

TEXAS INSTRUMENTS INC
Form 10-K
February 24, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2015

OR

..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 1-3761

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00	The NASDAQ Global Select Market

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$53,229,272,810 as of June 30, 2015.

1,005,257,723 (Number of shares of common stock outstanding as of February 22, 2016)

Part III hereof incorporates information by reference to the Registrant's proxy statement for the 2016 annual meeting of stockholders.

PART I

ITEM 1. Business.

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 30 countries. We have two reportable segments: Analog and Embedded Processing. We report the results of our remaining business activities in Other. In 2015, we generated \$13 billion of revenue.

We focus our resources on Analog and Embedded Processing because we believe that these segments' long product life cycles, intrinsic diversity and need for less capital-intensive manufacturing provide a combination of stability, profitability and strong cash generation. This business model is the foundation of our capital management strategy, which is based on our belief that free cash flow growth is important for maximizing shareholder value over the long term. Free cash flow is cash flow from operations less capital expenditures.

Product information

Semiconductors are electronic components that serve as the building blocks inside modern electronic systems and equipment. Semiconductors, generally known as "chips," combine multiple transistors on a single piece of material to form a complete electronic circuit. We have tens of thousands of products 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.

We sell catalog and application-specific standard semiconductor products, both of which we market to multiple customers. Catalog products are designed for use by many customers and/or many applications. The life cycles of catalog products generally span multiple years, with some products continuing to sell for decades after their initial release. Application-specific standard products (ASSPs) are designed for use by a smaller number of customers and are targeted to a specific application. The life cycles of ASSPs are generally determined by end-equipment upgrade cycles and can be as short as 12 to 24 months, although some can be used across multiple generations of customers' products. We also sell custom semiconductor products, which are designed for a specific customer to use in a specific application and are sold only to that customer. The vast majority of our revenue is derived from products that are differentiated from competitors' products. Our products are sold through distribution channels and directly to customers.

Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels. Our segments also reflect

how management allocates resources and measures results. Additional information regarding each segment follows.

Analog

Analog generated \$8.3 billion of revenue in 2015. 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 embedded processors. Analog semiconductors also are used to manage power in every electronic device by converting, distributing, storing, discharging, isolating and measuring electrical energy, whether the device is plugged into a wall or running off a battery. Our Analog products are used in many markets, particularly personal electronics and industrial.

Sales of our Analog products generated about 64 percent of our revenue in 2015. According to external sources, the market for analog semiconductors was \$45 billion in 2015. Our Analog segment's revenue in 2015 was 18 percent of this fragmented market, the leading position. We believe 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

These include high-volume integrated ASSPs and high-volume catalog products. HVAL products support applications like automotive safety devices, touchscreen controllers, low-voltage motor drivers and integrated motor controllers.

Power

These include both catalog products and ASSPs that help customers manage power in electronic systems. Our broad portfolio of Power products is designed to enhance the efficiency of powered devices using battery management solutions, portable power devices, power supply controls and point-of-load products.

HPA

These include catalog products that we market to many different customers who use them in manufacturing a wide range of products. HPA products include high-speed data converters, amplifiers, sensors, high-reliability products, interface products and precision products that are typically used in systems that require high performance. HPA products generally have long life cycles, often more than 10 years.

SVA

These include a broad portfolio of industrial, high-voltage power management, data converter, interface and operational amplifier catalog products used in manufacturing a wide range of electronic systems. SVA products support applications like video and data interface products, high voltage power conversion, and mobile lighting and display systems. SVA products generally have long life cycles, often more than 10 years. SVA consists primarily of products that we acquired through our purchase of National Semiconductor Corporation in 2011.

Embedded Processing

Embedded Processing generated \$2.8 billion of revenue in 2015. Embedded Processing products are the “brains” of many electronic devices. Embedded processors are designed to handle specific tasks and can be optimized for various combinations of performance, power and cost, depending on the application. The devices vary from simple, low-cost products used in electric toothbrushes to highly specialized, complex devices used in automotive applications such as infotainment systems and advanced driver assistance systems (ADAS). Our Embedded Processing products are used in many markets, particularly industrial and automotive.

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 many customers prefer to re-use software from one product generation to the next.

Sales of Embedded Processing products generated about 21 percent of our revenue in 2015. According to external sources, the market for embedded processors was \$18 billion in 2015. Our 15 percent share of this fragmented market

is among the leaders. We believe we are well positioned to increase our market share over time.

