

EDUCATIONAL DEVELOPMENT CORP  
Form 10-Q  
July 15, 2016

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended May 31, 2016

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-04957

**EDUCATIONAL DEVELOPMENT CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

73-0750007

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

**5402 South 122<sup>nd</sup> East Avenue, Tulsa, Oklahoma**

(Address of principal executive offices)

**74146**

(Zip Code)

Registrant's telephone number, including area code (918) 622-4522

Indicate by check mark whether the registrant (1) has filed all reports 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 (§ 229.405 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

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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 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   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

As of July 11, 2016, there were 4,075,303 shares of Educational Development Corporation Common Stock, \$0.20 par value outstanding.

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TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	16
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
Item 3. <u>Defaults Upon Senior Securities</u>	17
Item 4. <u>Mine Safety Disclosures</u>	17
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	18
<u>Signatures</u>	19

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Table of ContentsPART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTSEDUCATIONAL DEVELOPMENT CORPORATION  
CONDENSED BALANCE SHEETS (UNAUDITED)

	May 31, 2016	February 29, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$930,400	\$1,183,700
Accounts receivable, less allowance for doubtful accounts and sales returns of \$546,700 (May 31) and \$501,900 (February 29)	2,990,300	2,513,300
Inventories—Net	22,661,900	17,479,500
Prepaid expenses and other assets	2,811,000	1,028,100
Deferred income taxes	338,100	298,200
Total current assets	29,731,700	22,502,800
INVENTORIES—Net	125,200	169,000
PROPERTY, PLANT AND EQUIPMENT—Net	27,731,600	26,710,300
OTHER ASSETS	262,000	262,000
DEFERRED INCOME TAXES	31,900	50,900
TOTAL ASSETS	\$57,882,400	\$49,695,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$11,443,600	\$7,801,300
Line of credit	5,918,700	3,331,800
Deferred revenues	5,367,200	2,925,200
Current maturities of long-term debt	615,400	615,400
Accrued salaries and commissions	1,178,200	1,202,500
Income taxes payable	492,200	803,100
Dividends payable	366,400	366,300
Other current liabilities	1,434,000	1,732,500
Total current liabilities	26,815,700	18,778,100
LONG-TERM DEBT-Net of current maturities	17,537,800	17,687,400
Total liabilities	44,353,500	36,465,500
COMMITMENTS (Note 7)		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.20 par value; Authorized 8,000,000 shares; Issued 6,041,040 (May 31 and February 29) shares;	1,208,200	1,208,200

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Outstanding 4,069,669 (May 31) and 4,064,610 (February 29) shares

Capital in excess of par value	8,548,000	8,548,000
Retained earnings	14,811,300	14,557,500
	24,567,500	24,313,700
Less treasury stock, at cost	(11,038,600)	(11,084,200)
Total shareholders' equity	13,528,900	13,229,500
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$57,882,400</b>	<b>\$49,695,000</b>

See notes to condensed financial statements.

3

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Table of ContentsEDUCATIONAL DEVELOPMENT CORPORATION  
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended May 31, 2016	2015
GROSS SALES	\$ 26,701,300	\$ 13,303,100
Discounts and allowances	(6,189,000	) (4,207,600 )
Transportation revenue	2,271,900	542,300
NET REVENUES	22,784,200	9,637,800
COST OF SALES	6,673,800	3,573,800
Gross margin	16,110,400	6,064,000
OPERATING EXPENSES:		
Operating and selling	7,469,500	2,723,300
Sales commissions	6,974,100	2,314,600
General and administrative	817,500	484,400
Total operating expenses	15,261,100	5,522,300
OTHER INCOME (EXPENSE)		
Interest expense	(216,500	) (15,800 )
Other income	371,800	5,800
Total income (expense)	155,300	(10,000 )
EARNINGS BEFORE INCOME TAXES	1,004,600	531,700
INCOME TAXES	384,400	207,100
NET EARNINGS	\$ 620,200	\$ 324,600
BASIC AND DILUTED EARNINGS PER SHARE:		
Basic	\$ 0.15	\$ 0.08
Diluted	\$ 0.15	\$ 0.08
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: March 31, 2012 – 1,740,814,489; December 31, 2011 – 1,740,630,391	1,741	1,741
Paid-in capital	1,112	1,194
Retained earnings	26,345	26,278
Less treasury common stock at cost. Shares: March 31, 2012 – 596,461,198; December 31, 2011 – 601,131,631	(17,385 )	(17,485 )
	(742 )	(776 )

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Accumulated other comprehensive income (loss),  
net of taxes

Total stockholders' equity	11,071	10,952
Total liabilities and stockholders' equity	\$20,009	\$20,497

See accompanying notes.

4

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## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

## Consolidated statements of cash flows

[Millions of dollars]

	For Three Months Ended March 31,		
	2012	2011	
Cash flows from operating activities:			
Net income	\$265	\$666	
Adjustments to net income:			
Depreciation	243	224	
Stock-based compensation	69	57	
Amortization of acquisition-related intangibles	86	7	
Deferred income taxes	(4	) 31	
Increase (decrease) from changes in:			
Accounts receivable	63	(44	)
Inventories	(91	) (158	)
Prepaid expenses and other current assets	5	(9	)
Accounts payable and accrued expenses	(37	) (83	)
Accrued compensation	(211	) (281	)
Income taxes payable	67	137	
Other	(6	) (31	)
Cash flows from operating activities	449	516	
Cash flows from investing activities:			
Additions to property, plant and equipment	(103	) (194	)
Purchases of short-term investments	(242	) (872	)
Proceeds from short-term investments	613	1,111	
Purchases of long-term investments	(1	) (1	)
Proceeds from long-term investments	3	19	
Cash flows from investing activities	270	63	
Cash flows from financing activities:			
Repayment of commercial paper borrowings	(300	) —	
Dividends paid	(195	) (153	)
Proceeds from common stock transactions	259	350	
Excess tax benefit from share-based payments	18	19	
Stock repurchases	(300	) (771	)
Cash flows from financing activities	(518	) (555	)
Net change in cash and cash equivalents	201	24	
Cash and cash equivalents, beginning of period	992	1,319	
Cash and cash equivalents, end of period	\$1,193	\$1,343	

See accompanying notes.



## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

## Notes to financial statements

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

At Texas Instruments (TI), we design and make semiconductors that we sell to electronics designers and manufacturers all over the world.

## Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. 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, 2011. The consolidated statements of income, statements of comprehensive income and statements of cash flows for the periods ended March 31, 2012 and 2011, and the balance sheet as of March 31, 2012, 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 amounts in the prior periods' financial statements have been reclassified to conform to the current period presentation. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by U.S. 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, 2011. The results for the three-month period are not necessarily indicative of a full year's results.

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

## Acquisition

On September 23, 2011, we completed the acquisition of National Semiconductor Corporation (National). We accounted for this transaction under Accounting Standards Codification (ASC) 805 - Business Combinations, and the consolidated financial statements include the balances and results of operations of National from the date of acquisition. National's operating results are included in the Analog segment from the acquisition date as Silicon Valley Analog (SVA). See Note 2 for further information.

## Earnings per share (EPS)

Unvested awards of share-based payments with 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 March 31, 2012			For Three Months Ended March 31, 2011		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	\$265			\$666		
Less income allocated to RSUs	(4	)		(10	)	
Income allocated to common stock for basic EPS calculation	\$261	1,143	\$.23	\$656	1,167	\$.56

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Adjustment for dilutive shares:

Stock-based compensation plans	22	27
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Diluted EPS:

Net income	\$265			\$666		
Less income allocated to RSUs	(4 )			(10 )		
Income allocated to common stock for diluted EPS calculation	\$261	1,165	\$.22	\$656	1,194	\$.55

6

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Potentially dilutive securities representing 23 million and 10 million shares of common stock that were outstanding during the first quarters of 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.

#### Derivatives and hedging

We have an interest rate swap, entered into in connection with the issuance of variable-rate long-term debt in May 2011, which is designated as a hedge of the variability of cash flows related to interest payments (see Note 9). Gains and losses from changes in the fair value of the interest rate swap are credited or charged to Accumulated other comprehensive income (loss), net of taxes (AOCI).

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

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 significant at March 31, 2012. Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our deferred compensation liabilities, are carried at fair value and are discussed in Note 6. The carrying values for other current financial assets and liabilities, such as accounts receivable and accounts payable, approximate fair value due to the short maturity of such instruments. The carrying value of our long-term debt approximates the fair value as measured using broker-dealer quotes, which are based on level 2 inputs.

#### 2. National Semiconductor acquisition-related costs

For the first three months of 2012, we incurred an additional \$174 million of total acquisition-related costs associated with the National acquisition in Other for segment reporting purposes as follows:

	For Three Months Ended March 31,	
	2012	2011
Acquisition charges:		
Amortization of intangible assets	\$ 81	\$ —
Retention bonuses	41	—
Announced employment reductions	12	—
Stock-based compensation	6	—
Transaction and other costs	13	2
As recorded in Acquisition charges	153	2
Distributor contract termination recorded in COR	21	—
Total acquisition-related costs	\$ 174	\$ 2

The amount of recognized amortization of acquired intangible assets resulting from the National acquisition is based on estimated useful lives varying between two and ten years. See Note 7 for additional information.

Retention bonuses reflect amounts expected to be paid to former National employees who fulfill agreed-upon service period obligations and are recognized ratably over the required service period.

Announced employment reduction costs relate to former National employees who have been or will be terminated after the closing date. These costs for the first quarter of 2012 affect about 350 jobs that will be eliminated by the end of 2012 as a result of redundancies and cost efficiency measures. As of March 31, 2012, a total of \$40 million in charges have been recognized, of which \$18 million has been paid. The remaining \$22 million will be paid later in the year. In addition, approximately \$8 million of similar expense is expected to be recognized during the remainder of 2012.

Stock-based compensation is recognized over the remaining service periods as terminated employees fulfill agreed-upon service period obligations.

Transaction and other costs include expenses incurred in connection with the National acquisition, such as bridge financing costs, advisory services and other costs.

In 2011, we discontinued 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.

### 3. Losses associated with the earthquake in Japan

Through March 31, 2012, we incurred cumulative gross operating losses of \$101 million (including none for the first quarter of 2012 and about \$30 million for the first quarter of 2011) related to the March 11, 2011, 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.

These losses have been offset by about \$23 million in cumulative insurance proceeds related to property damage claims. Almost all of these costs and proceeds are included in COR in the Consolidated statements of income and are recorded in Other.

In addition, we also recognized about \$100 million in cumulative insurance proceeds through March 31, 2012 (about \$65 million in the first quarter of 2012), related to business interruption claims. These proceeds were recorded as revenue in Other.

We continue discussions with our insurers and their advisors, but at this time we cannot estimate the timing and amount of future proceeds we may ultimately receive from our policies.

### 4. Restructuring charges

Restructuring actions related to the acquisition of National are discussed in Note 2 and are reflected on the Acquisition charges line of our Consolidated statements of income.

#### 2011 actions

Beginning in the fourth quarter of 2011, we recognized restructuring charges associated with the announced plans to close two older semiconductor manufacturing facilities in Houston, Texas, and Hiji, Japan, by mid-2013. The total charge for these closures is estimated at \$215 million, of which \$122 million has been recognized and reported in Other for segment reporting purposes. The Restructuring charges of \$10 million recognized in the first quarter of 2012 consist of \$5 million of accelerated depreciation and \$5 million of other exit-related costs. Of the estimated \$215 million total cost, about \$135 million will be for severance and related benefits, about \$30 million will be for accelerated depreciation of facility assets and about \$50 million will be for other exit costs.

#### Previous actions

In 2008 and 2009, we announced actions that eliminated about 3,900 jobs. These actions were completed in 2009.

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

	2011 Actions		Previous Actions		Total
	Severance and Benefits	Other Charges	Severance and Benefits	Other Charges	
Remaining accrual at December 31, 2011	\$96	\$—	\$13	\$7	\$116
Restructuring charges	—	10	—	—	10

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Non-cash items (a)	3	(6	) —	—	(3	)
Payments	(2	) (1	) (3	) —	(6	)
Remaining accrual at March 31, 2012	\$97	\$3	\$10	\$7	\$117	

(a) Reflects charges for curtailment and special termination benefits relating to the postretirement benefit plans and accelerated depreciation.

The accrual balances above are primarily a component of Accrued expenses and other liabilities on our Consolidated balance sheets.

8

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#### 5. 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. The rate is based on current tax law and for 2012 does not assume reinstatement of the federal research tax credit, which expired at the end of 2011. As of March 31, 2012, the estimated annual effective tax rate for 2012 is about 28 percent, which differs from the 35 percent statutory corporate tax rate due to the effects of non-U.S. effective tax rates.

