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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from ___________ to ___________

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State of Incorporation)**	**75-0289970** **(I.R.S. Employer Identification No.)**
12500 TI Boulevard, Dallas, Texas **(Address of principal executive offices)**	**75243** **(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 ☒ No ☐

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

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

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

999,485,728
Number of shares of Registrant's common stock outstanding as of
October 26, 2016

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Consolidated Statements of Income	**For Three Months Ended September 30,**		**For Nine Months Ended September 30,**	
(Millions of dollars, except share and per-share amounts)	**2016**	**2015**	**2016**	**2015**
Revenue	**$ 3,675**	$ 3,429	**$ 9,956**	$ 9,811
Cost of revenue (COR)	**1,395**	1,432	**3,849**	4,117
Gross profit	**2,280**	1,997	**6,107**	5,694
Research and development (R&D)	**356**	316	**1,027**	974
Selling, general and administrative (SG&A)	**448**	434	**1,356**	1,343
Acquisition charges	**80**	83	**239**	248
Restructuring charges/other	**1**	—	**5**	(3)
Operating profit	**1,395**	1,164	**3,480**	3,132
Other income (expense), net (OI&E)	**4**	6	**14**	13
Interest and debt expense	**18**	22	**61**	68
Income before income taxes	**1,381**	1,148	**3,433**	3,077
Provision for income taxes	**413**	350	**1,018**	927
Net income	**$ 968**	$ 798	**$ 2,415**	$ 2,150
Earnings per common share (EPS):				
Basic	**$ .95**	$ .77	**$ 2.37**	$ 2.05
Diluted	**$ .94**	$ .76	**$ 2.34**	$ 2.02
Average shares outstanding (millions):				
Basic	**1,003**	1,023	**1,004**	1,036
Diluted	**1,017**	1,035	**1,017**	1,049
Cash dividends declared per common share	**$ .38**	$ .34	**$ 1.14**	$ 1.02

As a result of accounting rule ASC 260, which requires a portion of Net income to be allocated to unvested restricted stock units (RSUs) on which we pay dividend equivalents, diluted EPS is calculated using the following:

	2016 (Three Months)	2015 (Three Months)	2016 (Nine Months)	2015 (Nine Months)
Net income	**$ 968**	$ 798	**$ 2,415**	$ 2,150
Income allocated to RSUs	**(11)**	(11)	**(29)**	(30)
Income allocated to common stock for diluted EPS	**$ 957**	$ 787	**$ 2,386**	$ 2,120

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income	**For Three Months Ended September 30,**		**For Nine Months Ended September 30,**	
(Millions of dollars)	**2016**	**2015**	**2016**	**2015**
Net income	**$ 968**	$ 798	**$ 2,415**	$ 2,150
Other comprehensive income (loss), net of taxes:				
Net actuarial gains (losses) of defined benefit plans:				
Adjustments	**(17)**	(33)	**(47)**	(43)
Recognized within Net income	**12**	13	**39**	40
Prior service (cost) credit of defined benefit plans:				
Adjustments	**—**	20	**1**	20
Recognized within Net income	**(1)**	—	**(3)**	1
Derivative instruments:				
Recognized within Net income	**—**	1	**—**	1
Other comprehensive income (loss)	**(6)**	1	**(10)**	19
Total comprehensive income	**$ 962**	$ 799	**$ 2,405**	$ 2,169

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets (Millions of dollars, except share amounts)	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,369**	$ 1,000
Short-term investments	**1,768**	2,218
Accounts receivable, net of allowances of ($14) and ($7)	**1,447**	1,165
Raw materials	**104**	109
Work in process	**949**	846
Finished goods	**755**	736
Inventories	**1,808**	1,691
Prepaid expenses and other current assets	**789**	1,000
Total current assets	**7,181**	7,074
Property, plant and equipment at cost	**4,982**	5,465
Accumulated depreciation	**(2,437)**	(2,869)
Property, plant and equipment, net	**2,545**	2,596
Long-term investments	**233**	221
Goodwill, net	**4,362**	4,362
Acquisition-related intangibles, net	**1,344**	1,583
Deferred income taxes	**355**	201
Capitalized software licenses, net	**50**	46
Overfunded retirement plans	**64**	85
Other assets	**82**	62
Total assets	**$ 16,216**	$ 16,230
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	**$ 634**	$ 1,000
Accounts payable	**428**	386
Accrued compensation	**647**	664
Income taxes payable	**68**	95
Accrued expenses and other liabilities	**393**	410
Total current liabilities	**2,170**	2,555
Long-term debt	**2,977**	3,120
Underfunded retirement plans	**201**	196
Deferred income taxes	**35**	37
Deferred credits and other liabilities	**547**	376
Total liabilities	**5,930**	6,284
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred. None issued.	**—**	—
Common stock, $1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	**1,741**	1,741
Paid-in capital	**1,757**	1,629
Retained earnings	**32,432**	31,176
Treasury common stock at cost		
Shares: September 30, 2016 – 739,693,480; December 31, 2015 – 729,547,527	**(25,102)**	(24,068)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	**(542)**	(532)
Total stockholders' equity	**10,286**	9,946
Total liabilities and stockholders' equity	**$ 16,216**	$ 16,230

