 100 | — | 22 |

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 or accrue for 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. 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 of 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.

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. From time to time, we also negotiate contingent consideration payment arrangements associated with certain acquisitions, which are recorded at fair value.

Discontinued operations indemnity

In connection with the 2006 sale of the former Sensors & Controls (S&C) business, we have agreed to indemnify Sensata Technologies, Inc., for specified litigation matters and certain liabilities, including environmental liabilities. In a settlement with a third party, we have agreed to indemnify that party for certain events relating to S&C products, which events we consider remote. We believe our total remaining potential exposure from both of these indemnities will not exceed $200 million. As of December 31, 2013, we believe future payments related to these indemnity obligations will not have a material effect on our financial condition, results of operations or liquidity.

**14. Stockholders’ equity**

We are authorized to issue 10,000,000 shares of preferred stock. No preferred stock is currently outstanding.

Treasury shares acquired in connection with the board-authorized stock repurchase program in 2013, 2012 and 2011 were 77,564,013 shares, 59,757,780 shares and 59,466,168 shares, respectively. As of December 31, 2013, $6.0 billion of stock repurchase authorizations remain, and no expiration date has been specified.

## 15. Supplemental financial information

### Other Income (Expense), Net

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Interest income | **$ 10** | $ 8 | $ 11 |
| Net gains on investments | **18** | 18 | 6 |
| Tax interest income (expense) | **(10)** | 32 | 1 |
| Other (a) | **(1)** | (11) | (13) |
| Total | **$ 17** | $ 47 | $ 5 |

(a) Includes lease income of approximately $15 million per year, primarily from the purchaser of a former business. As of December 31, 2013, the aggregate amount of non-cancellable future lease payments to be received from these leases is $54 million. These leases contain renewal options. Other also includes miscellaneous non-operational items such as losses related to former businesses, including settlements in 2012 and 2011; gains and losses from currency exchange rate changes; and gains and losses from our derivative financial instruments, primarily forward foreign currency exchange contracts.

### Prepaid Expenses and Other Current Assets

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Prepaid taxes on intercompany inventory profits (a) | **$ 667** | $ 571 |
| Other prepaid expenses and current assets | **196** | 234 |
| Prepaid expenses and other current assets | **$ 863** | $ 805 |

(a) See Note 7 for additional details.

### Property, Plant and Equipment at Cost

| | Depreciable Lives (Years) | December 31, | |
|---|---|---|---|
| | | 2013 | 2012 |
| Land | — | **$ 175** | $ 189 |
| Buildings and improvements | 5 - 40 | **2,913** | 3,006 |
| Machinery and equipment | 3 - 10 | **3,468** | 3,696 |
| Total | | **$ 6,556** | $ 6,891 |

### Accrued Expenses and Other Liabilities

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Severance and related expenses | **$ 158** | $ 217 |
| Customer incentive programs and allowances | **143** | 213 |
| Property and other non-income taxes | **108** | 127 |
| Other | **242** | 324 |
| Total | **$ 651** | $ 881 |

### Accumulated Other Comprehensive Income (Loss), Net of Taxes

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Postretirement benefit plans: | | |
| Net actuarial loss | **$ (525)** | $ (701) |
| Net prior service credit | **1** | 7 |
| Cash flow hedge derivative | **(4)** | (5) |
| Total | **$ (528)** | $ (699) |

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

In conformance with ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, the table below details where reclassifications out of AOCI are recorded on the Consolidated statements of income.

| **Details about AOCI Components** | | **2013** | **Related Statement of Income Line** |
|---|---|---|---|
| Net actuarial gains (losses) of defined benefit plans (a) | $ | 108 | Pension expense (b) |
| Tax benefit (expense) | | (37) | Provision for income taxes |
| Reclassification to Net income, net of taxes | $ | 71 | Net income |
| | | | |
| Prior service cost of defined benefit plans (c) | $ | (5) | Pension expense (b) |
| Tax benefit (expense) | | 2 | Provision for income taxes |
| Reclassification to Net income, net of taxes | $ | (3) | Net income |
| | | | |
| Derivative instrument | $ | 2 | Interest and debt expense |
| Tax benefit (expense) | | (1) | Provision for income taxes |
| Reclassification to Net income, net of taxes | $ | 1 | Net income |

(a) Equals the sum of Recognized net actuarial loss and Settlement losses as detailed in Note 11.
(b) Pension expense is included in the computation of total employee benefit cost, which is allocated to COR, R&D, SG&A and Restructuring charges/other in the Consolidated statements of income.
(c) Equals the sum of Amortization of prior service cost (credit) and Curtailment losses (gains), as detailed in Note 11.

## 16. Segment and geographic area data

Reportable segments

Our financial reporting structure is comprised of two reportable segments: Analog and Embedded Processing. These reportable 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. A summary of each reportable segment 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in every electronic device, whether plugged into a wall or running off a battery. Analog includes the following major product lines: HVAL, Power, HPA and SVA.
- *Embedded Processing* – Embedded Processing products are the "brains" of many electronic devices. Compared with general purpose microprocessors that perform many different tasks, embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. The devices vary from simple, low-cost products used in electric toothbrushes to highly specialized, complex devices used in wireless basestation communications infrastructure equipment. Embedded Processing includes the following major product lines: Processors, Microcontrollers and Connectivity.

Other

Other includes other operating segments that neither meet the quantitative thresholds for individually reportable segments nor are they aggregated with other operating segments. These operating segments primarily include our smaller product lines, such as DLP® products, primarily used in projectors to create high-definition images; certain custom semiconductors known as application-specific integrated circuits (ASICs); and calculators. Additionally, Other includes royalties received for our patented technology that we license to other electronics companies and revenue from transitional supply agreements related to acquisitions and divestitures. We also include revenue and associated costs from our legacy wireless products, which were part of our former Wireless segment. The Wireless segment was eliminated effective January 1, 2013. To conform to this revised reporting structure, we filed a Form 8-K on May 3, 2013, to recast prior period segment information presented in our Form 10-K for the year ended December 31, 2012.

We also include in Other restructuring charges and certain acquisition-related charges, as these charges are not used in evaluating the results of or in allocating resources to our segments. Acquisition-related charges include certain fair-value adjustments, restructuring charges, transaction expenses, acquisition-related retention bonuses and amortization of intangible

assets. Other also includes certain corporate-level items, such as litigation expenses, environmental costs and insurance proceeds. Except for these items, we allocate all of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

We use centralized manufacturing and support organizations, such as facilities, procurement and logistics, to provide products and support to our operating segments. 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. The assets and liabilities associated with our centralized operations are carried in Other.

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. There was no significant intersegment revenue. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Segment information

| | Analog | Embedded Processing | Other | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| **2013** | **$ 7,194** | **$ 2,450** | **$ 2,561** | **$ 12,205** |
| 2012 | 6,998 | 2,257 | 3,570 | 12,825 |
| 2011 | 6,375 | 2,381 | 4,979 | 13,735 |
| **Operating profit** | | | | |
| **2013** | **$ 1,859** | **$ 185** | **$ 788** | **$ 2,832** |
| 2012 | 1,650 | 158 | 165 | 1,973 |
| 2011 | 1,693 | 387 | 912 | 2,992 |

Geographic area information

The following geographic area data include revenue, based on product shipment destination and royalty payor location, and property, plant and equipment, based on physical location:

| | U.S. | Asia (a) | Europe | Japan | Rest of World | Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| **2013** | **$ 1,666** | **$ 7,370** | **$ 1,926** | **$ 1,072** | **$ 171** | **$ 12,205** |
| 2012 | 1,596 | 7,808 | 1,861 | 1,357 | 203 | 12,825 |
| 2011 | 1,468 | 8,619 | 1,822 | 1,462 | 364 | 13,735 |
| **Property, plant and equipment, net** | | | | | | |
| **2013** | **$ 1,765** | **$ 1,277** | **$ 196** | **$ 144** | **$ 17** | **$ 3,399** |
| 2012 | 1,931 | 1,547 | 241 | 174 | 19 | 3,912 |
| 2011 | 2,159 | 1,739 | 276 | 228 | 26 | 4,428 |

(a) Revenue from products shipped into China, including Hong Kong, was $5.2 billion in 2013, $5.4 billion in 2012 and $5.8 billion in 2011.