#### 6. 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 losses (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. Changes in the fair value of debt securities classified as trading securities are recorded in OI&E.

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 and related unrealized gains and losses included in AOCI are as follows:

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	March 31, 2012			December 31, 2011		
	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	\$69	\$—	\$—	\$55	\$—	\$—
Corporate obligations	168	152	—	135	159	—
U.S. Government agency and Treasury securities	625	1,326	—	430	1,691	—
Auction-rate securities	—	—	24	—	—	41
Trading securities						
Auction-rate securities	—	94	—	—	93	—
Mutual funds	—	—	159	—	—	169
<b>Total</b>	<b>\$862</b>	<b>\$1,572</b>	<b>\$183</b>	<b>\$620</b>	<b>\$1,943</b>	<b>\$210</b>
Other measurement basis:						
Equity-method investments	\$—	\$—	\$33	\$—	\$—	\$32
Cost-method investments	—	—	23	—	—	23
Cash on hand	331	—	—	372	—	—
<b>Total</b>	<b>\$1,193</b>	<b>\$1,572</b>	<b>\$239</b>	<b>\$992</b>	<b>\$1,943</b>	<b>\$265</b>
Amounts included in AOCI from available-for-sale securities:						
Unrealized gains (pre-tax)	\$—	\$1	\$—	\$—	\$—	\$—
Unrealized losses (pre-tax)	\$—	\$—	\$2	\$—	\$—	\$5

As of March 31, 2012, and December 31, 2011, the majority of unrealized losses included in AOCI were associated with auction-rate securities classified as securities that are available for sale. We have determined that our available-for-sale investments with unrealized losses are not other-than-temporarily impaired as we expect to recover the entire cost basis of these securities. We do not intend to sell these investments, nor do we expect to be required to sell these investments before a recovery of the cost basis. For the three months ended March 31, 2012 and 2011, we did not recognize in earnings any credit losses related to these investments.

For the three months ended March 31, 2012 and 2011, the Proceeds from short-term available-for-sale investments were \$613 million and \$1.11 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 March 31, 2012:

Due	Fair Value
One year or less	\$1,849
One to three years	491
Greater than three years (auction-rate securities)	24

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.

10

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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, some U.S. government agency securities and auction-rate securities that have been called for redemption. We utilize a third-party data service to provide Level 2 valuations, verifying 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.

Our auction-rate securities are primarily classified as Level 3 assets. Auction-rate securities are debt instruments with variable interest rates that historically would periodically reset through an auction process. These auctions have not functioned since 2008. There is no active secondary market for these securities, although limited observable transactions do occasionally occur. As a result, we use a discounted cash flow model to determine the estimated fair value of these investments as of each quarter end. The inputs used in preparing the discounted cash flow model include estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions we consider relevant factors including: the formula for each security that defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the guarantees by the U.S. Department of Education of the underlying student loans and additional credit enhancements provided through other means; and, publicly available pricing data for student loan asset-backed securities that are not subject to auctions. Our estimate of the rate of return required by investors to own these securities also considers the reduced liquidity for auction-rate securities. To date, we have collected all interest on all of our auction-rate securities when due and expect to continue to do so in the future. Changes in unobservable inputs would have an impact on the value of these Level 3 assets.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2012, and December 31, 2011. 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			
	March 31,	Level	Level	Level
	2012	1	2	3
Assets:				
Money market funds	\$69	\$69	\$—	\$—
Corporate obligations	320	—	320	—
U.S. Government agency and Treasury securities	1,951	730	1,221	—
Auction-rate securities	118	—	—	118
Mutual funds	159	159	—	—
Total assets	\$2,617	\$958	\$1,541	\$118

Liabilities:

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Deferred compensation	173	173	—	—
Total liabilities	\$173	\$173	\$—	\$—

11

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	Fair Value			
	December 31, 2011	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$55	\$55	\$—	\$—
Corporate obligations	294	—	294	—
U.S. Government agency and Treasury securities	2,121	606	1,515	—
Auction-rate securities	134	—	—	134
Mutual funds	169	169	—	—
Total assets	\$2,773	\$830	\$1,809	\$134
Liabilities:				
Deferred compensation	191	191	—	—
Total liabilities	\$191	\$191	\$—	\$—

The following table summarizes the changes in fair values for Level 3 assets and liabilities for the periods ended March 31, 2012 and 2011:

	Level 3	
	Auction-rate Securities	Contingent Consideration
Changes in fair value during the period (pre-tax):		
Balance, December 31, 2010	\$257	\$8
Change in fair value of contingent consideration - included in operating profit	—	(8
Change in unrealized loss - included in AOCI	1	—
Redemptions and sales	(1	) —
Balance, March 31, 2011	257	—
Change in unrealized loss - included in AOCI	(2	) —
Redemptions and sales	(121	) —
Balance, December 31, 2011	134	—
Change in unrealized loss - included in AOCI	5	—
Redemptions	(1	) —
Sales	(20	) —
Balance, March 31, 2012	\$118	\$—

#### 7. Goodwill and acquisition-related intangibles

Goodwill was \$4.452 billion as of March 31, 2012, and December 31, 2011. There was no impairment of goodwill during the three months ended March 31, 2012. The following table shows the components of acquisition-related intangible assets as of March 31, 2012, and December 31, 2011:

Acquisition-related Intangibles	Amortization Period (Years)	March 31, 2012			December 31, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	4 - 10	\$2,115	\$148	\$1,967	\$2,089	\$91	\$1,998
Customer relationships	5 - 8	822	60	762	822	34	788
Other intangibles	2 - 10	50	31	19	50	29	21
In-process R&D	(a)	67	—	67	93	—	93

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Total	\$3,054	\$239	\$2,815	\$3,054	\$154	\$2,900
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(a) In-process R&D is not amortized until the associated project has been completed, at which point it becomes Developed technology. Alternatively, if the associated project is determined not to be viable, it will be expensed.

Amortization of acquisition-related intangibles was \$86 million for the three months ended March 31, 2012, and included

12

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\$81 million of amortization expense related to the intangible assets acquired through the National acquisition.