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows	**For Nine Months Ended September 30,**	
(Millions of dollars)	**2016**	**2015**
Cash flows from operating activities		
Net income	**$ 2,415**	$ 2,150
Adjustments to Net income:		
Depreciation	**466**	594
Amortization of acquisition-related intangibles	**239**	240
Amortization of capitalized software	**23**	38
Stock-based compensation	**204**	228
Gains on sales of assets	**—**	(3)
Deferred income taxes	**(160)**	(106)
Increase (decrease) from changes in:		
Accounts receivable	**(274)**	(241)
Inventories	**(117)**	13
Prepaid expenses and other current assets	**130**	89
Accounts payable and accrued expenses	**(56)**	(190)
Accrued compensation	**(26)**	(37)
Income taxes payable	**153**	21
Changes in funded status of retirement plans	**56**	65
Other	**(24)**	(23)
Cash flows from operating activities	**3,029**	2,838
Cash flows from investing activities		
Capital expenditures	**(421)**	(387)
Proceeds from asset sales	**—**	10
Purchases of short-term investments	**(2,171)**	(1,713)
Proceeds from short-term investments	**2,625**	2,455
Other	**2**	8
Cash flows from investing activities	**35**	373
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**499**	498
Repayment of debt	**(1,000)**	(1,000)
Dividends paid	**(1,147)**	(1,058)
Stock repurchases	**(1,657)**	(2,114)
Proceeds from common stock transactions	**484**	332
Excess tax benefit from share-based payments	**129**	68
Other	**(3)**	(3)
Cash flows from financing activities	**(2,695)**	(3,277)
Net change in Cash and cash equivalents	**369**	(66)
Cash and cash equivalents at beginning of period	**1,000**	1,199
Cash and cash equivalents at end of period	**$ 1,369**	$ 1,133

See accompanying notes.

Notes to financial statements

1. Description of business, including segment information

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. We have two reportable segments, which are established along major categories of products as follows:

- *Analog* – consists of the following product lines: High Volume Analog & Logic, Power Management, High Performance Analog and Silicon Valley Analog.
- *Embedded Processing* – consists of the following product lines: Microcontrollers, Processors and Connectivity.

We report the results of our remaining business activities in Other. Other includes operating segments that do not meet the quantitative thresholds for individually reportable segments and cannot be aggregated with other operating segments. Other includes DLP® products, calculators, custom ASICs and royalties received from agreements involving license rights to our patent portfolio.

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

Segment information

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenue:				
Analog	**$ 2,323**	$ 2,182	**$ 6,246**	$ 6,266
Embedded Processing	**795**	725	**2,279**	2,087
Other	**557**	522	**1,431**	1,458
Total revenue	**$ 3,675**	$ 3,429	**$ 9,956**	$ 9,811
Operating profit:				
Analog	**$ 949**	$ 812	**$ 2,399**	$ 2,261
Embedded Processing	**220**	174	**591**	432
Other	**226**	178	**490**	439
Total operating profit	**$ 1,395**	$ 1,164	**$ 3,480**	$ 3,132

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2015. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended September 30, 2016 and 2015, and the Consolidated Balance Sheet as of September 30, 2016, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2015. The results for the three- and nine-month periods are not necessarily indicative of a full year's results.

The consolidated financial statements include the accounts of all subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the financial statements and tables in these notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated.

Significant accounting policies and practices

Earnings per share (EPS)

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

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

	For Three Months Ended September 30,					
	2016			2015		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	**$ 968**			$ 798		
Income allocated to RSUs	**(11)**			(11)		
Income allocated to common stock for basic EPS calculation	**$ 957**	**1,003**	**$ .95**	$ 787	1,023	$ .77
Adjustment for dilutive shares:						
Stock-based compensation plans		**14**			12	
Diluted EPS:						
Net income	**$ 968**			$ 798		
Income allocated to RSUs	**(11)**			(11)		
Income allocated to common stock for diluted EPS calculation	**$ 957**	**1,017**	**$ .94**	$ 787	1,035	$ .76

	For Nine Months Ended September 30,					
	2016			2015		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	**$ 2,415**			$ 2,150		
Income allocated to RSUs	**(30)**			(31)		
Income allocated to common stock for basic EPS calculation	**$ 2,385**	**1,004**	**$ 2.37**	$ 2,119	1,036	$ 2.05
Adjustment for dilutive shares:						
Stock-based compensation plans		**13**			13	
Diluted EPS:						
Net income	**$ 2,415**			$ 2,150		
Income allocated to RSUs	**(29)**			(30)		
Income allocated to common stock for diluted EPS calculation	**$ 2,386**	**1,017**	**$ 2.34**	$ 2,120	1,049	$ 2.02

There were no potentially dilutive securities excluded from the computation of diluted earnings per common share during the third quarter of 2016. Potentially dilutive securities representing 14 million shares of common stock that were outstanding during the third quarter of 2015, and 8 million and 12 million shares outstanding during the first nine months of 2016 and 2015, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

Derivatives and hedging

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

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

We do not use derivatives for speculative or trading purposes.