Major customer

No customer accounts for 10 percent or more of 2013 or 2012 revenue. Sales to the Nokia group of companies, including sales to indirect contract manufacturers, accounted for 13 percent of our 2011 revenue. Revenue from sales to Nokia is reflected primarily in Other.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Texas Instruments Incorporated

We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Instruments Incorporated and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 24, 2014, expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 24, 2014

## REPORT BY MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of TI is responsible for establishing and maintaining effective internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles. There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria) in *Internal Control - Integrated Framework*.

Based on our assessment we believe that, as of December 31, 2013, our internal control over financial reporting is effective based on the COSO criteria.

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
Texas Instruments Incorporated

We have audited Texas Instruments Incorporated's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Texas Instruments Incorporated's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report by management on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

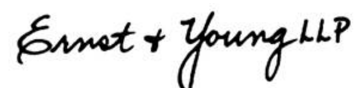
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Texas Instruments Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Texas Instruments Incorporated and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013, and our report dated February 24, 2014, expressed an unqualified opinion thereon.




Dallas, Texas
February 24, 2014

| Summary of Selected Financial Data | For Years Ended December 31, 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| [Millions of dollars, except share and per-share amounts] | | | | | |
| Revenue | **$ 12,205** | $ 12,825 | $ 13,735 | $ 13,966 | $ 10,427 |
| Operating costs and expenses (a) (b) | **9,373** | 10,852 | 10,743 | 9,452 | 8,436 |
| Operating profit | **2,832** | 1,973 | 2,992 | 4,514 | 1,991 |
| Other income (expense), net (OI&E) | **17** | 47 | 5 | 37 | 26 |
| Interest and debt expense | **95** | 85 | 42 | — | — |
| Income before income taxes | **2,754** | 1,935 | 2,955 | 4,551 | 2,017 |
| Provision for income taxes | **592** | 176 | 719 | 1,323 | 547 |
| Net income | **$ 2,162** | $ 1,759 | $ 2,236 | $ 3,228 | $ 1,470 |
| Diluted earnings per common share | **$ 1.91** | $ 1.51 | $ 1.88 | $ 2.62 | $ 1.15 |
| Dividends declared per common share | **$ 1.07** | $ 0.72 | $ 0.56 | $ 0.49 | $ 0.45 |
| Average dilutive potential common shares outstanding during year, in millions | **1,113** | 1,146 | 1,171 | 1,213 | 1,269 |

(a) Includes Acquisition-related charges of $341 million in 2013, $471 million in 2012 and $426 million in 2011 associated with our 2011 acquisition of National.

(b) Includes Restructuring charges/other, which net to a gain of $189 million, a charge of $264 million, a charge of $112 million, a gain of $111 million and a charge of $212 million in 2013, 2012, 2011, 2010 and 2009,respectively. The net gain of $189 million for 2013 includes a gain of $315 million from the transfer of wireless connectivity technology; the net charge of $264 million for 2012 includes a gain on the transfer of a Japan substitutional pension of $144 million; and the net gain of $111 million for 2010 includes a $144 million gain from the divestiture of a product line.

| | December 31, 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Working capital | **$ 5,272** | $ 4,800 | $ 4,329 | $ 5,079 | $ 4,527 |
| Property, plant and equipment, net | **3,399** | 3,912 | 4,428 | 3,680 | 3,158 |
| Total assets | **18,938** | 20,021 | 20,497 | 13,401 | 12,119 |
| Long-term debt | **4,158** | 4,186 | 4,211 | — | — |
| Stockholders’ equity | **10,807** | 10,961 | 10,952 | 10,437 | 9,722 |
| Number of: | | | | | |
| Employees | **32,209** | 34,151 | 34,759 | 28,412 | 26,584 |
| Stockholders of record | **17,213** | 18,128 | 19,733 | 20,525 | 24,190 |

| | For Years Ended December 31, 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Cash flows from operating activities | **$ 3,384** | $ 3,414 | $ 3,256 | $ 3,820 | $ 2,643 |
| Capital expenditures | **412** | 495 | 816 | 1,199 | 753 |
| Free cash flow (a) | **2,972** | 2,919 | 2,440 | 2,621 | 1,890 |
| Dividends paid | **1,175** | 819 | 644 | 592 | 567 |
| Stock repurchases | **2,868** | 1,800 | 1,973 | 2,454 | 954 |

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

See Notes to financial statements and Management’s discussion and analysis of financial condition and results of operations.

**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**

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in 35 countries. We have three segments: Analog, Embedded Processing 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.

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 products, more than 100,000 orderable parts, are integrated circuits that are used to accomplish many different things, such as converting and amplifying signals, interfacing with other devices, managing and distributing power, processing data, canceling noise and improving signal resolution. This broad portfolio includes products that are integral to almost all electronic equipment.

We sell catalog and application-specific standard semiconductor products, both of which we market to multiple customers. Catalog products are designed for use by many customers and/or many applications and are sold through both distribution and direct channels. The vast majority of our catalog products are differentiated. We also sell catalog commodity products, but they account for a small percentage of our revenue. The life cycles of catalog products generally span multiple years, with some products continuing to sell for decades after their initial release. Application-specific standard products (ASSPs) are designed for use by a smaller number of customers and are targeted to a specific application. The life cycles of ASSPs are generally determined by end-equipment upgrade cycles and can be as short as 12 to 24 months, although some can be used across multiple generations of customers’ products.

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. 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 that can be processed by other semiconductors, such as embedded processors. Analog semiconductors are also used to manage power in every electronic device, whether plugged into a wall or running off a battery. We estimate that we sell our Analog products to more than 100,000 customers. Our Analog products are used in many markets, particularly personal electronics and industrial.

Sales of our Analog products generated about 60 percent of our revenue in 2013. According to external sources, the worldwide market for analog semiconductors was about $40 billion in 2013. Our Analog segment's revenue in 2013 was $7.2 billion, or about 18 percent of this fragmented market, the leading position. We believe that we are well positioned to increase our market share over time.

Our Analog segment includes the following major product lines: High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA).

HVAL products: These include high-volume integrated analog products for specific applications and high-volume catalog products. HVAL products support applications like automotive safety devices, touch screen controllers, low voltage motor drivers and integrated motor controllers.

Power products: These include both catalog products and ASSPs that help customers manage power in electronic systems. Our broad portfolio of Power products is designed to enhance the efficiency of powered devices using battery management solutions, portable power conversion devices, power supply controls and point-of-load products.

HPA products: These include catalog analog products that we market to many different customers who use them in manufacturing a wide range of products. HPA products include high-speed data converters, amplifiers, sensors, high reliability products, interface products and precision analog products that are typically used in systems that require high performance. HPA products generally have long life cycles, often more than 10 years.