#### 8. Postretirement benefit plans

Components of net periodic employee benefit cost are as follows:

For Three Months Ended March 31,	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2012	2011	2012	2011	2012	2011
Service cost	\$6	\$6	\$1	\$1	\$10	\$9
Interest cost	11	11	6	6	19	16
Expected return on plan assets	(12	) (11	) (5	) (5	) (20	) (19
Amortization of prior service cost (credit)	—	—	1	1	(1	) (1
Recognized net actuarial loss	4	6	3	3	12	9
Net periodic benefit cost	\$9	\$12	\$6	\$6	\$20	\$14
Curtailment charges (credits)	—	—	(1	) —	—	—
Special termination benefit charges (credits)	(2	) —	—	—	—	—
Total, including charges	\$7	\$12	\$5	\$6	\$20	\$14

#### 9. Debt and lines of credit

##### Short-term borrowings

We maintain a line of credit to support commercial paper borrowings and to provide additional liquidity through bank loans. On March 9, 2012, we replaced our existing lines of credit with a new five-year variable-rate revolving credit facility that allows us to borrow up to \$2 billion through March 2017. This variable-rate credit facility is indexed to the London Interbank Offered Rate (LIBOR). As of March 31, 2012, we have an aggregate \$700 million balance of commercial paper outstanding, which was supported by the new revolving credit facility. The weighted-average borrowing rate for the commercial paper outstanding at the end of the quarter was 0.30 percent.

##### Long-term debt

In May 2011, we issued fixed- and floating-rate long-term debt to help fund the National acquisition. The proceeds of the offering were \$3.497 billion, net of the original issuance discount. We also incurred \$12 million of issuance costs that are included in Other assets and are being amortized to Interest and debt expense over the term of the debt.

In connection with this issuance, we also entered into an interest rate swap transaction related to the \$1.0 billion floating-rate debt due 2013. Under this swap agreement, we will receive variable payments based on three-month LIBOR rates and pay a fixed rate through May 15, 2013. Changes in the cash flows of the interest rate swap are expected to exactly offset the changes in cash flows attributable to fluctuations in the three-month LIBOR-based interest payments. We have designated this interest rate swap as a cash flow hedge and record changes in its fair value in AOCI. The net effect of this swap is to convert the \$1.0 billion floating-rate debt to a fixed-rate obligation bearing a rate of 0.922 percent.

At the acquisition date, we assumed \$1.0 billion of outstanding National debt with a fair value of \$1.105 billion. The excess of the fair value over the stated value is being amortized as a reduction of Interest and debt expense over the term of the related debt.

The following table summarizes the total long-term debt outstanding as of March 31, 2012 and December 31, 2011:



	March 31, 2012	December 31, 2011
Notes due 2012 at 6.15% (assumed with National acquisition)	\$375	\$375
Floating-rate notes due 2013 (swapped to a 0.922% fixed rate)	1,000	1,000
Notes due 2013 at 0.875%	500	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 2016 at 2.375%	1,000	1,000
Notes due 2017 at 6.60% (assumed with National acquisition)	375	375
	4,500	4,500
Add net unamortized premium (assumed with National acquisition)	85	93
Less current portion of long-term debt	(378	) (382
Total long-term debt	\$4,207	\$4,211

For the three months ended March 31, 2012, interest incurred on debt and amortization of debt expense was \$21 million. Capitalized interest was not material.

#### 10. 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 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 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 March 31, 2012, we believe future payments related to these indemnity obligations will not have a material effect on our financial condition, results of operations or liquidity.





11. Segment data

	For Three Months Ended March 31,	
	2012	2011
Segment Revenue		
Analog	\$ 1,686	\$ 1,536
Embedded Processing	473	533
Wireless	373	658
Other	589	665
Total revenue	\$ 3,121	\$ 3,392
	For Three Months Ended March 31,	
	2012	2011
Segment Operating Profit		
Analog	\$ 335	\$ 418
Embedded Processing	36	102
Wireless	(25	) 141
Other	51	247
Total operating profit	\$ 397	\$ 908

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

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

Overview

We design and make semiconductors that we sell to electronics designers and manufacturers all over the world. We began operations in 1930. We are incorporated in Delaware, headquartered in Dallas, Texas, and have design, manufacturing or sales operations in more than 35 countries. We have four segments: Analog, Embedded Processing, Wireless and Other. We expect Analog and Embedded Processing to be our primary growth engines in the years ahead, and we therefore focus our resources on these segments.

We were the world's fourth largest semiconductor company in 2011 as measured by revenue, according to industry data from an external source. Additionally, we sell calculators and related products.

On September 23, 2011, we completed the acquisition of National Semiconductor Corporation (National). The acquisition has brought to TI a portfolio of thousands of analog products, strong customer design tools and additional manufacturing capacity, and is consistent with our strategy to grow our Analog business. The results of National's operations from the acquisition date are included in our Analog segment under the name Silicon Valley Analog.

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 80,000 in number, 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. In 2011, we sold over 20 billion units of our products.

We sell custom and catalog semiconductor products. Custom products are designed for a specific customer for a specific application, are sold only to that customer and are typically sold directly to the customer. The life cycles of custom products are generally determined by end-equipment upgrade cycles and can be as short as 12 to 24 months. Catalog products are designed for use by many customers and/or many applications and are generally sold through both distribution and direct channels. They include both proprietary and commodity products. The life cycles of catalog products are generally longer than for custom products.

Additional information regarding each segment's products follows.

Analog

Analog semiconductors change real-world signals — such as sound, temperature, pressure or images — by conditioning them, amplifying them and often converting them to a stream of digital data that can be processed by other semiconductors, such as digital signal processors (DSPs). Analog semiconductors are also used to manage power distribution and consumption. Sales to our Analog segment's more than 90,000 customers generated about 47 percent of our revenue in 2011. According to external sources, the worldwide market for analog semiconductors was about \$43 billion in 2011. Our Analog segment's revenue in 2011 was about \$6.5 billion, or about 15 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 both high-volume analog products and logic and standard linear products.

High-volume analog includes products for specific applications, including custom products. The life cycles of our high-volume analog products are generally shorter than most of our other Analog product lines. End markets for high-volume analog products include communications, automotive, computing and many consumer electronics products. Logic and standard linear includes commodity products marketed to many different customers for many

different applications.

16

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

**HPA products:** These include catalog analog semiconductors, such as amplifiers, data converters and interface semiconductors, that we market to many different customers who use them in manufacturing a wide range of products sold in many end markets, including the industrial, communications, computing and consumer electronics markets.

HPA products generally have long life cycles, often more than 10 years.

**SVA products:** These include catalog analog products, particularly in the areas of power management, data converters, interface and operational amplifiers, nearly all of which are complementary to our other Analog products. This portfolio of thousands of products is marketed to many different customers who use them in manufacturing a wide range of products sold in many end markets. Many SVA products have long life cycles, often more than 10 years.