Fair values of financial instruments

The fair values of our derivative financial instruments were not material as of September 30, 2016. 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 5 for the definition of Level 2 inputs.

Changes in accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures, and is effective for annual and interim reporting periods beginning after December 15, 2017. This standard permits early adoption, but not before December 15, 2016, and permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the potential impact of this standard on our financial position and results of operations, as well as our selected transition method. Based on our preliminary assessment, we believe the new standard will not have a material impact on our financial position and results of operations, as we do not expect to change the manner or timing of recognizing revenue on a majority of our revenue transactions. We recognize revenue on sales to customers and distributors upon satisfaction of our performance obligations when the goods are shipped. For consignment sales, we recognize revenue when the goods are pulled from consignment inventory. In April 2016, the FASB issued an amendment to this guidance, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which, among other things, provides clarification about whether revenue related to a distinct license of intellectual property is recognized over time or at a point in time. Based on our preliminary assessment of this amendment, the periods over which we recognize revenue from our fixed-payment royalty arrangements from licensing our intellectual property may change. However, the effect of such change on our financial position and results of operations recognized in any reporting period is not expected to be material.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Under this standard, all equity investments except those accounted for under the equity method are required to be measured at fair value. Equity investments that do not have a readily determinable fair value may, as a practical expedient, be measured at cost, adjusted for changes in observable prices minus impairment. This standard is effective for our interim and annual periods beginning January 1, 2018. This standard must be applied using a cumulative-effect adjustment in net income to the beginning of the fiscal year of adoption, except for equity investments without a readily determinable fair value, which are to be applied prospectively to equity investments as of the adoption date. We do not expect this standard to have a material impact on our financial position and results of operations, as nearly all of our equity investments are already recorded at fair value or under the equity method.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We are currently evaluating the timing of adoption and the potential impact of this standard on our financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This standard provides for several changes to the accounting for share-based awards. Among other changes, this standard will require recognition of certain income tax effects of awards in net income in the period in which the awards are settled or vested, rather than through additional paid-in capital in the equity section of the balance sheet. The standard also changes the presentation of excess tax benefits and statutory tax withholdings in the statement of cash flows. This standard will be effective for our interim and annual periods beginning January 1, 2017; however, early adoption is permitted. Each of the various provisions within this standard has its own specified transition method; some will be applied prospectively and others will be applied on a retrospective or modified retrospective basis. We are currently evaluating the timing of adoption and the potential impact of this standard on our financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which required waiting to recognize a loss until it is probable of having been incurred. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. This standard will be effective for our interim and annual periods beginning after December 15, 2019, and permits earlier application but not before December 15, 2018. The standard will be applied using a modified retrospective approach. We are currently evaluating the potential impact of this standard, but we expect it will not have a material impact on our financial position and results of operations.

3. Restructuring charges/other

Restructuring charges/other are recognized in Other for segment reporting purposes.

Restructuring charges

For the three and nine months ended September 30, 2016, we incurred restructuring charges of $1 million and $5 million, respectively, related to our plans to phase out a manufacturing facility in Greenock, Scotland, through the end of 2018. These charges were comprised of severance and benefits costs, as well as accelerated depreciation. Total restructuring charges, primarily severance and related benefit costs, are estimated to be about $40 million, of which $22 million has been recognized through September 30, 2016. The remaining charges are expected to be recognized through the end of 2018.

Restructuring balances

The restructuring accrual balances are primarily reported as a component of either Accrued expenses and other liabilities or Deferred credits and other liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment. The $32 million balance as of December 31, 2015, was composed of $17 million related to the Scotland facility and $15 million related to prior actions. The $23 million balance as of September 30, 2016, is composed of $17 million related to the Scotland facility and $6 million related to prior actions.

Balance, December 31, 2015	$	32
Restructuring charges		**5**
Payments		**(10)**
Non-cash items (a)		**(4)**
Balance, September 30, 2016	**$**	**23**

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

4. Income taxes

Federal income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. As of September 30, 2016, the estimated annual effective tax rate for 2016 is about 30 percent, which differs from the 35 percent statutory corporate tax rate 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.

5. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

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

Available-for-sale and trading securities are stated at fair value, which is generally based on market prices or broker quotes. See the 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:

	September 30, 2016			December 31, 2015		
	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	**$ 658**	**$ —**	**$ —**	$ 395	$ —	$ —
Corporate obligations	**43**	**489**	**—**	132	285	—
U.S. Government agency and Treasury securities	**475**	**1,279**	**—**	245	1,933	—
Trading securities:						
Mutual funds	**—**	**—**	**199**	—	—	187
Total	**1,176**	**1,768**	**199**	772	2,218	187
Other measurement basis:						
Equity-method investments	**—**	**—**	**25**	—	—	25
Cost-method investments	**—**	**—**	**9**	—	—	9
Cash on hand	**193**	**—**	**—**	228	—	—
Total	**$ 1,369**	**$ 1,768**	**$ 233**	$ 1,000	$ 2,218	$ 221

As of September 30, 2016, and December 31, 2015, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments for the nine months ended September 30, 2016, and September 30, 2015.

