

TEXAS INSTRUMENTS INC
Form 10-Q
August 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 June 30, 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	

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

990,038,629

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

July 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 June 30,		For Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 3,693	\$ 3,273	\$ 7,095	\$ 6,281
Cost of revenue (COR)	1,319	1,266	2,577	2,445
Gross profit	2,374	2,007	4,518	3,836
Research and development (R&D)	378	341	747	663
Selling, general and administrative (SG&A)	434	454	873	895
Acquisition charges	79	79	159	159
Restructuring charges/other	3	2	7	4
Operating profit	1,480	1,131	2,732	2,115
Other income (expense), net (OI&E)	26	(8)	47	(20)
Interest and debt expense	20	21	38	43
Income before income taxes	1,486	1,102	2,741	2,052
Provision for income taxes	430	283	688	522
Net income	\$ 1,056	\$ 819	\$ 2,053	\$ 1,530
Earnings per common share (EPS):				
Basic	\$ 1.05	\$.81	\$ 2.04	\$ 1.50
Diluted	\$ 1.03	\$.79	\$ 2.00	\$ 1.48
Average shares outstanding (millions):				
Basic	994	1,004	996	1,005
Diluted	1,015	1,020	1,017	1,021
Cash dividends declared per common share	\$.50	\$.38	\$ 1.00	\$.76

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	\$ 1,056	\$ 819	\$ 2,053	\$ 1,530
Income allocated to RSUs	(10)	(10)	(20)	(19)
Income allocated to common stock for diluted EPS	\$ 1,046	\$ 809	\$ 2,033	\$ 1,511

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, 2017	2016	June 30, 2017	2016
Net income	\$ 1,056	\$ 819	\$ 2,053	\$ 1,530
Other comprehensive income (loss), net of taxes				
Net actuarial gains (losses) of defined benefit plans:				
Adjustments	(3)	(18)	(15)	(30)
Recognized within Net income	11	13	23	27
Prior service (cost) credit of defined benefit plans:				
Adjustments	—	1	—	1
Recognized within Net income	(1)	(1)	(2)	(2)
Other comprehensive income (loss)	7	(5)	6	(4)
Total comprehensive income	\$ 1,063	\$ 814	\$ 2,059	\$ 1,526

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

	June 30, 2017	December 31, 2016
Consolidated Balance Sheets		
(Millions of dollars, except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,140	\$ 1,154
Short-term investments	1,844	2,336
Accounts receivable, net of allowances of (\$16) and (\$17)	1,469	1,267
Raw materials	109	102
Work in process	1,099	954
Finished goods	739	734
Inventories	1,947	1,790
Prepaid expenses and other current assets	1,111	910
Total current assets	7,511	7,457
Property, plant and equipment at cost	4,656	4,923
Accumulated depreciation	(2,142)	(2,411)
Property, plant and equipment, net	2,514	2,512
Long-term investments	250	235
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,105	1,264
Deferred income taxes	412	374
Capitalized software licenses, net	114	52
Overfunded retirement plans	99	96
Other assets	71	79
Total assets	\$ 16,438	\$ 16,431
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 499	\$ 631
Accounts payable	450	396
Accrued compensation	489	710
Income taxes payable	86	83
Accrued expenses and other liabilities	353	444
Total current liabilities	1,877	2,264
Long-term debt	3,084	2,978
Underfunded retirement plans	101	129
Deferred income taxes	33	33
Deferred credits and other liabilities	635	554
Total liabilities	5,730	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	1,683	1,674
Retained earnings	34,149	33,107

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Treasury common stock at cost

Shares: June 30, 2017 – 749,098,850; December 31, 2016 – 744,831,978	(26,345)	(25,523)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(520)	(526)
Total stockholders' equity	10,708	10,473
Total liabilities and stockholders' equity	\$ 16,438	\$ 16,431

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Millions of dollars)	For Six Months Ended	
	June 30, 2017	2016
Cash flows from operating activities		
Net income	\$ 2,053	\$ 1,530
Adjustments to Net income:		
Depreciation	273	316
Amortization of acquisition-related intangibles	159	159
Amortization of capitalized software	23	16
Stock compensation	143	148
Deferred income taxes	(45)	(35)
Increase (decrease) from changes in:		
Accounts receivable	(200)	(176)
Inventories	(157)	(185)
Prepaid expenses and other current assets	12	35
Accounts payable and accrued expenses	(66)	(1)
Accrued compensation	(225)	(175)
Income taxes payable	(236)	106
Changes in funded status of retirement plans	5	32
Other	(27)	(8)
Cash flows from operating activities	1,712	1,762
Cash flows from investing activities		
Capital expenditures	(278)	(282)
Proceeds from asset sales	40	—
Purchases of short-term investments	(1,887)	(1,193)
Proceeds from short-term investments	2,385	2,110
Other	(1)	3
Cash flows from investing activities	259	638
Cash flows from financing activities		
Proceeds from issuance of long-term debt	605	499
Repayment of debt	(625)	(1,000)
Dividends paid	(998)	(765)
Stock repurchases	(1,200)	(1,157)
Proceeds from common stock transactions	245	261
Other	(12)	(3)
Cash flows from financing activities	(1,985)	(2,165)
Net change in Cash and cash equivalents	(14)	235
Cash and cash equivalents at beginning of period	1,154	1,000
Cash and cash equivalents at end of period	\$ 1,140	\$ 1,235

See accompanying notes.

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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. As of January 1, 2017, we no longer recognize royalties as revenue; instead, they are now recorded as OI&E. 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. 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		For Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenue:				
Analog	\$ 2,411	\$ 2,044	\$ 4,667	\$ 3,923
Embedded Processing	868	755	1,671	1,484
Other	414	474	757	874
Total revenue	\$ 3,693	\$ 3,273	\$ 7,095	\$ 6,281
Operating profit:				
Analog	\$ 1,077	\$ 781	\$ 2,012	\$ 1,469
Embedded Processing	271	192	511	379
Other	132	158	209	267
Total operating profit	\$ 1,480	\$ 1,131	\$ 2,732	\$ 2,115

Operating profit amounts in the prior period have been recast as a result of our early adoption of a new accounting standard related to pension and other retiree benefit costs. See Note 2 for more information.

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2016. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended June 30, 2017, and June 30, 2016, and the Consolidated Balance Sheet as of June 30, 2017, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2016. The results for the three- and six-month periods are not necessarily indicative of a full year's results.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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. We have reclassified certain amounts in the prior periods' financial statements to conform to the current presentation, retrospectively applying the new accounting standard related to pension and other retiree benefit costs. See Adopted standards for current period for further information.

Significant accounting policies and practices

Earnings per share (EPS)

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

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

	For Three Months Ended June 30,					
	2017			2016		
	Net			Net		
	Income	Shares	EPS	Income	Shares	EPS
Basic EPS:						
Net income	\$ 1,056			\$ 819		
Income allocated to RSUs	(10)			(10)		
Income allocated to common stock for basic EPS calculation	\$ 1,046	994	\$ 1.05	\$ 809	1,004	\$.81
Adjustment for dilutive shares:						
Stock compensation plans		21			16	
Diluted EPS:						
Net income	\$ 1,056			\$ 819		
Income allocated to RSUs	(10)					