#### Embedded Processing

Our Embedded Processing products include our DSPs and microcontrollers. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Microcontrollers are designed to control a set of specific tasks for electronic equipment. Sales of Embedded Processing products generated about 15 percent of our revenue in 2011. According to external sources, the worldwide market for embedded processors was about \$18 billion in 2011. Our Embedded Processing segment's revenue in 2011 was about \$2.0 billion, or about 12 percent of this fragmented market. We believe we are well positioned to increase our market share over time.

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

#### Wireless

Growth in the wireless market is being driven by the demand for smartphones, tablet computers and other emerging portable devices. Many of today's smartphones and tablets use an applications processor to run the device's software operating system and to enable the expanding functionality that has made smartphones and tablets the fastest growing wireless market segments. Many wireless devices also use other semiconductors to enable wireless connectivity using technologies such as Bluetooth®, WiFi networks, GPS and Near Field Communications.

We design, make and sell products to satisfy each of these requirements. Wireless products are typically sold in high volumes. Our Wireless portfolio includes both catalog products and custom products. Sales of Wireless products generated about \$2.5 billion, or about 18 percent of our revenue, in 2011, with a majority of those sales to a single customer.

Our Wireless investments are concentrated on our OMAP™ applications processors and our connectivity products, areas we believe offer significant growth opportunities and which will enable us to take advantage of the increasing demand for more powerful and more functional wireless devices. We no longer invest in development of baseband products (products that allow a cell phone to connect to the cellular network), an area we believe offers far less promising growth prospects. Almost all of our baseband products are sold to a single customer. We expect substantially all of our baseband revenue, which was \$1.1 billion in 2011, to cease by the end of 2012.

#### Other

Our Other segment includes revenue from our smaller semiconductor product lines and from sales of our handheld graphing and scientific calculators. It also includes royalties received for our patented technology that we license to other electronics companies and revenue from transitional supply agreements that we may enter into in connection with acquisitions and divestitures. The semiconductor products in our Other segment include DLP® products (primarily used in projectors to create high-definition images) and custom semiconductors known as application-specific integrated circuits (ASICs). This segment generated about \$2.5 billion, or about 20 percent of our revenue, in 2011. We also include in our Other segment certain acquisition-related charges that are not used in

evaluating results and allocating resources to our segments. These charges

17

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include certain fair-value adjustments, restructuring charges, transaction expenses, acquisition-related retention bonuses and the amortization of intangible assets. Our Other segment also includes certain corporate-level items, such as litigation and environmental costs, insurance proceeds, and assets and liabilities associated with our centralized operations, such as our worldwide manufacturing, facilities and procurement operations.

#### 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 of those products than custom products. Additionally, we sometimes maintain

catalog-product inventory in unfinished wafer form, as well as higher finished goods inventory of low-volume products, allowing greater flexibility in periods of high demand. We also have consignment inventory programs in place for our largest customers and some distributors.

#### 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 and the wafer is cut into pieces called chips. Each chip is assembled into a package that then is usually retested. The entire process typically requires between 12 and 18 weeks and takes place in highly specialized facilities.

We own and operate semiconductor manufacturing facilities in North America, Asia and Europe. These include both high-volume 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 hurting 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.

The cost and lifespan of the equipment and processes we use to manufacture semiconductors vary by product. Our Analog products and most of our Embedded Processing products can be manufactured using older, less expensive equipment than is needed for manufacturing advanced logic products, such as our Wireless products. Advanced logic wafer manufacturing continually requires new and expensive processes and equipment. In contrast, the processes and equipment required for manufacturing our Analog products and most of our Embedded Processing products do not have this requirement.

To supplement our internal wafer fabrication capacity and maximize our responsiveness to customer demand and return on capital, our wafer manufacturing strategy utilizes the capacity of outside suppliers, commonly known as foundries. We source about 25 percent of our wafers from external foundries, with the vast majority of this outsourcing being for advanced logic wafers. In 2011, external foundries provided about 75 percent of the fabricated wafers for our advanced logic manufacturing needs. We expect the proportion of our advanced logic wafers provided by foundries will increase over time. We expect to maintain sufficient internal wafer fabrication capacity to meet the vast majority of our analog production needs.

In addition to using foundries to supplement our wafer fabrication capacity, we selectively use subcontractors to supplement our assembly/test capacity. We generally use subcontractors for assembly/test of products that would be less cost-efficient to complete in-house (e.g., relatively low-volume products that are unlikely to keep internal equipment fully utilized), or when demand temporarily exceeds our internal capacity. We believe we often have a cost advantage from maintaining internal assembly/test capacity.

Our internal/external manufacturing strategy reduces the level of our required capital expenditures, and thereby reduces our subsequent levels of depreciation below what it would be if we sourced all manufacturing internally. Consequently, we experience less fluctuation in our profit margins due to changing product demand, and lower cash requirements for expanding and updating our manufacturing capabilities.

#### 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. Typically, new chips are produced in limited quantities at first and then ramp to higher-volume production over time. Consequently, new products tend not to have a significant revenue impact for one or more quarters after their introduction. In the results discussions below, changes in our shipments are caused by changing demand for our products



unless otherwise noted.

#### Market cycle

The “semiconductor cycle” is an important concept that refers to the ebb and flow of supply. 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 and operating results are subject to some seasonal variation. Our semiconductor sales generally are seasonally weaker in the first quarter than in other quarters, particularly for products sold into cell phones and other consumer electronics devices, which have stronger sales later in the year as manufacturers prepare for the major holiday selling seasons. Calculator revenue is tied to the U.S. back-to-school season and is therefore at its highest in the second and third quarters.

#### 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 might reflect in our financial statements one or more tax refunds or assessments, or changes to tax liabilities, involving one or more taxing authorities.

#### First-Quarter 2012 results

Our first-quarter revenue was \$3.12 billion, net income was \$265 million and earnings per share (EPS) were 22 cents. EPS includes 10 cents of charges associated with the company’s acquisition of National Semiconductor and previously announced restructuring.

As we expected, the semiconductor cycle bottomed in the first quarter, and early signs of growth began to emerge. Orders were up 13 percent, and backlog is growing again. Particularly encouraging is the breadth of increased orders across geographical regions and markets, including the industrial sector.