For the nine months ended September 30, 2016, and September 30, 2015, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $2.63 billion and $2.46 billion, respectively. Gross realized gains and losses from these sales were not material.

The following table presents the aggregate maturities of investments in debt securities classified as available for sale as of September 30, 2016:

Due	**Fair Value**
One year or less	$ 2,904
One to two years	40

Other-than-temporary declines and impairments in the values of long-term investments recognized in OI&E were not material in the nine months ended September 30, 2016, and September 30, 2015.

Fair-value considerations

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

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

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

- *Level 3* – Uses inputs that are unobservable, supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models that utilize management estimates of market participant assumptions. As of September 30, 2016, and December 31, 2015, we had no Level 3 assets or liabilities, other than certain assets held by our postretirement plans.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2016, and December 31, 2015. 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					
	September 30, 2016			December 31, 2015		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						
Money market funds	$ 658	$ 658	$ —	$ 395	$ 395	$ —
Corporate obligations	532	—	532	417	—	417
U.S. Government agency and Treasury securities	1,754	1,539	215	2,178	1,828	350
Mutual funds	199	199	—	187	187	—
Total assets	$ 3,143	$ 2,396	$ 747	$ 3,177	$ 2,410	$ 767
Liabilities:						
Deferred compensation	$ 214	$ 214	$ —	$ 198	$ 198	$ —
Total liabilities	$ 214	$ 214	$ —	$ 198	$ 198	$ —

6. Goodwill and acquisition-related intangibles

Goodwill, net, was $4.36 billion as of September 30, 2016, and December 31, 2015. There was no impairment of goodwill during the nine months ended September 30, 2016, or September 30, 2015.

The components of Acquisition-related intangibles, net, are as follows:

	Amortization Period (Years)	September 30, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	$ 2,131	$ 1,090	$ 1,041	$ 2,131	$ 928	$ 1,203
Customer relationships	8	810	507	303	810	431	379
Other intangibles	n/a	—	—	—	3	2	1
Total		$ 2,941	$ 1,597	$ 1,344	$ 2,944	$ 1,361	$ 1,583

Amortization of acquisition-related intangibles was $80 million for the third quarters of both 2016 and 2015, and $239 million and $240 million for the first nine months of 2016 and 2015, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

7. Postretirement benefit plans

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	
For Three Months Ended September 30,	2016	2015	2016	2015	2016	2015
Service cost	$ 5	$ 6	$ 1	$ 1	$ 9	$ 9
Interest cost	10	10	5	5	14	13
Expected return on plan assets	(10)	(12)	(4)	(5)	(18)	(19)
Recognized net actuarial loss	5	4	2	2	6	6
Amortization of prior service cost (credit)	—	—	(1)	—	—	—
Net periodic benefit costs	10	8	3	3	11	9
Settlement losses	4	7	—	—	—	—
Total	$ 14	$ 15	$ 3	$ 3	$ 11	$ 9

For Nine Months Ended September 30,	U.S. Defined Benefit 2016	U.S. Defined Benefit 2015	U.S. Retiree Health Care 2016	U.S. Retiree Health Care 2015	Non-U.S. Defined Benefit 2016	Non-U.S. Defined Benefit 2015
Service cost	**$ 16**	$ 17	**$ 4**	$ 4	**$ 25**	$ 26
Interest cost	**32**	31	**15**	15	**40**	40
Expected return on plan assets	**(31)**	(36)	**(14)**	(16)	**(52)**	(57)
Recognized net actuarial loss	**15**	14	**5**	6	**19**	18
Amortization of prior service cost (credit)	**—**	—	**(3)**	3	**(1)**	(1)
Net periodic benefit costs	**32**	26	**7**	12	**31**	26
Settlement losses	**17**	19	**—**	—	**1**	2
Total	**$ 49**	$ 45	**$ 7**	$ 12	**$ 32**	$ 28

8. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of September 30, 2016, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to $2 billion until March 2021. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of September 30, 2016, our credit facility was undrawn and we had no commercial paper outstanding.

Long-term debt

In May 2016, we issued a principal amount of $500 million of fixed-rate long-term debt due in 2022. We incurred $3 million of issuance and other related costs, which are amortized to Interest and debt expense over the term of the debt. The proceeds of the offering were $499 million, net of the original issuance discount, and were used toward the repayment of a portion of $1.0 billion of maturing debt retired in May 2016.

