TEXAS INSTRUMENTS INC
Form 10-Q
July 31, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

For the transition period from ___________ to ___________
Commission File Number 001-03761

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

1,067,555,579
Number of shares of Registrant's common stock outstanding as of
June 30, 2014

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Consolidated Statements of Income
[Millions of dollars, except share and per-share amounts]

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	$3,292	$3,047	$6,275	$5,932
Cost of revenue (COR)	1,411	1,477	2,787	2,988
Gross profit	1,881	1,570	3,488	2,944
Research and development (R&D)	349	389	715	808
Selling, general and administrative (SG&A)	472	471	951	931
Acquisition charges	82	86	165	171
Restructuring charges/other	(4)	(282)	(15)	(267)
Operating profit	982	906	1,672	1,301
Other income (expense), net (OI&E)	3	—	9	2
Interest and debt expense	24	24	49	47
Income before income taxes	961	882	1,632	1,256
Provision for income taxes	278	222	462	234
Net income	$683	$660	$1,170	$1,022
Earnings per common share:				
Basic	$.63	$.59	$1.07	$.91
Diluted	$.62	$.58	$1.06	$.90
Average shares outstanding (millions):				
Basic	1,071	1,103	1,076	1,105
Diluted	1,086	1,117	1,091	1,120
Cash dividends declared per share of common stock	$.30	$.28	$.60	$.49

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
[Millions of dollars]

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$683	$660	$1,170	$1,022
Other comprehensive income (loss), net of taxes				
Net actuarial gains (losses) of defined benefit plans:				
Adjustment	(5)	48	(7)	80
Recognized within Net income	11	16	21	33
Prior service cost of defined benefit plans:				
Adjustment	—	(1)	—	(2)
Recognized within Net income	1	(2)	1	(2)
Derivative instruments:				
Change in fair value	—	(1)	—	(1)
Recognized within Net income	1	—	1	1
Other comprehensive income (loss)	8	60	16	109
Total comprehensive income	$691	$720	$1,186	$1,131

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets
[Millions of dollars, except share amounts]

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$1,216	$1,627
Short-term investments	1,588	2,202
Accounts receivable, net of allowances of ($14) and ($22)	1,527	1,203
Raw materials	93	102
Work in process	894	919
Finished goods	757	710
Inventories	1,744	1,731
Deferred income taxes	389	393
Prepaid expenses and other current assets	992	863
Total current assets	7,456	8,019
Property, plant and equipment at cost	6,452	6,556
Accumulated depreciation	(3,408)	(3,157)
Property, plant and equipment, net	3,044	3,399
Long-term investments	219	216
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	2,062	2,223
Deferred income taxes	194	207
Capitalized software licenses, net	101	118
Overfunded retirement plans	126	130
Other assets	246	264
Total assets	$17,810	$18,938
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$254	$1,000
Accounts payable	402	422
Accrued compensation	484	554
Income taxes payable	109	119
Deferred income taxes	2	1
Accrued expenses and other liabilities	552	651
Total current liabilities	1,803	2,747
Long-term debt	4,394	4,158
Underfunded retirement plans	224	216
Deferred income taxes	484	548
Deferred credits and other liabilities	439	462
Total liabilities	7,344	8,131
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares. Participating cumulative preferred. None issued.	—	—
Common stock, $1 par value. Authorized – 2,400,000,000 shares. Shares issued – 1,740,815,939	1,741	1,741

Paid-in capital	1,273	1,211
Retained earnings	28,686	28,173
Treasury common stock at cost. Shares: June 30, 2014 – 673,260,360; December 31, 2013 – 658,012,970	(20,722)	(19,790)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(512)	(528)
Total stockholders’ equity	10,466	10,807
Total liabilities and stockholders’ equity	$17,810	$18,938

See accompanying notes.