Revenue in our Analog segment was about even with the prior quarter. We continue to make progress with Silicon Valley Analog, formerly National Semiconductor, as this product line gains traction with customers and holds a strong position in the important industrial market. Revenue in Embedded Processing was up 7 percent led by growth in the automotive and communications infrastructure markets. Revenue in our Wireless segment declined sharply as we entered the final phase of our exit from baseband products, which was less than 3 percent of total revenue in the quarter. We are expanding the reach of our applications processors and connectivity products into multiple markets beyond smartphones and tablets. Although it will take time to significantly diversify this revenue mix, we have begun to shift our investments accordingly. We are well-positioned with some key customer programs and are already experiencing strong diversity in our design-ins.

We are poised for growth and share gains as markets rebound. Our product portfolio is strong, and our design position with customers is excellent. Our inventory is well-staged, and production in our factories is ramping. We expect 2012 to be a good year for growth.



## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Income

(Millions of dollars, except share and per-share amounts)

	For Three Months Ended			
	March 31, 2012	March 31, 2011	Dec. 31, 2011	
Revenue	\$3,121	\$3,392	\$3,420	
Cost of revenue (COR)	1,590	1,664	1,872	
Gross profit	1,531	1,728	1,548	
Research and development (R&D)	509	422	475	
Selling, general and administrative (SG&A)	462	396	443	
Restructuring charges	10	—	112	
Acquisition charges	153	2	153	
Operating profit	397	908	365	
Other income (expense) net (OI&E)	(14 )	10	5	
Interest and debt expense	21	—	21	
Income before income taxes	362	918	349	
Provision for income taxes	97	252	51	
Net income	\$265	\$666	\$298	
Earnings per common share:				
Basic	\$.23	\$.56	\$.26	
Diluted	\$.22	\$.55	\$.25	
Average shares outstanding (millions):				
Basic	1,143	1,167	1,138	
Diluted	1,165	1,194	1,155	
Cash dividends declared per share of common stock	\$.17	\$.13	\$.17	
Percentage of revenue:				
Gross profit	49.0	% 50.9	% 45.3	%
R&D	16.3	% 12.4	% 13.9	%
SG&A	14.8	% 11.7	% 13.0	%
Operating profit	12.7	% 26.8	% 10.7	%

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 EPS. The amount excluded is \$4 million, \$10 million and \$5 million for the quarters ending March 31, 2012, March 31, 2011, and December 31, 2011, respectively.

## Events affecting comparability

The consolidated financial statements include the results of National's operations since the acquisition date of September 23, 2011. National's results are reported in TI's Analog segment under the name Silicon Valley Analog (SVA). As a direct result of the National acquisition, we incurred various incremental costs that we recorded in Other, as explained more fully below.

Results for the first quarter of 2012 also include restructuring charges associated with actions initiated in the fourth quarter of 2011 to close certain manufacturing facilities in Houston, Texas, and Hiji, Japan.



Results for all periods presented include the impact of the March 11, 2011, earthquake and associated events in Japan. Revenue in the first quarter of 2012 includes insurance proceeds of about \$65 million related to interruption of business operations as a result of the earthquake. See Note 3 to the financial statements for detailed information.

#### Details of financial results

Revenue for the first quarter of 2012 was \$3.12 billion, a decrease of \$271 million, or 8 percent, from the year-ago quarter and \$299 million, or 9 percent, from the prior quarter, primarily due to lower revenue from our Wireless baseband products. Revenue from our core businesses of Analog, Embedded Processing and the remainder of our Wireless segment, was about 2 percent higher than the year-ago quarter and 5 percent lower than the prior quarter.

Gross profit for the first quarter of 2012 was \$1.53 billion, or 49.0 percent of revenue, a decrease of \$197 million, or 11 percent, from the year-ago quarter primarily due to lower revenue. Compared with the prior quarter, lower gross profit reflected lower revenue that was partially offset by lower acquisition-related charges of \$82 million (included in COR) and the benefit from \$65 million of insurance proceeds, almost all of which benefitted gross profit. The underutilization expense in the first quarter of 2012 was essentially unchanged from about \$110 million in the prior quarter. The underutilization expense should start to decline in the second quarter of 2012 as the effect of our higher production starts in the first quarter works its way through our manufacturing operations.

Operating expenses for the first quarter of 2012 were \$509 million for R&D and \$462 million for SG&A. R&D expense increased \$87 million, or 21 percent, from the year-ago quarter primarily due to the inclusion of SVA. R&D expense increased \$34 million, or 7 percent, from the prior quarter due about equally to higher compensation-related costs and higher product development costs. SG&A expense increased \$66 million, or 17 percent, from the year-ago quarter primarily due to the inclusion of SVA. Compared with the prior quarter, SG&A expense increased \$19 million, or 4 percent, due to higher compensation-related costs and, to a lesser extent, increased investments in sales and marketing activities.

Restructuring charges for the first quarter of 2012 were \$10 million and were associated with actions initiated in the fourth quarter of 2011 to close certain manufacturing facilities in Houston, Texas, and Hiji, Japan. The restructuring charges are included in Other and for the first quarter of 2012 consist of accelerated depreciation of the facilities' assets and other exit costs. The total charge for these closures is estimated to be about \$215 million, of which a cumulative \$122 million has been recognized to date and the remainder will be incurred over the next six quarters. See Note 4 to the financial statements for more detailed information.

In the first quarter of 2012, we incurred \$174 million of total acquisition-related charges associated with the National acquisition, compared with \$256 million recognized in the fourth quarter of 2011. These incremental costs are separately identifiable from the ongoing operating results of SVA that are included in the Analog segment, so we have classified them as a part of Other. This presentation is consistent with how management measures the performance of those segments. For the first quarter of 2012, \$21 million of these charges are included in COR and are associated with the contract termination of a distributor. This compares with \$103 million of charges in COR in the prior quarter that are associated with the fair value write-up of acquired inventory and property, plant and equipment. The remainder of the acquisition-related charges, about \$153 million for each period, are included in the acquisition charges line on the face of the income statement. About \$81 million of these costs in each period are from the ongoing amortization of intangible assets, with the remainder primarily due to severance and other benefits, retention bonuses and other costs. Total acquisition-related charges are expected to be about \$100 million in the second quarter of 2012, and then continue to decline by about \$5-10 million per quarter until they reach about \$80 million, which is the ongoing amortization of intangibles amount that will continue for 8 to 10 years.