SVA products: These include a broad portfolio of power management, data converter, interface and operational amplifier catalog analog products used in manufacturing a wide range of products. SVA products support applications like video and data interface products, electrical fault/arc detection systems and mobile lighting and display systems. SVA products generally have long life cycles, often more than 10 years. SVA consists primarily of products that we acquired through our purchase of National Semiconductor Corporation in 2011.

*Embedded Processing*

Embedded Processing products are the “brains” of many electronic devices. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. The devices vary from simple, low-cost products used in electric toothbrushes to highly specialized, complex devices used in wireless basestation communications infrastructure equipment. Our Embedded Processing products are used in many markets, particularly industrial and automotive.

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

Sales of Embedded Processing products generated about 20 percent of our revenue in 2013. According to external sources, the worldwide market for embedded processors was about $17 billion in 2013. Our Embedded Processing segment's revenue in 2013 was $2.4 billion. This was the number two position and represented about 14 percent of this fragmented market. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Processors, Microcontrollers and Connectivity.

Processor products: These include digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Applications processors run an industry-standard operating system and perform multiple complex tasks, often communicating with other systems.

Microcontroller products: Microcontrollers are self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. Microcontrollers tend to have minimal requirements for memory and program length, with no operating system and low software complexity. Analog components that control or interface with sensors and other systems are often integrated into microcontrollers.

Connectivity products: Connectivity products enable electronic devices to seamlessly connect and transfer data, and the requirements for speed, data capability, distance and power vary depending on the application. Our Connectivity products support many wireless technologies to meet these requirements, including low-power wireless network standards like Zigbee® and other technologies like Bluetooth®, WiFi and GPS. Our Connectivity products are usually designed into customer devices alongside our processor and microcontroller products, enabling data to be collected, transmitted and acted upon.

*Other*

Other includes revenue from our smaller product lines, such as DLP® (primarily used in projectors to create high-definition images), certain custom semiconductors known as application-specific integrated circuits (ASICs) and calculators. It includes royalties received for our patented technology that we license to other electronics companies and revenue from transitional supply agreements related to acquisitions and divestitures. We also include revenue from our baseband products and from our OMAP™ applications processors and connectivity products sold into smartphones and consumer tablets , all of which are product lines that we previously announced we are exiting and are collectively referred to as “legacy wireless products.” Revenue from legacy wireless products declined throughout the year, and our exit from these products is complete. Other generated $2.6 billion of revenue in 2013.

We also include in Other restructuring charges and certain acquisition-related charges, as these charges are not used in evaluating the results of or in allocating resources to our segments. Acquisition-related charges include certain fair-value adjustments, restructuring charges, transaction expenses, acquisition-related retention bonuses and amortization of intangible

assets. Other also includes certain corporate-level items, such as litigation expenses, environmental costs, insurance proceeds, and assets and liabilities associated with our centralized operations, such as our worldwide manufacturing, facilities and procurement operations.

Product cycle

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing processes. Semiconductor prices and manufacturing costs tend to decline over time as manufacturing processes and product life cycles mature.

Market cycle

The "semiconductor cycle" is an important concept that refers to the ebb and flow of supply and 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. These are typically referred to as upturns and downturns in the semiconductor cycle. The semiconductor cycle is affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

Seasonality

Our revenue is subject to some seasonal variation. Our semiconductor revenue tends to be weaker in the first and fourth quarters when compared to the second and third quarters. Calculator revenue is tied to the U.S. back-to-school season and is therefore at its highest in the second and third quarters.

Manufacturing

Semiconductor manufacturing begins with 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, the wafer is cut into individual units and each unit is assembled into a package that then is usually retested. The entire process takes place in highly specialized facilities and requires an average of 12 weeks, with most products completing within 8 to 16 weeks.

The cost and lifespan of the equipment and processes we use to manufacture semiconductors vary by technology. Our Analog products and most of our Embedded Processing products can be manufactured using mature and stable, and therefore less expensive, equipment than is needed for manufacturing advanced logic products, such as some of our processor products.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation. 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, potentially lowering our profit margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, potentially benefiting our profit margins.

We expect to maintain sufficient internal manufacturing capacity to meet the vast majority of our production needs. To supplement our manufacturing capacity and maximize our responsiveness to customer demand and return on capital, we utilize the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2013, we sourced about 20 percent of our total wafers from external foundries and about 35 percent of our assembly/test services from subcontractors.

In 2013, we closed older wafer fabrication facilities in Hiji, Japan, and Houston, Texas. In December 2013, we acquired an assembly/test facility in the Hi-Tech Zone of Chengdu, China, adjacent to our existing fabrication facility in Chengdu.

Inventory

Our inventory practices differ by product, but we generally maintain inventory levels that are consistent with our expectations of customer demand. Because of the longer product life cycles of catalog products and their inherently lower risk of obsolescence, we generally carry more inventory of those products than application-specific products. Additionally, we sometimes maintain product inventory in unfinished wafer form, as well as higher finished-goods inventory of low-volume catalog products, allowing greater flexibility in periods of high demand. We also have consignment inventory programs in place for our largest customers and some distributors.

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 by jurisdiction and taxing authority. As a result, during any particular reporting period we may reflect in our financial statements one or more tax refunds or assessments, or changes to tax liabilities, involving one or more taxing authorities.

**Results of operations**

2013 compared with 2012

Our performance in 2013 was strong, reflecting our increased focus on Analog and Embedded Processing, where the diversity and longevity of our positions are assets. During 2013, 79 percent of our revenue came from our core businesses of Analog and Embedded Processing, with Analog revenue increasing 3 percent from 2012 and Embedded Processing revenue increasing 9 percent from 2012. Operating margin for Analog was 25.8 percent, and it exceeded 30 percent during the second half of 2013. Operating margin for Embedded Processing was 7.6 percent, a level that should increase as we continue to grow and better align resources with market opportunities. Additionally, we completed our exit from legacy wireless products. Our business model continues to generate strong cash flow from operations, with free cash flow for 2013 of $3 billion, or 24 percent of revenue. During the year we returned over $4 billion of cash to investors through a combination of stock repurchases and dividends.

Free cash flow is a non-GAAP financial measure. For a reconciliation to GAAP and an explanation of the purpose for providing this non-GAAP measure, see the Non-GAAP financial information section after the Liquidity and capital resources section.

| | For Years Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Revenue by segment: | | | |
| Analog | **$ 7,194** | $ 6,998 | $ 6,375 |
| Embedded Processing | **2,450** | 2,257 | 2,381 |
| Other | **2,561** | 3,570 | 4,979 |
| Revenue | **12,205** | 12,825 | 13,735 |
| Cost of revenue (COR) | **5,841** | 6,457 | 6,963 |
| Gross profit | **6,364** | 6,368 | 6,772 |
| Research and development (R&D) | **1,522** | 1,877 | 1,715 |
| Selling, general and administrative (SG&A) | **1,858** | 1,804 | 1,638 |
| Acquisition charges | **341** | 450 | 315 |
| Restructuring charges/other | **(189)** | 264 | 112 |
| Operating profit | **2,832** | 1,973 | 2,992 |
| Other income (expense) net (OI&E) | **17** | 47 | 5 |
| Interest and debt expense | **95** | 85 | 42 |
| Income before income taxes | **2,754** | 1,935 | 2,955 |
| Provision for income taxes | **592** | 176 | 719 |
| Net income | **$ 2,162** | $ 1,759 | $ 2,236 |
| Diluted earnings per common share | **$ 1.91** | $ 1.51 | $ 1.88 |
| | | | |
| Percentage of revenue: | | | |
| Gross profit | **52.1%** | 49.6% | 49.3% |
| R&D | **12.5%** | 14.6% | 12.5% |
| SG&A | **15.2%** | 14.1% | 11.9% |
| Operating profit | **23.2%** | 15.4% | 21.8% |

As required by accounting rule ASC 260, net income allocated to unvested restricted stock units (RSUs), on which we pay dividend equivalents, is excluded from the calculation of earnings per share (EPS). The amount excluded was $36 million, $31 million and $34 million for the years ended December 31, 2013, 2012 and 2011, respectively.