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TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows
[Millions of dollars]

	For Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$1,170	$1,022
Adjustments to Net income:		
Depreciation	426	449
Amortization of acquisition-related intangibles	161	170
Amortization of capitalized software	30	47
Stock-based compensation	155	150
Gains on sales of assets	(39)	(3)
Deferred income taxes	(57)	(14)
Increase (decrease) from changes in:		
Accounts receivable	(314)	(272)
Inventories	(13)	37
Prepaid expenses and other current assets	(15)	(308)
Accounts payable and accrued expenses	(176)	(280)
Accrued compensation	(76)	(59)
Income taxes payable	(48)	144
Changes in funded status of retirement plans	41	52
Other	(8)	(100)
Cash flows from operating activities	1,237	1,035
Cash flows from investing activities:		
Capital expenditures	(157)	(182)
Proceeds from asset sales	40	18
Purchases of short-term investments	(1,466)	(2,402)
Proceeds from short-term investments	2,079	2,883
Other	1	14
Cash flows from investing activities	497	331
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	498	986
Repayment of debt	(1,000)	(1,500)
Dividends paid	(648)	(541)
Stock repurchases	(1,463)	(1,400)
Proceeds from common stock transactions	408	797
Excess tax benefit from share-based payments	64	63
Other	(4)	(7)
Cash flows from financing activities	(2,145)	(1,602)
Net change in Cash and cash equivalents	(411)	(236)
Cash and cash equivalents at beginning of period	1,627	1,416
Cash and cash equivalents at end of period	$1,216	$1,180

See accompanying notes.

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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. We have two reportable segments, which are established along major categories of products as follows:

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

Embedded Processing - consists of the following major product lines: Processors, Microcontrollers and Connectivity.

We report the results of our remaining business activities in Other. See Note 11 for the results of our business segments.

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the 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, 2013. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended June 30, 2014, and 2013, and the Consolidated Balance Sheet as of June 30, 2014, 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 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, 2013. The results for the three-month and six-month periods are not necessarily indicative of a full year's results.

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

Earnings per share (EPS)

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

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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

	For Three Months Ended June 30, 2014			For Three Months Ended June 30, 2013		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$683			$660		
Income allocated to RSUs	(10)			(11)		
Income allocated to common stock for basic EPS calculation	$673	1,071	$.63	$649	1,103	$.59
Adjustment for dilutive shares:						
Stock-based compensation plans		15			14	
Diluted EPS:						
Net income	$683			$660		
Income allocated to RSUs	(10)			(11)		
Income allocated to common stock for diluted EPS calculation	$673	1,086	$.62	$649	1,117	$.58

	For Six Months Ended June 30, 2014			For Six Months Ended June 30, 2013		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$1,170			$1,022		
Income allocated to RSUs	(18)			(18)		
Income allocated to common stock for basic EPS calculation	$1,152	1,076	$1.07	$1,004	1,105	$.91
Adjustment for dilutive shares:						
Stock-based compensation plans		15			15	
Diluted EPS:						
Net income	$1,170			$1,022		
Income allocated to RSUs	(18)			(18)		
Income allocated to common stock for diluted EPS calculation	$1,152	1,091	$1.06	$1,004	1,120	$.90

Potentially dilutive securities representing 14 million and 13 million shares of common stock that were outstanding during the second quarters of 2014 and 2013, respectively, and 12 million and 23 million shares outstanding during the first six months of 2014 and 2013, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Derivatives and hedging

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

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

We do not use derivatives for speculative or trading purposes.

Fair values of financial instruments

The fair values of our derivative financial instruments were not significant at June 30, 2014. 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 5. 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. See Note 5 for the definition of Level 2 inputs.

Changes in Accounting Standards

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This standard raises the threshold for a disposal to qualify as a discontinued operation. Under the new guidance, only a disposal representing a strategic shift in operations that has or will have a major effect on an entity's operations and financial results, such as a disposal of a major geographic area or a major line of business, should be presented as discontinued operations. In addition, the new standard requires additional disclosures of both discontinued operations and certain other disposals that do not meet the revised definition of a discontinued operation. This standard is effective for annual and interim reporting periods beginning as of January 1, 2015. In the event that a future disposition meets the revised criteria, we expect that this standard will have an impact on the presentation of our financial statements and we will note the appropriate disclosures at that time.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. This standard is effective for annual and interim reporting periods beginning as of January 1, 2017. We are currently evaluating the potential impact of this standard on our financial position and results of operations.

2. Acquisition charges

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

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2014	2013	2014	2013
Amortization of intangible assets	$79	$81	$159	$162
Stock-based compensation	3	3	6	6
Retention bonuses	—	2	—	3
Acquisition charges	$82	$86	$165	$171

Amortization of intangible assets resulting from the National acquisition is based on estimated useful lives. See Note 6 for additional information.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Stock-based compensation reflects awards to former National employees and is recognized over the applicable vesting period for the remaining grantees.