Our Embedded Processing segment includes the following major product lines: Microcontrollers, Processors and Connectivity.

Microcontrollers

These include self-contained systems with a processor core, memory and peripherals that are designed to control a set of specific tasks for electronic equipment. Microcontrollers tend to have minimal requirements for memory and program length, with no operating system and low software complexity. Analog components that control or interface with sensors and other systems are often integrated into microcontrollers.

Processors

These include digital signal processors (DSPs) and applications processors. DSPs perform mathematical computations almost instantaneously to process or improve digital data. Processors are typically tailored for a specific class of applications such as industrial (factory automation or grid infrastructure) and automotive (infotainment and ADAS). They are also sold into broad industrial applications.

Connectivity

These include products that enable electronic devices to seamlessly connect and transfer data, and the requirements for speed, data capability, distance, power and security vary depending on the application. Our Connectivity products support many wireless technologies to meet these requirements, including low-power wireless network standards like Zigbee® and other technologies like

Bluetooth®, WiFi and GPS. Our Connectivity products are usually designed into customer devices alongside our processor and microcontroller products, enabling data to be collected, transmitted and acted upon.

Other

We report the results of our remaining business activities in Other, which generated \$1.9 billion of revenue in 2015 and includes:

- Revenue from our smaller product lines, such as DLP® products (primarily used in projectors to create high-definition images), calculators and certain custom semiconductors known as application-specific integrated circuits (ASICs).
- Royalties received from agreements involving license rights to our patent portfolio.

We also include in Other items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include acquisition charges; restructuring charges; revenue from our legacy wireless products; and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions.

Financial information with respect to our segments and our operations outside the United States is contained in Note 1 to the financial statements, which is included in Item 8, “Financial Statements and Supplementary Data.” Risks attendant to our foreign operations are described in Item 1A, “Risk Factors.”

Markets for our products

The table below lists the major markets that used our products in 2015 and the estimated percentage of our 2015 revenue that the market represented. The chart also lists, in decreasing order of our revenue, the sectors within each market.

Markets	Sectors
Industrial (31% of TI revenue)	Factory automation and control
	Medical/healthcare/fitness
	Building automation
	Grid infrastructure
	Test and measurement
	Motor drives
	Electronic point of sale
	Space/avionics/defense
	Display
	Power delivery
	Appliances
	Lighting
	Industrial transportation
Industrial other	
Automotive (15% of TI revenue)	Infotainment and cluster
	Passive safety
	ADAS
	Body electronics and lighting
	Hybrid/electric vehicle and powertrain
Personal electronics	Mobile phones

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(30% of TI revenue)	Personal and notebook computers
	TV/set-top box/audio
	Storage
	Printers and other peripherals
	Tablets
	Wearables (non-medical)
	Gaming
Communications equipment	Wireless infrastructure
(13% of TI revenue)	Telecom infrastructure
	Enterprise switching
	Residential
Enterprise systems	Projectors
(6% of TI revenue)	Servers
	High-performance computing
	Multi-function printers
	Thin client
Other (calculators, royalties and other)	
(5% of TI revenue)	

Market characteristics

Competitive landscape

The analog and embedded processing markets are highly fragmented. As a result, we face significant global competition from dozens of large and small companies, including both broad-based suppliers and niche suppliers. Our competitors also include emerging companies, particularly in Asia, that sell products into the same markets in which we operate.

We believe that competitive performance in the semiconductor market generally depends on several factors, including the breadth of a company's product line, the strength and depth of the sales network, technological innovation, product development execution, technical support, customer service, quality, reliability, price and scale. The primary competitive factors for our Analog products include design proficiency, a diverse product portfolio to meet wide-ranging customer needs, manufacturing process technologies that provide differentiated levels of performance, applications and sales support, and manufacturing expertise and capacity. The primary competitive factors for our Embedded Processing products are the ability to design and cost-effectively manufacture products, system-level knowledge about targeted end markets, installed base of software, software expertise, applications and sales support, and a product's performance, integration and power characteristics.

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.

Market cycle

The "semiconductor cycle" refers to the ebb and flow of supply and demand. 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.

We employ several strategies to dampen the effect of the semiconductor cycle on TI. We acquire our facilities and equipment ahead of demand, which usually allows us to acquire this capacity at lower costs. We focus our resources on our Analog and Embedded Processing segments, which serve diverse markets and diverse customers. This diversity reduces our dependence on the performance of a single market or small group of customers. Additionally, we utilize consignment inventory programs with our customers and distributors.