On May 3, 2013, we filed a Report on Form 8-K to recast the information in our Annual Report on Form 10-K for the year ended December 31, 2012, to reflect the elimination, effective January 1, 2013, of the Wireless segment. The information in this Management's discussion and analysis of financial condition and results of operations (MD&A) is presented on a basis that is consistent with that Form 8-K.

Our exit from legacy wireless products and the elimination of the Wireless segment resulted in changes to our corporate-level expense allocations, which negatively affected segment-level profitability in the year ended December 31, 2013. We expect a similar, although less significant, effect through the end of 2014. We allocate our corporate-level expenses, which are largely fixed, among our product lines in proportion to the operating expenses directly generated by them. Legacy wireless products generated lower operating expenses in 2013 than 2012 because we stopped investing in them. The corporate-level expenses allocated to those products were, therefore, proportionately lower, and the corporate-level expenses allocated to the remaining product lines were proportionately higher. This allocation change affects the profitability of each of our segments, but does not impact operating expense or profitability trends at the consolidated level.

Throughout the following discussion of our results of operations, unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes. New products tend not to have a significant impact on our results in any given period because our revenue is derived from 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.

Details of 2013 financial results

Revenue in 2013 was $12.20 billion, down $620 million, or 5 percent, from 2012 due to lower revenue from legacy wireless products.

Despite the decline in overall revenue, gross profit in 2013 of $6.36 billion was about even with 2012 due to a more favorable mix of products shipped and, to a lesser extent, lower manufacturing costs. Gross profit margin in 2013 was 52.1 percent of revenue compared with 49.6 percent in 2012.

Operating expenses were $1.52 billion for R&D and $1.86 billion for SG&A. R&D expense decreased $355 million, or 19 percent, from 2012 primarily reflecting the wind-down of our legacy wireless products. R&D expense as a percent of revenue was 12.5 percent compared with 14.6 percent in 2012. SG&A expense increased $54 million, or 3 percent, from 2012 primarily due to higher variable compensation and other support costs, partially offset by reduced costs from the wind-down of our legacy wireless products. SG&A expense as a percent of revenue was 15.2 percent compared with 14.1 percent in 2012.

Acquisition charges were related to our 2011 acquisition of National Semiconductor and were $341 million in 2013 compared with $450 million in 2012. The charges were primarily from the amortization of intangible assets. The decrease from 2012 was due to the nonrecurrence of integration-related expenses. See Note 2 to the financial statements for detailed information.

Restructuring charges/other in 2013 was a net credit of $189 million, reflecting the $315 million gain from our transfer of wireless connectivity technology to a customer in the second quarter, partially offset by restructuring charges of $126 million. This compared with a net charge of $264 million in 2012, which included restructuring and other charges of $408 million, partially offset by a $144 million gain from the transfer of the obligations and assets of a portion of our Japan pension program from the pension trust to the government of Japan. These net amounts are all included in Other. For details on restructuring actions, see the Restructuring actions section of this MD&A.

Operating profit was $2.83 billion, or 23.2 percent of revenue, compared with $1.97 billion, or 15.4 percent of revenue, in 2012.

OI&E for 2013 was income of $17 million compared with $47 million for 2012. The decrease was due to lower tax-related interest income.

Interest and debt expense was $95 million compared with $85 million in 2012. The increase was primarily due to higher average interest rates on debt outstanding during the period. See Note 12 to the financial statements for more information.

The income tax provision for 2013 was $592 million compared with $176 million for the prior year. The increase in the total tax provision was due to higher income before income taxes and, to a lesser extent, lower discrete tax benefits. The discrete tax benefits were $79 million in 2013, primarily due to the effect of the reinstatement of the federal research tax credit for 2012. In 2012, the discrete tax benefits were $252 million, primarily due to additional U.S. tax benefits for manufacturing related to prior years. Our annual effective tax rates were 24 percent in 2013 and 22 percent in 2012. These rates exclude the impact of the discrete tax benefits. See Note 7 to the financial statements for a reconciliation of the income tax provision to the statutory federal tax.

Net income was $2.16 billion, an increase of $403 million, or 23 percent, from 2012. EPS for 2013 was $1.91 compared with $1.51 for 2012. EPS in 2013 benefited $0.06 from 2012 due to a lower number of average shares outstanding as a result of our stock repurchase program.

Segment results

*Analog*

| | 2013 | 2012 | Change |
|---|---|---|---|
| Revenue | **$ 7,194** | $ 6,998 | 3% |
| Operating profit | **1,859** | 1,650 | 13% |
| Operating profit % of revenue | **25.8%** | 23.6% | |

Analog revenue increased $196 million, or 3 percent, from 2012 primarily due to growth in Power. Revenue from SVA and HPA also increased, but to a lesser extent. HVAL revenue decreased primarily due to a less favorable mix of products shipped.

Operating profit was $1.86 billion, or 25.8 percent of revenue. This was an increase of $209 million, or 13 percent, compared with 2012 primarily due to higher gross profit that benefited from higher revenue and lower manufacturing costs. This increase in gross profit was partially offset by higher operating expenses.

*Embedded Processing*

| | 2013 | 2012 | Change |
|---|---|---|---|
| Revenue | **$ 2,450** | $ 2,257 | 9% |
| Operating profit | **185** | 158 | 17% |
| Operating profit % of revenue | **7.6%** | 7.0% | |

Embedded Processing revenue increased $193 million, or 9 percent, compared with 2012 primarily due to higher revenue from Microcontrollers, and to a lesser extent, Processors and Connectivity.

Operating profit was $185 million, or 7.6 percent of revenue. This was an increase of $27 million, or 17 percent, compared with 2012 due to higher revenue and associated gross profit, partially offset by higher operating expenses.

*Other*

| | 2013 | 2012 | Change |
|---|---|---|---|
| Revenue | **$ 2,561** | $ 3,570 | -28 % |
| Operating profit* | **788** | 165 | 378 % |
| Operating profit % of revenue | **30.8%** | 4.6% | |

*Includes Acquisition charges and Restructuring charges/other

Revenue from Other was $2.56 billion in 2013. This was a decrease of $1.01 billion, or 28 percent, from 2012 primarily due to lower revenue from legacy wireless products.

Operating profit for 2013 from Other was $788 million, or 30.8 percent of revenue. This was an increase of $623 million, or 378 percent, compared with 2012 due to lower operating expenses and Restructuring charges/other. See Note 3 to the financial statements for more information on Restructuring charges/other. These decreases were partially offset by lower revenue and associated gross profit.

**Prior results of operations - 2012 compared with 2011**

During 2012, we faced a weak demand environment, but our operations performed well and we strengthened our strategic position. We grew our free cash flow to almost $3 billion, or 23 percent of revenue, despite lower revenue that resulted primarily from our decision to exit wireless baseband products. Our free cash flow was the result of more of our revenue coming from Analog and Embedded Processing, which offer solid growth and high margins and have low capital needs. During 2012, we returned 90 percent of this free cash flow to stockholders through our continued share repurchases and higher dividend payments.

Revenue in 2012 was $12.82 billion, down $910 million, or 7 percent, from 2011 primarily due to a weak demand environment. Revenue from a full year's inclusion of SVA slightly more than offset lower revenue from wireless baseband products.