Long-term debt outstanding is as follows:

	September 30, 2016	December 31, 2015
Notes due 2016 at 2.375%	**$ —**	$ 1,000
Notes due 2017 at 0.875%	**250**	250
Notes due 2017 at 6.60% (assumed with National acquisition)	**375**	375
Notes due 2018 at 1.00%	**500**	500
Notes due 2019 at 1.65%	**750**	750
Notes due 2020 at 1.75%	**500**	500
Notes due 2021 at 2.75%	**250**	250
Notes due 2022 at 1.85%	**500**	—
Notes due 2023 at 2.25%	**500**	500
Total debt	**3,625**	4,125
Net unamortized discounts, premiums and debt issuance costs	**(14)**	(5)
Total debt, including net unamortized discounts, premiums and debt issuance costs	**3,611**	4,120
Current portion of long-term debt	**(634)**	(1,000)
Long-term debt	**$ 2,977**	$ 3,120

Interest and debt expense was $18 million and $22 million for the third quarters of 2016 and 2015, respectively, and $61 million and $68 million for the first nine months of 2016 and 2015, respectively. This was net of the amortization of the debt discounts, premiums and other debt issuance costs. Capitalized interest was not material.

9. Contingencies

Indemnification guarantees

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

Warranty costs/product liabilities

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

10. Supplemental financial information

Acquisition charges

We incurred various costs as a result of the 2011 acquisition of National Semiconductor Corporation (National) that are included in Other for segment reporting purposes, consistent with how management measures the performance of its segments. For the three and nine months ended September 30, 2016, and September 30, 2015, Acquisition charges were primarily from the ongoing amortization of intangible assets resulting from the National acquisition. See Note 6 for additional information.

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

Our Consolidated Statements of Comprehensive Income include items that have been recognized within Net income during the periods ended September 30, 2016, and September 30, 2015. The table below details where in the Consolidated Statements of Income these transactions are recorded.

	For Three Months Ended September 30,		For Nine Months Ended September 30,		Impact to Related Statements of Income Lines
	2016	**2015**	**2016**	**2015**	
Net actuarial gains (losses) of defined benefit plans:					
Recognized net actuarial loss and Settlement losses (a)	**$ 17**	$ 19	**$ 57**	$ 59	Increase to Pension expense (b)
Tax effect	**(5)**	(6)	**(18)**	(19)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	**$ 12**	$ 13	**$ 39**	$ 40	Decrease to Net income
Prior service (cost) credit of defined benefit plans:					
Amortization of prior service cost (credit) (a)	**$ (1)**	$ —	**$ (4)**	$ 2	(Decrease) increase to Pension expense (b)
Tax effect	**—**	—	**1**	(1)	Increase (decrease) to Provision for income taxes
Recognized within Net income, net of taxes	**$ (1)**	$ —	**$ (3)**	$ 1	(Increase) decrease to Net income
Derivative instruments:					
Amortization of treasury rate locks	**$ —**	$ 1	**$ —**	$ 1	Increase to Interest and debt expense
Tax effect	**—**	—	**—**	—	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	**$ —**	$ 1	**$ —**	$ 1	Decrease to Net income

(a) Detailed in Note 7.

(b) Pension expense is included in COR, R&D and SG&A in the Consolidated Statements of Income.

11. Subsequent event

In October 2016, we announced an increase in our quarterly cash dividend rate from $0.38 to $0.50 per share. This dividend will be payable November 21, 2016, to shareholders of record on November 7, 2016.

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

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Our business model is carefully constructed around the following attributes:

- *Industry's broadest portfolio of differentiated analog and embedded processing semiconductors.* Our customers' design engineers need at least one, and most times multiple, chips for their systems. The breadth of our portfolio means we can solve more of these needs than can our competitors, which gives us access to more customers and the opportunity to generate more revenue per system. We invest more than $1 billion each year to develop new products for our portfolio.
- *A strong foundation of manufacturing technology and low-cost production.* We invest in manufacturing technologies that differentiate the features of our semiconductors, and we do most of our own production in-house, as opposed to outsourcing it. This ability to directly control our manufacturing helps ensure a consistent supply of products for our customers. We produce billions of semiconductors each year on a mixture of 150-, 200- and 300-millimeter wafers, and we are able to keep costs low for manufacturing facilities and equipment because our analog and much of our embedded processing semiconductors can be made using mature assets that we acquire ahead of demand when their prices are most attractive. In 2015, we produced approximately 25 percent of our Analog semiconductors on 300-millimeter wafers, the industry's largest wafers, which have a 40 percent cost advantage per unpackaged chip over 200-millimeter wafers. The majority of our future Analog growth will be produced on 300-millimeter wafers, which will be meaningful to the growth of our margins and cash flow over the long term.
- *Industry's largest market channels.* Our global sales force is larger than those of our competitors, and the breadth of our portfolio attracts tens of millions of visits to our web site each year where customers often begin their initial product searches and design-in journey. These capabilities combine to provide us unique access to more than 100,000 customers.
- *Diversity and longevity in our products and in the markets we serve.* Together, the attributes above result in diverse and long-lived positions that deliver high terminal value to our shareholders. Because of the breadth of our portfolio we are not dependent on any single product, and because of the breadth of our markets we are not dependent on any single application or customer. Some of our products generate revenue for decades, which strengthens the return on our investments.

The combined effect of these attributes is that we have consistently grown free cash flow and gained market share in Analog and Embedded Processing. These attributes put us in a unique class of companies with the ability to grow, generate cash, and return that cash to shareholders.