Seasonality

Our revenue is subject to some seasonal variation. Historically, our semiconductor revenue growth rate tends to be weaker in the first and fourth quarters when compared to the second and third quarters. Calculator revenue is tied to the U.S. back-to-school season and is therefore at its highest in the second and third quarters.

Manufacturing

Semiconductor manufacturing begins with a sequence of photolithographic and chemical processing steps that fabricate a number of semiconductor devices on a thin silicon wafer. Each device on the wafer is packaged and tested. The entire process takes place in highly specialized facilities and requires an average of 12 weeks, with most products completing within 7 to 16 weeks.

The cost and lifespan of the equipment and processes we use to manufacture semiconductors vary by technology. Our Analog products and most of our Embedded Processing products can be manufactured using mature and stable, and therefore less expensive, equipment than is needed for manufacturing advanced logic products, such as some of our processor products.

We own and operate semiconductor manufacturing facilities in North America, Asia, Japan and Europe. These include both wafer fabrication and assembly/test facilities. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation. We own much of our manufacturing capacity; therefore, a significant portion of our operating cost is fixed and changes in factory loadings can cause short-term variations in profit margins. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs

are spread over increased output and, absent other circumstances, our profit margins increase. Our operating focus is more on maximizing long-term free cash flow than minimizing short-term variations in profit margins caused by factory loadings.

To this end, we seek to maximize long-term free cash flow by keeping capital expenditures low through opportunistic purchases of facilities and equipment ahead of demand. For example, in 2013 we purchased an assembly/test facility in Chengdu, China. In 2015 we began production at an existing facility in Dallas, Texas, that we adapted to manufacture analog products using 300-millimeter wafers, our most cost-effective manufacturing process. These activities may have near-term effects on our profit margins, but we believe they will result in long-term benefits to free cash flow.

We expect to maintain sufficient internal manufacturing capacity to meet the vast majority of our production needs. To supplement our manufacturing capacity and maximize our responsiveness to customer demand and return on capital, we utilize the capacity of outside suppliers, commonly known as foundries, and subcontractors. In 2015, we sourced about 20 percent of our total wafers from external foundries and about 40 percent of our assembly/test services from subcontractors.

Customers

We estimate that we sell our products to more than 100,000 customers. Our customer base is diverse, with one-third of our revenue deriving from customers outside our largest 100. Our largest single end customer in 2015 was Apple Inc. Apple accounted for approximately 11 percent of revenue, recognized primarily in our Analog segment.

Sales and distribution

We market and sell our semiconductor products through a direct sales force and distributors. We have sales or marketing offices in more than 30 countries. About 60 percent of our revenue comes through distribution channels. Our distributors maintain an inventory of our products and sell directly to a wide range of customers. They also sell products from our competitors.

Inventory

Our inventory practices differ by product, but we generally maintain inventory levels that are consistent with our expectations of customer demand. We carry proportionally more inventory of products with long life cycles and a broad customer base. Additionally, we sometimes maintain 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 generate about 55 percent of our revenue from consignment inventory programs that we have in place for our large customers and distributors. With these programs, we own inventory that is stored at our customers' and distributors' locations, and we recognize revenue when the product is pulled from consigned inventory. These consignment programs give us improved insight into demand, allowing us to better manage our factory loadings. About 60 percent of our distributor revenue is generated from sales of consigned inventory.

Backlog

We define backlog as of a particular date as purchase orders with a customer-requested delivery date within a specified length of time. Our backlog at any particular date may not be indicative of revenue for any future period. As customer requirements and industry conditions change, orders may be subject to cancellation or modification of terms such as pricing, quantity or delivery date. Customer order placement practices continually evolve based on customers' individual business needs and capabilities, as well as industry supply and capacity considerations. Further, our consignment programs do not result in backlog because the order occurs at the same time as delivery, i.e., when the customer pulls the product from consigned inventory. Our backlog of orders was \$0.95 billion at December 31, 2015, and \$0.94 billion at December 31, 2014.

Acquisitions, divestitures and investments

From time to time we consider acquisitions and divestitures that may strengthen our business portfolio. We also make investments directly or indirectly in private companies. Investments are focused primarily on next-generation technologies and markets strategic to us.