Gross profit in 2012 was $6.37 billion, a decrease of $404 million, or 6 percent, from 2011. The decrease was primarily due to lower revenue. Gross profit margin in 2012 was 49.6 percent of revenue compared with 49.3 percent in 2011.

Operating expenses in 2012 were $1.88 billion for R&D and $1.80 billion for SG&A. R&D expense increased $162 million, or 9 percent, from 2011 primarily due to the inclusion of a full year of SVA. In 2012, R&D expense as a percent of revenue was 14.6 percent compared with 12.5 percent in 2011. SG&A expense increased $166 million, or 10 percent, from 2011 due to the inclusion of a full year of SVA. In 2012, SG&A expense as a percent of revenue was 14.1 percent compared with 11.9 percent in 2011.

Acquisition charges were related to the National acquisition and were $450 million in 2012 and $315 million in 2011. The increase was due to a full year of amortization of acquired intangible assets.

Restructuring charges/other were $264 million in 2012 and $112 million in 2011. The increase was primarily due to the restructuring of our former Wireless segment, partially offset by a $144 million gain we recognized from the Japan pension program change.

Operating profit in 2012 was $1.97 billion, or 15.4 percent of revenue, compared with $2.99 billion, or 21.8 percent of revenue, in 2011. The decrease was due to, in decreasing order, lower gross profit, higher operating expenses, higher restructuring charges and higher acquisition charges.

OI&E for 2012 was income of $47 million compared with $5 million for 2011. The increase was primarily due to tax-related interest income.

Interest and debt expense was $85 million in 2012 compared with $42 million in 2011. The increase was primarily due to having debt outstanding for a full year in 2012 compared with about eight months in 2011. We issued debt in May 2011 and assumed debt in September 2011, both in connection with our acquisition of National.

The annual effective tax rate for 2012 was 22 percent, which excluded discrete tax benefits of $252 million, resulting in a total income tax provision for 2012 of $176 million compared with a total tax provision of $719 million for the prior year. The decrease in the total tax provision was due to the combination of lower income before income taxes and the impact of discrete tax benefits. The decrease was partially offset by the impact of the expiration of the federal research tax credit at the end of 2011.

Net income in 2012 was $1.76 billion, a decrease of $477 million, or 21 percent, from 2011. EPS for 2012 was $1.51 compared with $1.88 for 2011. The decline in EPS was due to lower net income. EPS in 2012 benefited $0.03 from 2011 due to a lower number of average shares outstanding as a result of our stock repurchase program.

Segment results

*Analog*

| | 2012 | 2011 | Change |
|---|---|---|---|
| Revenue | **$ 6,998** | $ 6,375 | 10 % |
| Operating profit | **1,650** | 1,693 | -3 % |
| Operating profit % of revenue | **23.6%** | 26.6% | |

Analog revenue for 2012 increased $623 million, or 10 percent, from 2011 primarily due to the inclusion of a full year of SVA, and to a lesser extent, growth in Power. Partially offsetting the increase was lower revenue from HPA. Revenue from HVAL products was about even.

Operating profit for 2012 was $1.65 billion, or 23.6 percent of revenue. This was a decrease of $43 million, or 3 percent, compared with 2011 primarily due to higher operating expenses from the inclusion of a full year of SVA, partially offset by higher gross profit.

*Embedded Processing*

| | 2012 | 2011 | Change |
|---|---|---|---|
| Revenue | **$ 2,257** | $ 2,381 | -5 % |
| Operating profit | **158** | 387 | -59 % |
| Operating profit % of revenue | **7.0%** | 16.3% | |

Embedded Processing revenue for 2012 decreased $124 million, or 5 percent, compared with 2011 due to lower revenue from Processors and, to a lesser extent, a less favorable mix of Microcontrollers shipped. The decrease was partially offset by higher revenue from Connectivity.

Operating profit for 2012 was $158 million, or 7.0 percent of revenue. This was a decrease of $229 million, or 59 percent, compared with 2011 primarily due to lower gross profit, and to a lesser extent, higher operating expenses.

*Other*

| | 2012 | 2011 | Change |
|---|---|---|---|
| Revenue | **$ 3,570** | $ 4,979 | -28 % |
| Operating profit* | **165** | 912 | -82 % |
| Operating profit % of revenue | **4.6%** | 18.3% | |

* Includes Acquisition charges and Restructuring charges/other

Revenue from Other was $3.57 billion in 2012. This was a decrease of $1.41 billion, or 28 percent, from 2011 primarily due to lower revenue from wireless baseband products.

Operating profit for 2012 from Other was $165 million, or 4.6 percent of revenue. This was a decrease of $747 million, or 82 percent, compared with 2011 due to lower revenue and associated gross profit and higher restructuring and acquisition charges. Included in Restructuring charges/other for 2012 was a $144 million gain from the Japan pension program change. The increase in acquisition charges was due to a full year of increased amortization expense for acquired intangible assets.

**Restructuring actions**

We periodically undertake restructuring actions to focus our investments on opportunities that have the best potential for sustainable growth and returns. In January 2014, we announced cost-saving actions in Embedded Processing and in Japan to focus on markets with greater potential for sustainable growth and strong long-term returns. Cost reductions include the elimination of about 1,100 jobs worldwide, and we expect annualized savings of about $130 million by the end of 2014. We expect these actions to be substantially complete by mid-2015. Total restructuring charges related to these actions are expected to be about $80 million, all of which will be severance and related benefit costs. Additionally, in 2012 we announced a restructuring of our Wireless business and closure of two older semiconductor manufacturing facilities in Houston, Texas, and Hiji, Japan. Both of these actions were complete by the end of 2013.

In 2013, restructuring charges were $126 million, which consisted of $49 million related to the action in Embedded Processing, $38 million related to the Wireless action and $39 million related to the closing of the manufacturing facilities. Of the $126 million, $85 million was for severance and benefit costs and $41 million was for other charges.

In 2012, restructuring charges were $400 million, which consisted of $351 million related to the Wireless action and $49 million related to the closing of the manufacturing facilities. Of the $400 million, $251 million was for severance and benefit costs and $149 million was for other charges, including a non-tax-deductible goodwill impairment of $90 million.

All of these charges are reflected on the Restructuring charges/other line and are included in Other. See Note 3 to the financial statements for more information.

**Financial condition**

At the end of 2013, total cash (Cash and cash equivalents plus Short-term investments) was $3.83 billion, a decrease of $136 million from the end of 2012.

Accounts receivable were $1.20 billion at the end of 2013. This was a decrease of $27 million compared with the end of 2012. Days sales outstanding were 36 at the end of 2013 compared with 37 at the end of 2012.

Inventory was $1.73 billion at the end of 2013. This was a decrease of $26 million from the end of 2012. Days of inventory at the end of 2013 were 112 compared with 103 at the end of 2012, consistent with our target range of 105 to 115 days.

**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 revolving credit facilities. Cash flow from operating activities for 2013 was $3.38 billion, about even with last year as the increase in net income was largely offset by the increase in working capital requirements.

We had $1.63 billion of Cash and cash equivalents and $2.20 billion of Short-term investments as of December 31, 2013.

We have a variable-rate revolving credit facility with a consortium of investment-grade banks that allows us to borrow up to $2 billion until March 2018. This credit facility also serves as support for the issuance of commercial paper. As of December 31, 2013, our credit facility was undrawn and we had no commercial paper outstanding.