For the first quarter of 2012, our operating profit was \$397 million, or 12.7 percent of revenue, compared with \$908 million, or 26.8 percent of revenue, for the year-ago quarter. The decrease in operating profit from the year-ago

quarter was due about equally to lower gross profit, higher total acquisition-related charges, and higher operating expenses resulting from the inclusion of SVA. Compared with the prior quarter, operating profit increased \$32 million, or 9 percent, primarily due to lower restructuring charges and lower total acquisition-related charges.

OI&E for the first quarter of 2012 was an expense of \$14 million compared with income in both the year-ago and prior periods. The decrease in both comparisons was primarily due to an expense associated with a divested business.

Interest and debt expense was \$21 million, unchanged from the prior quarter. This includes interest and amortization of debt expense associated with our issuance of new debt in May 2011 and the assumption of debt as a result of our acquisition of National in September 2011. See Note 9 to the financial statements for details regarding debt outstanding.

As of March 31, 2012, our estimated annual effective tax rate for 2012 is about 28 percent. Quarterly income taxes are calculated using the estimated annual effective tax rate. See Note 5 to the financial statements for additional information. The tax rate is based on current tax law and does not assume reinstatement of the federal research tax credit, which expired at the end of 2011.

For the first quarter of 2012, our tax provision was \$97 million compared with \$252 million in the year-ago quarter. The decrease in the tax provision from the year-ago quarter was due to lower income before income taxes. The tax provision in the prior quarter was \$51 million, which included a cumulative adjustment for a decrease in the annual effective tax rate. The increase in the tax provision from the prior quarter was primarily due to this cumulative adjustment.

In the first quarter of 2012, our net income was \$265 million compared with net income of \$666 million for the year-ago quarter and \$298 million for the prior quarter. EPS was \$0.22 compared with \$0.55 for the year-ago quarter and \$0.25 for the prior quarter.

Orders in the first quarter of 2012 were \$3.24 billion, a decrease of 9 percent from the year-ago quarter and an increase of 13 percent from the prior quarter.

#### Segment results

##### Analog

	1Q12	1Q11	1Q12 vs. 1Q11	4Q11	1Q12 vs. 4Q11	
Revenue	\$ 1,686	\$ 1,536	10 %	\$ 1,695	-1	%
Operating profit	335	418	-20 %	414	-19	%
Operating profit % of revenue	19.8 %	27.2 %		24.5 %		

Analog revenue increased 10 percent from the year-ago quarter due to the inclusion of SVA. Partially offsetting this increase was lower revenue from High-Performance Analog and High-Volume Analog & Logic products due to decreased shipments. Power Management revenue was lower due to a lower proportion of shipments of higher-priced products. Compared with the prior quarter, revenue was about even as an increase in SVA revenue from increased shipments was offset by lower revenue from High-Volume Analog & Logic products due to a lower proportion of shipments of higher-priced products. Revenue from Power Management and revenue from High-Performance Analog products were about even. Compared with the year-ago quarter, operating profit decreased due to higher operating expenses as a result of the inclusion of SVA. Operating profit decreased from the prior quarter due to lower gross profit resulting from higher manufacturing costs, as capacity at our recently purchased factory in Japan became available for analog production following expiration of a transitional supply agreement. Also contributing to the operating profit decline, but to a lesser extent, were higher operating expenses.

##### Embedded Processing

	1Q12	1Q11	1Q12 vs. 1Q11	4Q11	1Q12 vs. 4Q11	
Revenue	\$ 473	\$ 533	-11 %	\$ 442	7	%
Operating profit	36	102	-65 %	12	200	%
Operating profit % of revenue	7.7 %	19.0 %		2.7 %		

Embedded Processing revenue decreased 11 percent from the year-ago quarter due to decreased shipments of products sold into communications infrastructure applications and, to a lesser extent, a lower proportion of shipments of higher-priced catalog products. Partially offsetting these decreases were increased shipments of products sold into automotive applications. Compared with the prior quarter, revenue increased 7 percent due to increased shipments of products sold into automotive applications and, to a lesser extent, communications infrastructure applications. Revenue from catalog products was about even. Compared with the year-ago quarter, operating profit decreased primarily due to lower revenue and associated gross profit. Operating profit increased from the prior quarter due to higher revenue and associated gross profit.



## Wireless

	1Q12	1Q11	1Q12 vs. 1Q11	4Q11	1Q12 vs. 4Q11
Revenue	\$ 373	\$ 658	-43 %	\$ 722	-48 %
Operating profit (loss)	(25 )	141	n/a	112	n/a
Operating profit (loss) % of revenue	(6.6 )%	21.5 %		15.5 %	

Wireless revenue decreased 43 percent from the year-ago quarter primarily due to decreased shipments of baseband products. Revenue from connectivity products also declined due to decreased shipments. Partially offsetting these decreases was an increased proportion of shipments of higher-priced OMAP applications processors. Baseband revenue for the first quarter of 2012 was \$87 million, a decrease of \$247 million, or 74 percent, from the year-ago quarter. The decrease in Wireless operating profit compared with the year-ago quarter was due to lower revenue and associated gross profit. Compared with the prior quarter, Wireless revenue declined 48 percent primarily due to decreased shipments of baseband products. Revenue from OMAP applications processors and connectivity products also declined due to decreased shipments. Baseband revenue declined \$192 million, or 69 percent, from the prior quarter. Operating profit declined from the prior quarter due to lower revenue and associated gross profit.

## Other

	1Q12	1Q11	1Q12 vs. 1Q11	4Q11	1Q12 vs. 4Q11
Revenue	\$ 589	\$ 665	-11 %	\$ 561	5 %
Operating profit (loss)	51	247	-79 %	(173 )	n/a
Operating profit (loss) % of revenue	8.6 %	37.2 %		(30.8 )%	
Restructuring charges*	10	—		112	
Acquisition charges*	153	2		153	
Other acquisition-related charges - in COR*	21	—		103	

\*Included in operating profit

Other revenue decreased 11 percent from the year-ago quarter, primarily due to lower shipments of DLP products, and to a lesser extent, lower revenue from transitional supply agreements and lower royalties. Partially offsetting these decreases was about \$65 million of business interruption insurance proceeds related to the 2011 Japan earthquake and increased shipments of custom ASIC products. Revenue from calculators was about even. Compared with the prior quarter, revenue increased 5 percent due to the insurance proceeds and increased shipments of custom ASIC products and calculators. Partially offsetting these increases were lower revenue from a transitional supply agreement that ended in the fourth quarter, lower revenue due to lower shipments of DLP products and lower royalties. Operating profit for the first quarter of 2012 decreased from the year-ago quarter due to higher total acquisition-related charges. Compared with the prior quarter, operating profit increased primarily due to lower restructuring charges and lower total acquisition-related charges. Operating profit in both comparisons was also favorably affected as a result of the insurance proceeds. See Note 3 to financial statements for more details.