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

- All dollar amounts in the tables are stated in millions of U.S. dollars.
- When we discuss our results:
  - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
  - New products tend not to have a significant impact on our revenue in any given period because we sell such a large number of products.
  - From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the "mix" of products shipped.
  - Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and, absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.
  - Over time, we have been allocating resources from areas like manufacturing support and SG&A into R&D activities. As a result of this allocation, R&D expense will continue increasing into 2017.

- Our annual effective tax rate benefits from lower tax rates (compared to the U.S. statutory rate) applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits. These lower non-U.S. tax rates are generally statutory in nature, without expiration and available to companies that operate in those taxing jurisdictions.

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

Performance summary

Our third-quarter revenue was $3.68 billion, net income was $968 million and earnings per share (EPS) were $0.94.

We also increased our quarterly dividend by 32 percent to 50 cents per share, or $2.00 annualized. The increase reflects our continued strength in free cash flow generation and our commitment to return excess cash to shareholders. The quarterly dividend was declared and will be payable November 21, 2016, to shareholders of record on November 7, 2016.

Revenue and earnings per share for the quarter were slightly above our expected range. Compared with a year ago, demand for our products continued to be strong in the automotive market and improved in the industrial market. Demand in the personal electronics market was about even with a year ago.

In our core businesses, Embedded Processing revenue grew 10 percent and Analog revenue grew 6 percent from the same quarter a year ago. Operating margin increased in both businesses. Gross margin of 62.0 percent reflected the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

Our cash flow from operations of $4.5 billion for the trailing 12 months again underscored the strength of our business model. Free cash flow for the trailing 12 months was up 8 percent from a year ago to $3.9 billion, and represents 29.5 percent of revenue, up from 27.5 percent a year ago. We have returned $3.8 billion to shareholders in the past 12 months through stock repurchases and dividends, consistent with our strategy to return to shareholders all of our free cash flow plus proceeds from exercises of equity compensation minus net debt retirement.

Our balance sheet remains strong with $3.1 billion of cash and short-term investments at the end of the quarter, about 80 percent of which was owned by the company's U.S. entities. Inventory ended the quarter at 117 days.

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

Results of operations – third-quarter 2016 compared with third-quarter 2015

Revenue increased $246 million, or 7 percent, due to higher revenue from Analog and, to a lesser extent, Embedded Processing and Other. In both periods, Analog and Embedded Processing comprised 85 percent of revenue.

Gross profit of $2.28 billion was up $283 million, or 14 percent, primarily due to higher revenue and, to a lesser extent, lower manufacturing costs. As a percentage of revenue, gross profit increased to 62.0 percent from 58.2 percent.

Operating expenses were $356 million for R&D and $448 million for SG&A. R&D expense increased $40 million, or 13 percent, due to a combination of our ongoing allocation of resources into R&D activities and higher compensation-related costs. SG&A expense increased $14 million, or 3 percent, primarily due to higher compensation-related costs.

Acquisition charges associated with our 2011 acquisition of National were $80 million compared with $83 million. These non-cash charges resulted from the ongoing amortization of intangible assets.

Operating profit was $1.40 billion, or 38.0 percent of revenue, compared with $1.16 billion, or 33.9 percent of revenue.

Quarterly income taxes are calculated using the estimated annual effective tax rate. At the end of the third quarter, our estimated annual effective tax rate for 2016 was about 30 percent. Our tax provision was $413 million compared with $350 million. The increase was due to higher income before income taxes. The tax provision also included the effect of the federal research tax credit, which was not included in the year-ago quarter.

Net income was $968 million compared with $798 million, and EPS was $0.94 compared with $0.76.

Third-quarter 2016 segment results

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

Analog (includes High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA) product lines)

	3Q16	3Q15	Change
Revenue	**$ 2,323**	$ 2,182	6%
Operating profit	**949**	812	17%
Operating profit % of revenue	**40.9%**	37.2%	

Analog revenue increased due about equally to HPA, SVA and Power. HVAL was about even. Operating profit increased primarily due to higher revenue and lower manufacturing costs.

Embedded Processing (includes Microcontrollers, Processors and Connectivity product lines)

	3Q16	3Q15	Change
Revenue	**$ 795**	$ 725	10%
Operating profit	**220**	174	26%
Operating profit % of revenue	**27.7%**	24.0%	

Embedded Processing revenue increased in all three product lines, led by Processors. The increase in Processors revenue was due to the mix of products shipped. Operating profit increased primarily due to higher revenue and associated gross profit.

Other (includes DLP® products, calculators, custom ASICs and royalties)

	3Q16	3Q15	Change
Revenue	**$ 557**	$ 522	7%
Operating profit*	**226**	178	27%
Operating profit % of revenue	**40.6%**	34.1%	

*Includes Acquisition charges and Restructuring charges/other

Other revenue increased primarily due to calculators and DLP products, partially offset by a decrease in royalties and custom ASICs. Operating profit increased primarily due to higher revenue and associated gross profit.