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

3. Restructuring charges/other

Restructuring charges/other is comprised of the following components, all of which are recognized in Other:

	For Three Months Ended June 30,		For Six Months Ended June 30,		
	2014	2013	2014	2013	Cumulative Since January 1, 2011
Restructuring charges by action:					
2013 actions					
Severance and benefits cost (a)	$(6)	$—	$21	$—	$70
Other exit costs	2	—	7	—	7
	(4)	—	28	—	77
2012 Wireless action					
Severance and benefits cost (a)	—	26	(6)	30	269
Accelerated depreciation	—	3	—	6	9
Other exit costs	—	—	—	2	105
	—	29	(6)	38	383
Prior actions					
Severance and benefits cost	—	1	—	1	119
Accelerated depreciation	—	—	1	5	29
Other exit costs	—	3	(1)	4	52
	—	4	—	10	200
Total restructuring charges	(4)	33	22	48	$660
Other:					
Gains on sales of assets	(2)	—	(39)	—	
Gain on technology transfer	—	(315)	—	(315)	
Other	2	—	2	—	
Restructuring charges/other	$(4)	$(282)	$(15)	$(267)	

(a) Includes changes in estimates for the three and six months ended June 30, 2014.

2013 actions

In January 2014, we announced cost-saving actions in Embedded Processing and in Japan to reduce expenses and focus our investments on markets with greater potential for sustainable growth and strong long-term returns. We expect the actions to be completed by mid-2015. Cost reductions include the elimination of about 1,100 jobs worldwide. Through June 30, 2014, we have recognized $77 million in cumulative restructuring charges, consisting of $70 million for severance and related benefit costs and $7 million in other exit costs, with no further charges expected. As of June 30, 2014, $6 million has been paid to terminated employees for severance and benefits.

2012 Wireless action

In 2012, we announced a restructuring of our Wireless business to reduce expenses and focus our investments on markets with greater potential for sustainable growth and strong long-term returns. This action is now complete. We recognized $383 million in cumulative restructuring charges, including a $90 million impairment of goodwill. As of June 30, 2014, $216 million has been paid to terminated employees for severance and benefits.

Prior actions

In 2012, we announced closure of two older semiconductor manufacturing facilities in Houston, Texas, and Hiji, Japan. We recognized $200 million in cumulative restructuring charges related to these closures, completing both by the end of 2013. As of June 30, 2014, $101 million has been paid to terminated employees for severance and benefits.

As of June 30, 2014, and December 31, 2013, we carried immaterial liabilities related to actions commenced in 2008 and 2009.

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

	2013 Actions		2012 Wireless Action	Prior Actions		
	Severance and Benefits	Other Charges	Severance and Benefits	Severance and Benefits	Other Charges	Total
Remaining accrual at December 31, 2013	$49	$—	$95	$10	$7	$161
Restructuring charges (a)	21	7	(6)	—	—	22
Payments	(6)	—	(36)	(5)	(7)	(54)
Remaining accrual at June 30, 2014	$64	$7	$53	$5	$—	$129

(a) Includes changes in estimates for the six months ended June 30, 2014.

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

Other

Gains on sales of assets

During the first quarter of 2014, we completed the sale of our site in Nice, France. The planned shut-down of this site was part of our 2012 Wireless restructuring action. As a result of the sale, we recognized a gain of $30 million in the first quarter of 2014. We also recognized gains of $9 million on a year-to-date basis tied to the sales of other assets associated with our Houston and Hiji sites, with $2 million recognized in the second quarter of 2014.

Gain on technology transfer

During the second quarter of 2013, we recognized a gain of $315 million on a transfer of wireless connectivity technology to a customer.

4. Income taxes

Federal income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. The rate is based on current tax law and for 2014 does not assume reinstatement of the federal research tax credit, which expired at the end of 2013. As of June 30, 2014, the estimated annual effective tax rate for 2014 is about 28 percent, which differs from the 35 percent statutory corporate tax rate due to lower statutory tax rates applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits. The first-quarter 2013 tax provision included a $65 million discrete tax benefit from the reinstatement of the federal research tax credit retroactive to the beginning of 2012.

5. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

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

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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

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

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

Details of our investments are as follows:

	June 30, 2014			December 31, 2013		
	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	$408	$—	$—	$500	$—	$—
Corporate obligations	80	287	—	123	217	—
U.S. Government agency and Treasury securities	495	1,301	—	787	1,985	—
Trading securities						
Mutual funds	—	—	182	—	—	179
Total	983	1,588	182	1,410	2,202	179
Other measurement basis:						
Equity-method investments	—	—	24	—	—	24
Cost-method investments	—	—	13	—	—	13
Cash on hand	233	—	—	217	—	—
Total	$1,216	$1,588	$219	$1,627	$2,202	$216

At June 30, 2014, and December 31, 2013, we had no significant unrealized gains or losses associated with our available-for-sale investments. We did not recognize any credit losses related to available-for-sale investments for the six months ended June 30, 2014, and 2013.

For the six months ended June 30, 2014, and 2013, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $2.08 billion and $2.88 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 June 30, 2014:

Due	Fair Value
One year or less	$2,336
One to two years	235

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Gross realized gains and losses from sales of long-term investments were not significant for the six months ended June 30, 2014, and 2013. Other-than-temporary declines and impairments in the values of these investments recognized in OI&E were also not significant for the six months ended June 30, 2014, and 2013.

Fair-value considerations

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

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

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

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2014, and December 31, 2013. For these periods, we had no Level 3 assets or liabilities. 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 June 30, 2014	Level 1	Level 2
Assets:			
Money market funds	$408	$408	$—
Corporate obligations	367	—	367
U.S. Government agency and Treasury securities	1,796	1,370	426
Mutual funds	182	182	—
Total assets	$2,753	$1,960	$793
Liabilities:			
Deferred compensation	$199	$199	$—
Total liabilities	$199	$199	$—

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

6. Goodwill and acquisition-related intangibles

Goodwill was $4.36 billion net of accumulated impairment of $90 million as of June 30, 2014, and December 31, 2013. There was no impairment of goodwill during the six months ended June 30, 2014 and 2013.

Components of acquisition-related intangible assets are as follows:

		June 30, 2014			December 31, 2013		
Acquisition-related Intangibles	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	5 - 10	$2,126	$604	$1,522	$2,157	$526	$1,631
Customer relationships	8	810	280	530	821	239	582
Other intangibles	5	4	2	2	5	3	2
In-process R&D	(a)	8	n/a	8	8	n/a	8
Total		$2,948	$886	$2,062	$2,991	$768	$2,223

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

Amortization of acquisition-related intangibles was $80 million and $85 million for the three months ended and $161 million and $170 million for the six months ended June 30, 2014, and 2013, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

7. Postretirement benefit plans

Components of net periodic employee benefit cost are as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Three Months Ended June 30,	2014	2013	2014	2013	2014	2013
Service cost	$5	$7	$1	$2	$10	$10
Interest cost	11	10	6	5	18	15
Expected return on plan assets	(11)	(12)	(5)	(6)	(22)	(16)
Amortization of prior service cost (credit)	—	—	1	1	—	(1)
Recognized net actuarial loss	7	5	2	3	7	7
Net periodic benefit costs	12	10	5	5	13	15
Settlement losses (a)	2	6	—	—	—	—
Curtailment gain	—	—	—	—	—	(3)
Total, including other postretirement (gains) losses	$14	$16	$5	$5	$13	$12

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Six Months Ended June 30,	2014	2013	2014	2013	2014	2013
Service cost	$10	$14	$2	$3	$20	$20
Interest cost	22	21	11	10	35	31
Expected return on plan assets	(21)	(25)	(10)	(12)	(41)	(33)
Amortization of prior service cost (credit)	—	—	2	2	(1)	(2)
Recognized net actuarial loss	13	11	4	6	13	17
Net periodic benefit costs	24	21	9	9	26	33
Settlement losses (a)	3	13	—	—	—	—
Curtailment gain	—	—	—	—	—	(3)
Total, including other postretirement (gains) losses	$27	$34	$9	$9	$26	$30

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

In the second quarter of 2014, as a result of retirements, we remeasured our U.S. defined benefit plan. For the six months ended June 30, 2014, we recognized a settlement loss of $3 million.

In the second quarter of 2013, as a result of increased retirement activities, we remeasured our U.S. and Japan defined benefit plans. These remeasurements resulted in a net actuarial gain on a pre-tax basis of $65 million in Other comprehensive income. Of this gain, $17 million related to the U.S. plans and $48 million was for Japan. For the six months ended June 30, 2013, we also recognized a settlement loss of $13 million on our U.S. defined benefit plans and a $3 million curtailment gain related to Japan.

8. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of June 30, 2014, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to $2 billion through March 2019. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of June 30, 2014, our credit facility was undrawn and we had no commercial paper outstanding.