

TEXAS INSTRUMENTS INC  
Form 10-Q  
May 03, 2017

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 March 31, 2017

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.)

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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 Website, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

996,323,814

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

April 25, 2017



## 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	
	March 31, 2017	2016
Revenue	\$ 3,402	\$ 3,008
Cost of revenue (COR)	1,258	1,179
Gross profit	2,144	1,829
Research and development (R&D)	369	322
Selling, general and administrative (SG&A)	439	441
Acquisition charges	80	80
Restructuring charges/other	4	2
Operating profit	1,252	984
Other income (expense), net (OI&E)	21	(12 )
Interest and debt expense	18	22
Income before income taxes	1,255	950
Provision for income taxes	258	239
Net income	\$ 997	\$ 711
Earnings per common share (EPS):		
Basic	\$ .99	\$ .70
Diluted	\$ .97	\$ .69
Average shares outstanding (millions):		
Basic	998	1,007
Diluted	1,019	1,022
Cash dividends declared per common share	\$ .50	\$ .38

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	\$ 997	\$ 711
Income allocated to RSUs	(10 )	(9 )
Income allocated to common stock for diluted EPS	\$ 987	\$ 702

See accompanying notes.



## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Three Months Ended	
	March 31, 2017	2016
Net income	\$ 997	\$ 711
Other comprehensive income (loss), net of taxes		
Net actuarial gains (losses) of defined benefit plans:		
Adjustments	(12 )	(12 )
Recognized within Net income	12	14
Prior service (cost) credit of defined benefit plans:		
Recognized within Net income	(1 )	(1 )
Other comprehensive income (loss)	(1 )	1
Total comprehensive income	\$ 996	\$ 712

See accompanying notes.

## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

	March 31, 2017	December 31, 2016
Consolidated Balance Sheets		
(Millions of dollars, except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,073	\$ 1,154
Short-term investments	1,976	2,336
Accounts receivable, net of allowances of (\$11) and (\$17)	1,337	1,267
Raw materials	102	102
Work in process	1,017	954
Finished goods	724	734
Inventories	1,843	1,790
Prepaid expenses and other current assets	811	910
Total current assets	7,040	7,457
Property, plant and equipment at cost	4,833	4,923
Accumulated depreciation	(2,332 )	(2,411 )
Property, plant and equipment, net	2,501	2,512
Long-term investments	241	235
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,184	1,264
Deferred income taxes	361	374
Capitalized software licenses, net	116	52
Overfunded retirement plans	102	96
Other assets	71	79
Total assets	\$ 15,978	\$ 16,431
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 378	\$ 631
Accounts payable	429	396
Accrued compensation	352	710
Income taxes payable	77	83
Accrued expenses and other liabilities	366	444
Total current liabilities	1,602	2,264
Long-term debt	2,980	2,978
Underfunded retirement plans	97	129
Deferred income taxes	36	33
Deferred credits and other liabilities	624	554
Total liabilities	5,339	5,958
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	1,597	1,674
Retained earnings	33,595	33,107

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Treasury common stock at cost

Shares: March 31, 2017 – 743,085,976; December 31, 2016 – 744,831,978	(25,767)	(25,523)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(527 )	(526 )
Total stockholders' equity	10,639	10,473
Total liabilities and stockholders' equity	\$ 15,978	\$ 16,431

See accompanying notes.



## TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Millions of dollars)	For Three Months Ended March 31,	
	2017	2016
<b>Cash flows from operating activities</b>		
Net income	\$ 997	\$ 711
Adjustments to Net income:		
Depreciation	139	161
Amortization of acquisition-related intangibles	80	80
Amortization of capitalized software	11	8
Stock compensation	68	72
Deferred income taxes	9	24
Increase (decrease) from changes in:		
Accounts receivable	(68 )	(100 )
Inventories	(53 )	(114 )
Prepaid expenses and other current assets	(71 )	43
Accounts payable and accrued expenses	(78 )	(41 )
Accrued compensation	(356 )	(322 )
Income taxes payable	149	131
Changes in funded status of retirement plans	(14 )	18
Other	(18 )	(18 )
Cash flows from operating activities	795	653
<b>Cash flows from investing activities</b>		
Capital expenditures	(127 )	(124 )
Proceeds from asset sales	40	—
Purchases of short-term investments	(757 )	(200 )
Proceeds from short-term investments	1,120	900
Other	(9 )	(3 )
Cash flows from investing activities	267	573
<b>Cash flows from financing activities</b>		
Repayment of debt	(250 )	—
Dividends paid	(500 )	(383 )
Stock repurchases	(550 )	(630 )
Proceeds from common stock transactions	161	68
Other	(4 )	—
Cash flows from financing activities	(1,143)	(945 )
Net change in Cash and cash equivalents	(81 )	281
Cash and cash equivalents at beginning of period	1,154	1,000
Cash and cash equivalents at end of period	\$ 1,073	\$ 1,281

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. Beginning January 2017, we reorganized the product lines within our two reportable segments – Analog and Embedded Processing – to realign our business structure with the way our customers select and buy products. These changes had no effect on either our previously reported consolidated financial statements or on our reportable segment amounts. Our two reportable segments are established along major categories of products as follows:

•Analog – consisting of the following product lines: Power, Signal Chain and High Volume.

•Embedded Processing – consisting of the following product lines: Connected Microcontrollers and Processors. 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 and custom ASIC products. We no longer recognize royalties as revenue. We continue to receive royalties from arrangements involving license rights to our patent portfolio. Although we expect royalties to continue for many years, they are of decreasing significance to our core operations and are now recorded as OI&E rather than in revenue as of January 1, 2017. Prior period amounts were not material.

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 March 31,	
	2017	2016
<b>Revenue:</b>		
Analog	\$ 2,256	\$ 1,879
Embedded Processing	803	729
Other	343	400
<b>Total revenue</b>	<b>\$ 3,402</b>	<b>\$ 3,008</b>