Results of operations – first nine months of 2016 compared with first nine months of 2015

Revenue of $9.96 billion increased $145 million due to higher revenue from Embedded Processing. Analog and Embedded Processing comprised 86 percent of revenue compared with 85 percent.

Gross profit of $6.11 billion was up $413 million, or 7 percent, primarily due to lower manufacturing costs and, to a lesser extent, higher revenue. Primarily as a result of the lower manufacturing costs, gross profit as a percentage of revenue increased from 58.0 percent to 61.3 percent.

R&D expense was $1.03 billion, an increase of $53 million, or 5 percent, due to a combination of our ongoing allocation of resources to R&D activities and higher compensation-related costs. SG&A expense of $1.36 billion was about even as higher compensation-related and support costs were mostly offset by the ongoing allocation of resources to R&D activities.

Acquisition charges were $239 million compared with $248 million. These non-cash charges resulted from the ongoing amortization of intangible assets.

Operating profit was $3.48 billion, or 35.0 percent of revenue, compared with $3.13 billion, or 31.9 percent of revenue.

Our tax provision was $1.02 billion compared with $927 million. The increase was primarily due to higher income before income taxes. The tax provision also included the effect of the federal research tax credit, which was not included in the first nine months of 2015.

Net income was $2.42 billion compared with $2.15 billion. EPS was $2.34 compared with $2.02.

Year-to-date segment results

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

Analog

	YTD 2016	YTD 2015	Change
Revenue	**$ 6,246**	$ 6,266	0%
Operating profit	**2,399**	2,261	6%
Operating profit % of revenue	**38.4%**	36.1%	

Analog revenue was about even as higher revenue from SVA and HPA was offset by decreased revenue from HVAL. Power was about even. Operating profit increased primarily due to higher gross profit, which benefitted from lower manufacturing costs. The increase was partially offset by higher operating expenses.

Embedded Processing

	YTD 2016	YTD 2015	Change
Revenue	**$ 2,279**	$ 2,087	9%
Operating profit	**591**	432	37%
Operating profit % of revenue	**25.9%**	20.7%	

Embedded Processing revenue increased in all three product lines, led by Processors, with Microcontrollers and Connectivity contributing about equally but to a lesser extent. Processors and Microcontrollers revenue increased due to the mix of products shipped. Operating profit increased primarily due to higher revenue and associated gross profit.

Other

	YTD 2016	YTD 2015	Change
Revenue	**$ 1,431**	$ 1,458	-2%
Operating profit*	**490**	439	12%
Operating profit % of revenue	**34.2%**	30.1%	

*Includes Acquisition charges and Restructuring charges/other.

Other revenue was about even, as decreases in custom ASICs, royalties and calculators were offset by an increase in DLP products. Operating profit increased primarily due to higher gross profit.

Financial condition

At the end of the third quarter of 2016, Cash and cash equivalents plus Short-term investments was $3.14 billion, a decrease of $81 million from the end of 2015.

Accounts receivable were $1.45 billion, an increase of $282 million compared with the end of 2015. Days sales outstanding were 35 at the end of the third quarter compared with 33 at the end of 2015.

Inventory was $1.81 billion, an increase of $117 million from the end of 2015. Days of inventory increased from 115 at the end of 2015 to 117 at the end of the third quarter.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are Cash and cash equivalents, Short-term investments and a variable-rate revolving credit facility. Cash flows from operating activities for the first nine months of 2016 was $3.03 billion, an increase of $191 million from the year-ago period due to an increase in Net income.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to $2 billion until March 2021. This credit facility also serves as support for the issuance of commercial paper. As of September 30, 2016, our credit facility was undrawn, and we had no commercial paper outstanding.

For the first nine months of 2016, investing activities provided $35 million compared with $373 million in the year-ago period. Capital expenditures were $421 million compared with $387 million in the year-ago period and were primarily for semiconductor manufacturing equipment. We received proceeds from sales of short-term investments, net of purchases, of $454 million compared with $742 million in the year-ago period.

For the first nine months of 2016, financing activities used cash of $2.70 billion compared with $3.28 billion in the year-ago period. In 2016, we received proceeds of $499 million from the issuance of fixed-rate long-term debt (net of original issuance discount) compared with $498 million in 2015. We retired maturing debt of $1.0 billion in both 2016 and 2015. We paid dividends of $1.15 billion compared with $1.06 billion in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used $1.66 billion to repurchase 28.8 million shares of our common stock, compared with $2.11 billion used in the year-ago period to repurchase 39.7 million shares. Employee exercises of stock options provided cash proceeds of $484 million compared with $332 million in the year-ago period.

In October 2016, we announced a 32 percent increase in our quarterly cash dividend, which increased from $0.38 to $0.50 per share. This dividend will be payable November 21, 2016, to shareholders of record on November 7, 2016.