In 2013, investing activities used $3 million compared with $1.04 billion in 2012. For 2013, Capital expenditures were $412 million compared with $495 million in 2012. Capital expenditures in both periods were primarily for semiconductor manufacturing equipment. In 2013, we had sales of short-term investments, net of purchases, that provided cash proceeds of $342 million. This compared with using cash of $604 million in 2012 to make purchases of short-term investments, net of sales.

In 2013, financing activities used net cash of $3.17 billion compared with $1.95 billion in 2012. In 2013, we received proceeds of $986 million from the issuance of fixed-rate long-term debt (net of original issuance discount) and repaid $1.50 billion of maturing debt. In 2012, we received net proceeds of $1.49 billion from the issuance of fixed-rate long-term debt and repaid $1.38 billion of debt and commercial paper. Dividends paid in 2013 were $1.18 billion compared with $819 million in 2012, reflecting increases in the dividend rate in each year. In 2013, we announced two increases in our quarterly cash dividend. During 2013, the quarterly dividend increased from $0.21 to $0.30 per share, resulting in an annualized dividend payment of $1.20 per share. In 2013, we used $2.87 billion to repurchase 77.6 million shares of our common stock. This compared with $1.80 billion used in 2012 to repurchase 59.8 million shares. Employee exercises of stock options are also reflected in Cash flows from financing activities. In 2013, these exercises provided cash proceeds of $1.31 billion compared with $523 million in 2012. Stock option exercises in 2013 were higher than historical averages.

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 various ratios based on that measure.  These are financial measures that were not prepared in accordance with 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).

The free cash flow measures were compared to the following GAAP items to determine the various non-GAAP ratios presented below and referred to in the MD&A:  Revenue, Dividends paid and Stock repurchases.  Reconciliation to the most directly comparable GAAP-based ratios is provided in the tables below.

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

| Non-GAAP Reconciliations | For Year Ended December 31, 2013 | Percentage of Revenue | For Year Ended December 31, 2012 | Percentage of Revenue |
|---|---|---|---|---|
| Revenue | $ 12,205 | | $ 12,825 | |
| | | | | |
| Cash flow from operations (GAAP) | $ 3,384 | 28% | $ 3,414 | 27% |
| Capital expenditures | (412) | | (495) | |
| Free cash flow (non-GAAP) | $ 2,972 | 24% | $ 2,919 | 23% |

| | For Year Ended December 31, 2012 |
|---|---|
| Dividends paid | **$ 819** |
| Stock repurchases | **1,800** |
| Total cash returned to shareholders | **$ 2,619** |
| | |
| Percentage of Cash flow from operations (GAAP) | 77% |
| Percentage of free cash flow (non-GAAP) | 90% |

**Long-term contractual obligations**

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **2014** | **2015/2016** | **2017/2018** | **Thereafter** | **Total** |
| Long-term debt obligations (a) | $ 1,000 | $ 2,000 | $ 875 | $ 1,250 | **$ 5,125** |
| Operating lease obligations (b) | 96 | 141 | 76 | 100 | **413** |
| Software license obligations (c) | 44 | 69 | — | — | **113** |
| Purchase obligations (d) | 102 | 77 | 32 | 22 | **233** |
| Deferred compensation plan (e) | 15 | 33 | 35 | 77 | **160** |
| Total (f) | $ 1,257 | $ 2,320 | $ 1,018 | $ 1,449 | **$ 6,044** |

(a) Long-term debt obligations include amounts classified as the current portion of long-term debt, specifically obligations that will mature within 12 months. The related interest payments are not included.

(b) Includes minimum payments for leased facilities and equipment and purchases of industrial gases under contracts accounted for as an operating lease.

(c) Includes payments under license agreements for electronic design automation software.

(d) Includes contractual arrangements with suppliers where there is a fixed, non-cancellable payment schedule or minimum payments due with a reduced delivery schedule. Excluded from the table are cancellable arrangements. However, depending on when certain purchase arrangements may be cancelled, an additional $14 million of cancellation penalties may be required to be paid, which are not reflected in the table.

(e) Includes an estimate of payments under this plan for the liability that existed at December 31, 2013.

(f) Excluded from the table are $91 million of uncertain tax liabilities under ASC 740, as well as any planned future funding contributions to retirement benefit plans. Amounts associated with uncertain tax liabilities have been excluded because of the difficulty in making reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Regarding future funding of retirement benefit plans, we plan to contribute about $50 million in 2014, but funding projections beyond 2014 are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plans' asset performance, interest rates and potential U.S. and non-U.S. legislation.

**Critical accounting policies**

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States, we use statistical analyses, estimates and projections that affect the reported amounts and related disclosures and may vary from actual results. We consider the following accounting policies to be both those that are most important to the

portrayal of our financial condition and that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a significant effect on our financial statements.

Revenue recognition

Revenue from sales of our products, including sales to our distributors, is recognized upon shipment or delivery, depending upon the terms of the sales order, provided that persuasive evidence of a sales arrangement exists, title and risk of loss have transferred to the customer, the sales amounts are fixed or determinable, and collection of the revenue is reasonably assured. Revenue from sales of our products that are subject to inventory consignment agreements is recognized when the customer or distributor pulls product from consignment inventory that we store at designated locations.

We reduce revenue based on estimates of future credits to be granted to customers. Credits include volume-based incentives, other special pricing arrangements and product returns due to quality issues. Our estimates of future credits are based on historical experience, analysis of product shipments and contractual arrangements with customers and distributors.

In 2013, about 55 percent of our revenue was generated from sales of our products to distributors. We recognize distributor revenue net of allowances, which are management's estimates based on analysis of historical data, current economic conditions and contractual terms. These allowances recognize the impact of credits granted to distributors under certain programs common in the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities, or are allowed to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor, or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in its inventory, or other incentives designed to maximize growth opportunities. Historical claims data are maintained for each of the programs, with differences among geographic regions taken into consideration. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in distributor revenue and inventory levels. Allowances are also adjusted when recent historical data do not represent anticipated future activity. About 50 percent of our distributor revenue is generated from sales of consigned inventory, and we expect this proportion to continue to grow over time. The allowances we record against this revenue are not material.

In addition, we monitor collectability of accounts receivable primarily through review of the accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made.

Income taxes

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

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. In this process, certain relevant criteria are evaluated including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior years that can be used to absorb net operating losses and credit carrybacks, and taxable income in future years. Our judgment regarding future recoverability of our deferred tax assets based on these criteria may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require material adjustments to the deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made. Also, our plans for the permanent reinvestment or eventual repatriation of the accumulated earnings of certain of our non-U.S. operations could change. Such changes could have a material effect on tax expense in future years.

In addition to the factors described above, the effective tax rate reflected in forward-looking statements is based on then-current tax law. Significant changes in tax law enacted during the year could affect these estimates. Retroactive changes in tax law

enacted subsequent to the end of a reporting period are reflected in the period of enactment as a discrete tax item. The extent to which the effective tax rate reflected in forward-looking statements differs from the 35 percent statutory corporate tax rate is generally due to lower statutory tax rates applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits. These lower tax rates are generally statutory in nature, without expiration and available to companies that operate in those taxing jurisdictions.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. Allowances are determined quarterly by comparing inventory levels of individual materials and parts to historical usage rates, current backlog and estimated future sales and by analyzing the age of inventory, in order to identify specific components of inventory that are judged unlikely to be sold. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of market prices for those products. In addition to this specific identification process, statistical allowances are calculated for remaining inventory based on historical write-offs of inventory for salability and obsolescence reasons. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Impairment of acquisition-related intangibles and goodwill

We review acquisition-related intangible assets for impairment when certain indicators suggest the carrying amount may not be recoverable. Factors considered include the underperformance of an asset compared with expectations and shortened useful lives due to planned changes in the use of the assets. Recoverability is determined by comparing the carrying amount of the assets to estimated future undiscounted cash flows. If future undiscounted cash flows are less than the carrying amount, an impairment charge would be recognized for the excess of the carrying amount over fair value, determined by utilizing a discounted cash flow technique. Additionally, in the case of intangible assets that will continue to be used in future periods, a shortened useful life may be utilized if appropriate, resulting in accelerated amortization based upon the expected net realizable value of the asset at the date the asset will no longer be utilized.

