

TEXAS INSTRUMENTS INC
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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

For the transition period from _____ to _____

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Delaware 75-0289970
(State of Incorporation) (I.R.S. Employer Identification No.)

12500 TI Boulevard, Dallas, Texas 75243
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code 214-479-3773

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated..
		filer
Non-accelerated filer	(Do not	Smaller
	check if a	reporting
	“smaller	company”
	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

1,003,209,756

Number of shares of Registrant’s common stock outstanding as of

July 26, 2016

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		For Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Revenue	\$ 3,273	\$ 3,232	\$ 6,281	\$ 6,382
Cost of revenue (COR)	1,270	1,351	2,454	2,685
Gross profit	2,003	1,881	3,827	3,697
Research and development (R&D)	345	320	671	658
Selling, general and administrative (SG&A)	460	470	908	909
Acquisition charges	79	82	159	165
Restructuring charges/other	2	(1)	4	(3)
Operating profit	1,117	1,010	2,085	1,968
Other income (expense), net (OI&E)	6	3	10	7
Interest and debt expense	21	24	43	46
Income before income taxes	1,102	989	2,052	1,929
Provision for income taxes	323	293	605	577
Net income	\$ 779	\$ 696	\$ 1,447	\$ 1,352
Earnings per common share (EPS):				
Basic	\$.77	\$.66	\$ 1.42	\$ 1.28
Diluted	\$.76	\$.65	\$ 1.40	\$ 1.26
Average shares outstanding (millions):				
Basic	1,004	1,038	1,005	1,042
Diluted	1,016	1,051	1,017	1,056
Cash dividends declared per common share	\$.38	\$.34	\$.76	\$.68

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

Net income	\$ 779	\$ 696	\$ 1,447	\$ 1,352
Income allocated to RSUs	(10)	(10)	(19)	(19)
Income allocated to common stock for diluted EPS	\$ 769	\$ 686	\$ 1,428	\$ 1,333

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Three Months Ended		For Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income	\$ 779	\$ 696	\$ 1,447	\$ 1,352
Other comprehensive income (loss), net of taxes:				
Net actuarial gains (losses) of defined benefit plans:				
Adjustments	(18)	—	(30)	(10)
Recognized within Net income	13	17	27	27
Prior service (cost) credit of defined benefit plans:				
Adjustments	1	—	1	—
Recognized within Net income	(1)	—	(2)	1
Other comprehensive income (loss)	(5)	17	(4)	18
Total comprehensive income	\$ 774	\$ 713	\$ 1,443	\$ 1,370

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets (Millions of dollars, except share amounts)	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,235	\$ 1,000
Short-term investments	1,304	2,218
Accounts receivable, net of allowances of (\$20) and (\$7)	1,348	1,165
Raw materials	104	109
Work in process	946	846
Finished goods	826	736
Inventories	1,876	1,691
Prepaid expenses and other current assets	926	1,000
Total current assets	6,689	7,074
Property, plant and equipment at cost	5,152	5,465
Accumulated depreciation	(2,595)	(2,869)
Property, plant and equipment, net	2,557	2,596
Long-term investments	224	221
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,424	1,583
Deferred income taxes	231	201
Capitalized software licenses, net	52	46
Overfunded retirement plans	85	85
Other assets	69	62
Total assets	\$ 15,693	\$ 16,230
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 637	\$ 1,000
Accounts payable	416	386
Accrued compensation	493	664
Income taxes payable	58	95
Accrued expenses and other liabilities	387	410
Total current liabilities	1,991	2,555
Long-term debt	2,975	3,120
Underfunded retirement plans	193	196
Deferred income taxes	40	37
Deferred credits and other liabilities	532	376
Total liabilities	5,731	6,284
Stockholders' equity:		
Preferred stock, \$25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred. None issued.	—	—
Common stock, \$1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	1,681	1,629
Retained earnings	31,850	31,176
Treasury common stock at cost		

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Shares: June 30, 2016 – 737,467,669; December 31, 2015 – 729,547,527	(24,774)	(24,068)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(536)	(532)
Total stockholders' equity	9,962	9,946
Total liabilities and stockholders' equity	\$ 15,693	\$ 16,230

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Millions of dollars)	For Six Months Ended	
	June 30, 2016	2015
Cash flows from operating activities		
Net income	\$ 1,447	\$ 1,352
Adjustments to Net income:		
Depreciation	316	401
Amortization of acquisition-related intangibles	159	160
Amortization of capitalized software	16	26
Stock-based compensation	148	162
Gains on sales of assets	—	(3)
Deferred income taxes	(35)	(56)
Increase (decrease) from changes in:		
Accounts receivable	(176)	(194)
Inventories	(185)	(101)
Prepaid expenses and other current assets	35	49
Accounts payable and accrued expenses	(65)	(142)
Accrued compensation	(175)	(169)
Income taxes payable	106	(78)
Changes in funded status of retirement plans	32	41
Other	(7)	(19)
Cash flows from operating activities	1,616	1,429
Cash flows from investing activities		
Capital expenditures	(282)	(248)
Proceeds from asset sales	—	10
Purchases of short-term investments	(1,193)	(1,254)
Proceeds from short-term investments	2,110	1,475
Other	3	1
Cash flows from investing activities	638	(16)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	499	498
Repayment of debt	(1,000)	(250)
Dividends paid	(765)	(710)
Stock repurchases	(1,157)	(1,324)
Proceeds from common stock transactions	325	297
Excess tax benefit from share-based payments	82	64
Other	(3)	(3)
Cash flows from financing activities	(2,019)	(1,428)
Net change in Cash and cash equivalents	235	(15)
Cash and cash equivalents at beginning of period	1,000	1,199
Cash and cash equivalents at end of period	\$ 1,235	\$ 1,184

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Notes to financial statements

1. Description of business, including segment information

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

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

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

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

Segment information

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Analog	\$ 2,044	\$ 2,049	\$ 3,923	\$ 4,084
Embedded Processing	755	690	1,484	1,362
Other	474	493	874	936
Total revenue	\$ 3,273	\$ 3,232	\$ 6,281	\$ 6,382
Operating profit:				
Analog	\$ 771	\$ 728	\$ 1,450	\$ 1,449
Embedded Processing	189	135	371	258
Other	157	147	264	261
Total operating profit	\$ 1,117	\$ 1,010	\$ 2,085	\$ 1,968

2. Basis of presentation and significant accounting policies and practices

Basis of presentation