We had $1.37 billion of Cash and cash equivalents and $1.77 billion of Short-term investments as of September 30, 2016. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

Non-GAAP financial information

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

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

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

	For 12 Months Ended September 30,		
	2016	2015	**Change**
Cash flow from operations (GAAP)	**$ 4,459**	$ 4,110	**8%**
Capital expenditures	**(585)**	(512)	
Free cash flow (non-GAAP)	**$ 3,874**	$ 3,598	**8%**
Revenue	**$ 13,145**	$ 13,080	
Cash flow from operations as a percent of revenue (GAAP)	**33.9%**	31.4%	
Free cash flow as a percent of revenue (non-GAAP)	**29.5%**	27.5%	

Long-term contractual obligations

Information regarding long-term debt obligations is described in the long-term contractual obligations table in Item 7 of our Form 10-K for the year ended December 31, 2015. Additionally, in May 2016 we issued $500 million principal amount of 1.85 percent notes maturing in 2022, and we retired $1.0 billion of maturing debt.

Changes in accounting standards

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

ITEM 4. Controls and Procedures.

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

PART II – OTHER INFORMATION

ITEM 1A. Risk Factors.

Information concerning our risk factors is contained in Item 1A of our Form 10-K for the year ended December 31, 2015, and is incorporated by reference herein.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2016 through July 31, 2016	1,641,506	$ 64.51	1,641,506	$ 6.67 billion
August 1, 2016 through August 31, 2016	3,740,457	69.91	3,740,457	6.41 billion
September 1, 2016 through September 30, 2016	1,932,934	68.61	1,932,934	6.28 billion
Total	7,314,897(2)	$ 68.35	7,314,897(2)	$ 6.28 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 September 17, 2015.

(2) All purchases during the quarter were open-market purchases.

(3) As of September 30, 2016, this amount consisted of the remaining portion of the $7.5 billion authorized in September 2015. No expiration date has been specified for this authorization.

ITEM 6. Exhibits.

Designation of Exhibits in This Report	Description of Exhibit
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended (incorporated by reference to Exhibit 3(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
3(b)	By-Laws of the Registrant (incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
4(a)	Officer’s Certificate, dated May 6, 2016 (incorporated by reference to Exhibit 4.1 of the Registrant’s Current Report on Form 8-K filed May 6, 2016).
10(a)	Texas Instruments 2009 Long-Term Incentive Plan, as amended effective April 21, 2016 (incorporated by reference to Appendix B of the Registrant’s proxy statement for the 2016 annual meeting of shareholders, filed March 9, 2016).
31(a)	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e). †
31(b)	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e). †
32(a)	Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. †
32(b)	Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. †
101.ins	XBRL Instance Document†
101.def	XBRL Taxonomy Extension Definition Linkbase Document†
101.sch	XBRL Taxonomy Extension Schema Document†
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document†
101.lab	XBRL Taxonomy Extension Label Linkbase Document†
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document†

† Filed or furnished herewith.

Notice regarding forward-looking statements

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

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

- Market demand for semiconductors, particularly in TI's end markets;
- TI's ability to compete in products and prices in an intensely competitive industry;
- Losses or curtailments of purchases from key customers and the timing and amount of distributor and other customer inventory adjustments;
- Customer demand that differs from forecasts and the financial impact of inadequate or excess TI inventory that results from demand that differs from projections;
- 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;
- 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, geological events or health epidemics in the locations in which TI, its customers or its suppliers operate;
- Breaches of TI's information technology systems or those of its customers or suppliers;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- 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 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;
- Compliance with or changes in the complex laws, rules and regulations to which TI is or may become subject, or actions of enforcement authorities, that restrict TI's ability to manufacture its products or operate its business, or subject us to fines, penalties, or other legal liability;
- Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to TI products, manufacturing, services, design or communications, or recalls by TI customers for a product containing a TI part;
- 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, adverse resolution of tax audits and the ability to realize deferred tax assets;
- Financial difficulties of 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;
- Instability in the global credit and financial markets that affects TI's ability to fund its daily operations, invest in the business, make strategic acquisitions, or make principal and interest payments on its debt;
- Increases in health care and pension benefit costs;
- TI's ability to recruit and retain skilled personnel;
- TI's ability to successfully integrate and realize opportunities for growth from acquisitions, and its ability to realize its expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Impairments of TI's non-financial assets.

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of our most recent Form 10-K. The forward-looking statements included in this report are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances. If we do update any forward-looking statement, you should not infer that we will make additional updates with respect to that statement or any other forward-looking statement.

SIGNATURE

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

TEXAS INSTRUMENTS INCORPORATED

BY /s/ Kevin P. March

Kevin P. March
Senior Vice President and
Chief Financial Officer

Date: November 2, 2016

Exhibit 31(a)

CERTIFICATIONS

I, Richard K. Templeton, certify that:

1. I have reviewed this report on Form 10-Q 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: November 2, 2016

/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-Q 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: November 2, 2016

/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, the Chairman, President and Chief Executive Officer of Texas Instruments Incorporated (the “Company”), hereby certifies that, to his knowledge:

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2016, 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: November 2, 2016

/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 Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2016, 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: November 2, 2016

/s/ Kevin P. March

Kevin P. March
Senior Vice President and
Chief Financial Officer