## Financial Condition

At the end of the first quarter of 2012, total cash (cash and cash equivalents plus short-term investments) was \$2.76 billion. This was \$170 million lower than at the end of 2011.

Accounts receivable were \$1.48 billion at the end of the first quarter. This was a decrease of \$67 million from the end of 2011 as a result of lower revenue.

Inventory was \$1.85 billion at the end of the first quarter. This was an increase of \$65 million from the end of 2011.

Days of inventory at the end of the first quarter were 105 compared with 86 at the end of 2011. The inventory increase was due to

building inventory to support higher anticipated demand.

#### Liquidity and Capital Resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are our cash and cash equivalents, short-term investments and revolving credit facilities. Cash flow from operations for the first quarter of 2012 was \$449 million, a decrease of \$67 million from the year-ago period, due to lower net income.

We had \$1.19 billion of cash and cash equivalents and \$1.57 billion of short-term investments as of March 31, 2012. During the quarter, we entered into a variable-rate revolving credit facility that allows us to borrow up to \$2 billion until March 2017. In addition, this credit facility, which replaced our prior credit facilities, serves as support for the issuance of our commercial paper. As of March 31, 2012, we had \$700 million of commercial paper outstanding.

For the first three months of 2012, investing activities provided cash of \$270 million compared with \$63 million in the year-ago period. Proceeds from short-term investments, net of purchases, provided cash of \$371 million compared with \$239 million in the year-ago quarter. Capital expenditures in the first quarter of 2012 totaled \$103 million compared with \$194 million in the year-ago quarter. These expenditures were primarily for assembly/test equipment, and, to a lesser extent, analog wafer manufacturing equipment.

Net cash used in financing activities was \$518 million for the first three months of 2012 compared with \$555 million in the year-ago period. We used \$300 million of cash in the first quarter of 2012 to repay commercial paper borrowings. We also used \$300 million of cash in 2012 to repurchase 9.1 million shares of our common stock and paid dividends of \$195 million. In the same period last year we used \$771 million of cash to repurchase 21.9 million shares of common stock and paid \$153 million in dividends. Employee exercises of TI stock options provided cash proceeds of \$259 million compared with \$350 million for the year-ago quarter.

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

In 2012, we expect approximately: an annual effective tax rate of 28 percent; R&D expense of \$2.0 billion; capital expenditures of \$0.7 billion; and depreciation of \$1.0 billion. The tax rate is based on current tax law and does not assume reinstatement of the federal research tax credit, which expired at the end of 2011.

#### Long-term contractual obligations

Information concerning our long-term contractual obligations is contained on page 49 of Exhibit 13 to our Form 10-K for the year ended December 31, 2011, and is incorporated by reference to such exhibit. See Note 9 to the financial statements for detailed information our long-term debt.

#### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is contained on pages 51-52 of Exhibit 13 to our Form 10-K for the year ended December 31, 2011, and is incorporated by reference to such exhibit.

#### ITEM 4. Controls and Procedures.

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

no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 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

25

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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 End-User 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 end-user markets, but we generate a significant amount of revenue from sales to customers in the communications- and computer-related industries and from sales to industrial customers. Within these end-user markets, a large portion of our revenue is generated from sales to customers in the cell phone, personal computer and communications infrastructure markets. Decline in one or several of these end-user 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 Risks Associated with Legal, Political, Economic or Other Changes.**

We have facilities in more than 35 countries worldwide, and about 90 percent of our revenue comes from sales to locations outside the United States. Operating internationally exposes us to changes in export controls and other laws or policies, as well as 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.**

While 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.

**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 and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Additionally, the 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 more than 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. The risk of a significant claim is generally greater for products used in health and safety applications. 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 Integrate Acquisitions Could Affect Our Business Plans and Results of Operations.**

In September 2011, we acquired National Semiconductor Corporation. Such a transaction can involve significant integration challenges and there can be no assurance that pre-acquisition due diligence will have identified all possible issues and risks that might arise with respect to the acquisition. If we are unable to timely and successfully integrate the acquired operations, product lines and technology, we may not be able to realize the expected benefits of the acquisition, which could adversely affect our business plans and operating results.

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

We may be subject to breaches of our information technology systems caused by computer viruses, unauthorized access, sabotage, vandalism or terrorism. Compromise of our information technology networks could result in unauthorized release of our, our customers' or our suppliers' confidential or proprietary information, cause a disruption to our manufacturing and other operations, or result in release of employee personal data, any of which could adversely affect our operating results and our reputation.



## 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 <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
January 1 through January 31, 2012	3,691,437	\$ 32.43	3,691,437	\$ 5.55 billion
February 1 through February 29, 2012	5,385,512	\$ 33.47	5,385,512	\$ 5.37 billion
March 1 through March 31, 2012	—	\$—	—	\$ 5.37 billion
Total	9,076,949	\$ 33.05	9,076,949	<sup>(2)</sup> \$ 5.37 billion <sup>(3)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> All purchases during the quarter were open-market purchases.

<sup>(3)</sup> As of March 31, 2012, this amount consisted of the remaining portion of the \$7.5 billion authorization. No expiration date was specified for this authorization.

ITEM 6. Exhibits.

Designation of

Exhibits in This Description of Exhibit

Report

31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).

31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).

32.1 Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

32.2 Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

101.ins XBRL Instance Document

101.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

30

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“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 key markets such as communications, computing, industrial and consumer electronics;
- TI’s ability to maintain or improve profit margins, including its ability to utilize its manufacturing facilities at sufficient levels to cover its fixed operating costs, in an intensely competitive and cyclical industry;
- TI’s ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- TI’s ability to compete in products and prices in an intensely competitive industry;
- TI’s ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties;
- Expiration of license agreements between TI and its patent licensees, and market conditions reducing royalty payments to TI;
- Economic, social and political conditions in the countries in which TI, its customers or its suppliers operate, including security risks, health conditions, possible disruptions in transportation, 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;
- 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, 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 National Semiconductor’s operations, product lines and technologies, and to realize opportunities for growth and cost savings from the acquisition; 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 Form 10-Q. The forward-looking statements included in this report on Form 10-Q are made only as of the date of this report and TI undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

SIGNATURE

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

TEXAS INSTRUMENTS INCORPORATED

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

Date: May 4, 2012