We review goodwill for impairment annually, or more frequently if certain impairment indicators arise, such as significant changes in business climate, operating performance or competition, or upon the disposition of a significant portion of a reporting unit. A significant amount of judgment is involved in determining if an indicator of impairment has occurred between annual test dates. This impairment review compares the fair value for each reporting unit containing goodwill to its carrying value. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions, including projected future cash flows, discount rates based on weighted average cost of capital and future economic and market conditions. We base our fair-value estimates on assumptions we believe to be reasonable.

Actual cash flow amounts for future periods may differ from estimates used in impairment testing.

**Changes in accounting standards**

See Note 1 to the financial statements for information on new accounting standards.

**Off-balance sheet arrangements**

As of December 31, 2013, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

**Commitments and contingencies**

See Note 13 to the financial statements for a discussion of our commitments and contingencies.

**Quantitative and qualitative disclosures about market risk**

Foreign exchange risk

The U.S. dollar is the functional currency for financial reporting. Our non-U.S. entities frequently own assets or liabilities denominated in U.S. dollars or non-local currencies. Exchange rate fluctuations can have a significant impact on taxable income in those jurisdictions, and consequently our effective tax rate.

We use forward currency exchange contracts to reduce the earnings impact exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. For example, at year-end 2013, we had forward currency exchange contracts outstanding with a notional value of $459 million to hedge net balance sheet exposures (including $211 million to sell Japanese yen, $120 million to sell euros and $33 million to sell British pound sterling). Similar hedging activities existed at year-end 2012.

Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by these forward currency exchange contracts, based on year-end 2013 balances and currency exchange rates, a hypothetical 10 percent plus or minus fluctuation in non-U.S. currency exchange rates would result in a pre-tax currency exchange gain or loss of approximately $4 million.

Interest rate risk

We have the following potential exposure to changes in interest rates: (1) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (2) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2013, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by $9 million and decrease the fair value of our long-term debt by $147 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2013 include the following:

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

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in deferred compensation liabilities such that a 10 percent increase or decrease in the investments' fair values would not materially affect operating results. Non-marketable equity securities and some venture capital funds are stated at cost. Impairments deemed to be other-than-temporary are expensed in net income. Investments in the remaining venture capital funds are stated using the equity method. See Note 9 to the financial statements for details of equity and other long-term investments.

**Quarterly Financial Data**
**[Millions of dollars, except per-share amounts]**

| | Quarter | | | |
|---|---|---|---|---|
| **2013** | **1st** | **2nd** | **3rd** | **4th** |
| **Revenue** | **$ 2,885** | **$ 3,047** | **$ 3,244** | **$ 3,028** |
| **Gross profit** | **1,374** | **1,570** | **1,779** | **1,640** |
| **Operating profit** | **395** | **906** | **844** | **687** |
| **Net income** | **362** | **660** | **629** | **511** |
| **Earnings per common share:** | | | | |
| **Basic earnings per common share** | **$ 0.32** | **$ 0.59** | **$ 0.56** | **$ 0.46** |
| **Diluted earnings per common share** | **0.32** | **0.58** | **0.56** | **0.46** |

| | Quarter | | | |
|---|---|---|---|---|
| 2012 | 1st | 2nd | 3rd | 4th |
| Revenue | $ 3,121 | $ 3,335 | $ 3,390 | $ 2,979 |
| Gross profit | 1,531 | 1,651 | 1,740 | 1,445 |
| Operating profit | 397 | 598 | 840 | 139 |
| Net income | 265 | 446 | 784 | 264 |
| Earnings per common share: | | | | |
| Basic earnings per common share | $ 0.23 | $ 0.38 | $ 0.68 | $ 0.23 |
| Diluted earnings per common share | 0.22 | 0.38 | 0.67 | 0.23 |

Included in the results above were the following items:

| | **Quarter** | | | |
|---|---|---|---|---|
| **2013** | **1st** | **2nd** | **3rd** | **4th** |
| **Acquisition charges (a)** | **$ 86** | **$ 86** | **$ 86** | **$ 84** |
| **Restructuring charges/other (b)** | **15** | **(282)** | **16** | **62** |

| | Quarter | | | |
|---|---|---|---|---|
| 2012 | 1st | 2nd | 3rd | 4th |
| Acquisition-related charges (a) | $ 174 | $ 104 | $ 106 | $ 88 |
| Recorded as Cost of revenue | 21 | -- | -- | -- |
| Recorded as Acquisition charges | 153 | 104 | 106 | 88 |
| Restructuring charges/other (b) | 10 | 13 | (122) | 363 |

(a) See Note 2 to the financial statements for additional information.
(b) See Note 3 to the financial statements for additional information.

**Common stock prices and dividends**

TI common stock is listed on The NASDAQ Global Select Market. The table below shows the high and low closing prices of TI common stock as reported by Bloomberg L.P. and the dividends paid per common share for each quarter during the past two years.

| | | Quarter | | | |
|---|---|---|---|---|---|
| | | **1st** | **2nd** | **3rd** | **4th** |
| Stock prices: | | | | | |
| **2013** | **High** | **$ 35.62** | **$ 37.09** | **$ 40.85** | **$ 43.91** |
| | **Low** | **31.55** | **33.92** | **35.05** | **39.24** |
| 2012 | High | 34.24 | 33.41 | 30.38 | 31.81 |
| | Low | 29.24 | 26.55 | 26.06 | 27.00 |
| Dividends paid: | | | | | |
| **2013** | | **$ 0.21** | **$ 0.28** | **$ 0.28** | **$ 0.30** |
| 2012 | | 0.17 | 0.17 | 0.17 | 0.21 |

Exhibit 21

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
LIST OF SUBSIDIARIES OF THE REGISTRANT

The following are subsidiaries of the Registrant as of December 31, 2013.

| Subsidiary and Name Under Which Business is Done | Where Organized |
| --- | --- |
| ActSolar, Inc. | Delaware |
| Algorex Inc. | California |
| ASIC II Limited | Hawaii |
| Benchmarq Microelectronics Corporation of South Korea | Delaware |
| Burr-Brown International Holding Corporation | Delaware |
| Butterfly Communications Inc. | Delaware |
| Electronica NSC de Mexico, S.A. de C.V. | Mexico |
| Energy Recommerce Inc. | California |
| innoCOMM wireless | California |
| Integrated Circuit Designs, Inc. | Maryland |
| Luminary Micro India Private Limited | India |
| Mediamatics, Inc. | California |
| National Acquisition Sub, Inc. | Delaware |
| National Semiconductor (Far East) Limited | Hong Kong |
| National Semiconductor (I.C.) Limited | Israel |
| National Semiconductor (Maine), Inc. | Delaware |
| National Semiconductor Corporation | Delaware |
| National Semiconductor Germany AG | Germany |
| National Semiconductor GmbH | Germany |
| National Semiconductor Holding Sdn. Bhd. | Malaysia |
| National Semiconductor Hong Kong Limited | Hong Kong |
| National Semiconductor Hong Kong Sales Limited | Hong Kong |
| National Semiconductor International B.V. | Netherlands |
| National Semiconductor International Hong Kong Limited | Hong Kong |
| National Semiconductor International, Inc. | Delaware |
| National Semiconductor Investments II Ltd. | British Virgin Islands |
| National Semiconductor Labuan Ltd. | Malaysia |
| National Semiconductor Malaysia LLC | Delaware |
| National Semiconductor Management Shanghai Limited | China |
| National Semiconductor Manufacturer Singapore Pte. Ltd. | Singapore |
| National Semiconductor Manufacturing Hong Kong Limited | Hong Kong |
| National Semiconductor (Pte) Limited | Singapore |
| National Semiconductor Technology Sdn. Bhd. | Malaysia |
| National Semicondutores da America do Sul Ltda. | Brazil |
| National Semicondutores do Brasil Ltda. | Brazil |
| Telogy Networks, Inc. | Delaware |
| Texas Instruments AB | Sweden |
| Texas Instruments Asia Limited | Delaware |
| Texas Instruments Austin Incorporated | Delaware |
| Texas Instruments Australia Pty Limited | Australia |
| Texas Instruments Belgium S.A. | Belgium |
| Texas Instruments Business Expansion GmbH | Germany |

| Subsidiary and Name Under Which Business is Done | Where Organized |
|---|---|
| Texas Instruments Canada Limited | Canada |
| Texas Instruments China Incorporated | Delaware |
| Texas Instruments China Trading Limited | Hong Kong |
| Texas Instruments CZ, s.r.o. | Czech Republic |
| Texas Instruments de Mexico, S. de R.L. de C.V. | Mexico |
| Texas Instruments Denmark A/S | Denmark |
| Texas Instruments Deutschland GmbH | Germany |
| Texas Instruments Electronics Malaysia Sdn. Bhd. | Malaysia |
| Texas Instruments Espana, S.A. | Spain |
| Texas Instruments Estonia Oü | Estonia |
| Texas Instruments Finland Oy | Finland |
| Texas Instruments France S.A. | France |
| Texas Instruments Gesellschaft m.b.H. | Austria |
| Texas Instruments Holland B.V. | Netherlands |
| Texas Instruments Hong Kong Limited | Hong Kong |
| Texas Instruments Hungary Korlatolt Felelossegu Tarsasag | Hungary |
| Texas Instruments (India) Private Limited | India |
| Texas Instruments International Capital Corporation | Delaware |
| Texas Instruments International Holding Company S.à r.l. | Luxembourg |
| Texas Instruments International Management Company S.à r.l. | Luxembourg |
| Texas Instruments International Trade Corporation | Delaware |
| Texas Instruments International (U.S.A.) Inc. | Delaware |
| Texas Instruments (Ireland) Limited | Ireland |
| Texas Instruments Ireland Trading Limited | Ireland |
| Texas Instruments Israel Ltd. | Israel |
| Texas Instruments Israel Medical (2009) Ltd. | Israel |
| Texas Instruments Italia S.r.l. | Italy |
| Texas Instruments Japan Limited | Japan |
| Texas Instruments Japan Semiconductor Limited | Japan |
| Texas Instruments Korea Limited | Korea |
| Texas Instruments Lehigh Valley Incorporated | Delaware |
| Texas Instruments Limited | United Kingdom |
| Texas Instruments Low Power Wireless San Diego LLC | Delaware |
| Texas Instruments Malaysia Sdn. Bhd. | Malaysia |
| Texas Instruments Marketing & Finance GmbH & Co. KG | Germany |
| Texas Instruments Melbourne Incorporated | Florida |
| Texas Instruments Northern Virginia Incorporated | Delaware |
| Texas Instruments Norway AS | Norway |
| Texas Instruments Palo Alto Incorporated | California |
| Texas Instruments (Philippines) LLC | Delaware |
| Texas Instruments Richardson LLC | Delaware |
| Texas Instruments Santa Rosa Incorporated | California |
| Texas Instruments Semiconductor Manufacturing (Chengdu) Co., Ltd. | China |
| Texas Instruments Semiconductor Technologies (Shanghai) Co., Ltd. | China |
| Texas Instruments Semiconductores e Tecnologias Ltda. | Brazil |
| Texas Instruments (Shanghai) Co., Ltd. | China |
| Texas Instruments Singapore (Pte) Limited | Singapore |
| Texas Instruments Sunnyvale Incorporated | Delaware |
| Texas Instruments Sweden AB | Sweden |

| Subsidiary and Name Under Which Business is Done | Where Organized |
| --- | --- |
| Texas Instruments Taiwan Limited | Taiwan |
| Texas Instruments Tucson Corporation | Delaware |
| Texas Instruments (U.K.) Holdings Limited | United Kingdom |
| Texas Instruments (U.K.) Limited | United Kingdom |
| Texas Instruments (U.K.) Pension Trust Company Limited | United Kingdom |
| TI Europe Limited | United Kingdom |
| TI (Philippines), Inc. | Philippines |
| TI Verwaltungs GmbH | Germany |
| Unitrode Corporation | Maryland |
| Unitrode-Maine | Unitrode-Maine |

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report on Form 10-K of Texas Instruments Incorporated of our reports dated February 24, 2014, with respect to the consolidated financial statements of Texas Instruments Incorporated and the effectiveness of internal control over financial reporting of Texas Instruments Incorporated, included in the 2013 Annual Report to Stockholders of Texas Instruments Incorporated.

We also consent to the incorporation by reference in the following registration statements, and in the related prospectuses thereto, of our reports dated February 24, 2014, with respect to the consolidated financial statements of Texas Instruments Incorporated, and the effectiveness of internal control over financial reporting of Texas Instruments Incorporated, incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 2013: Registration Statements (Forms S-8) No. 333-158933, No. 333-158934, No. 33-42172, No. 33-54615, No. 33-61154, No. 333-07127 (as amended), No. 333-41913, No. 333-41919, No. 333-31321 (as amended), No. 333-31323, No. 333-48389, No. 333-44662, No. 333-107759, No. 333-107760, No. 333-107761, No. 333-127021, and No. 333-177235; Registration Statements (Forms S-3) No. 333-165045 and No. 333-186803; and Registration Statements (Forms S-4) No. 333-89433 (as amended), No. 333-87199, No. 333-80157 (as amended), and No. 333-41030 (as amended).

/S/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Dallas, Texas
February 24, 2014

Exhibit 31(a)

CERTIFICATIONS

I, Richard K. Templeton, certify that:

1. I have reviewed this report on Form 10-K of Texas Instruments Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Richard K. Templeton

**Richard K. Templeton**
**Chairman, President and**
**Chief Executive Officer**

Exhibit 31(b)

CERTIFICATIONS

I, Kevin P. March, certify that:

1. I have reviewed this report on Form 10-K of Texas Instruments Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2014

/s/ Kevin P. March

**Kevin P. March**
**Senior Vice President and**
**Chief Financial Officer**

Exhibit 32(a)

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Richard K. Templeton, Chairman, President and Chief Executive Officer of Texas Instruments Incorporated (the “Company”), hereby certifies that, to his knowledge:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2014

/s/ Richard K. Templeton

**Richard K. Templeton**
**Chairman, President and**
**Chief Executive Officer**

Exhibit 32(b)

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin P. March, Senior Vice President and Chief Financial Officer of Texas Instruments Incorporated (the "Company"), hereby certifies that, to his knowledge:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2014

/s/ Kevin P. March

**Kevin P. March**
**Senior Vice President and**
**Chief Financial Officer**