Raw materials

We purchase materials, parts and supplies from a number of suppliers. In some cases we purchase such items from sole source suppliers. The materials, parts and supplies essential to our business are generally available at present, and we believe that such materials, parts and supplies will be available in the foreseeable future.

Intellectual property

We own many patents, and have many patent applications pending, in the United States and other countries in fields relating to our business. We have developed a strong, broad-based patent portfolio and continually add patents to that portfolio. We also have agreements with numerous companies involving license rights to our portfolio and anticipate that other license agreements may be negotiated in the future. In general, our license agreements have multi-year terms and may be renewed after renegotiation.

Our patent portfolio is an ongoing contributor to our revenue. We do not consider our business materially dependent upon any one patent or patent license, although taken as a whole, our rights and the products made and sold under patents and patent licenses are important to our business.

We often participate in industry initiatives to set technical standards. Our competitors may participate in the same initiatives. Participation in these initiatives may require us to license certain of our patents to other companies on reasonable and non-discriminatory terms.

We own trademarks that are used in the conduct of our business. These trademarks are valuable assets, the most important of which are “Texas Instruments” and our corporate monogram. **DLP** is another valuable trademark.

Research and development

Our R&D expense was \$1.28 billion in 2015, compared with \$1.36 billion in 2014 and \$1.52 billion in 2013. Our primary areas of R&D investment are Analog and Embedded Processing products.

We conduct most of our R&D internally. However, we also closely engage with a wide range of third parties, including software suppliers, universities and select industry consortia, and we collaborate with our foundry suppliers on semiconductor manufacturing technology.

Executive officers of the Registrant

The following is an alphabetical list of the names and ages of the executive officers of the company and the positions or offices with the company held by each person named:

Name	Age	Position
Stephen A. Anderson	54	Senior Vice President
Brian T. Crutcher	43	Executive Vice President
R. Gregory Delagi	53	Senior Vice President
Kevin P. March	58	Senior Vice President and Chief Financial Officer
Kevin J. Ritchie	59	Senior Vice President
Richard K. Templeton	57	Director; Chairman of the Board; President and Chief Executive Officer
Cynthia Hoff Trochu	52	Senior Vice President, Secretary and General Counsel
Teresa L. West	55	Senior Vice President
Darla H. Whitaker	50	Senior Vice President
Bing Xie	48	Senior Vice President

The term of office of these officers is from the date of their election until their successor shall have been elected and qualified. All have been employees of the company for more than five years. Messrs. Anderson, Crutcher, Delagi, March, Ritchie and Templeton and Meses. West and Whitaker have served as executive officers of the company for more than five years. Ms. Trochu and Mr. Xie became executive officers of the company in 2015.

Employees

At December 31, 2015, we had 29,977 employees.

Available information

Our Internet address is www.ti.com. Information on our web site is not a part of this report. We make available free of charge through our Investor Relations web site our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. Also available through the TI Investor Relations web site are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports.

Available on our web site at www.ti.com/corporategovernance are: (i) our Corporate Governance Guidelines; (ii) charters for the Audit, Compensation, and Governance and Stockholder Relations Committees of our board of directors; (iii) our Code of Conduct; and (iv) our Code of Ethics for TI Chief Executive Officer and Senior Finance Officers. Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199, Attention: Investor Relations.

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 into 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.

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. For example, the China market is highly competitive, and both international and domestic competitors are aggressively

seeking to increase their market share. Additionally, we may face increased competition as a result of China's adoption of policies designed to promote its domestic semiconductor industry. Certain of our competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against our products, and consolidation among our competitors may allow them to compete more effectively. Additionally, traditional intellectual property licensors are increasingly providing functionality, designs and complete hardware or software solutions that compete with 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.

Rapid technological change in markets we serve requires us to develop new technologies and products.

Rapid technological change in markets we serve could contribute to shortened product life cycles and a decline in average selling prices of our products. Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products. We require significant investments to develop new technologies and products that meet changing customer demands, and we might not realize a return on our investments because they are generally made before commercial viability can be assured. Further, projects that are commercially viable may not contribute significant revenue until at least a few years after they are completed.

Changes in expected demand for our products could have a material adverse effect on our results of operations.

Our customers include companies in a wide range of end markets and sectors within those markets. If demand in one or more sectors within our end markets declines or grows at a significantly slower pace than management expects, our results of operations may be adversely affected. Additionally, the loss or significant curtailment of purchases by one or more of our large 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.

Our results of operations also might suffer because of a general decline in customer demand resulting from, for example: uncertainty regarding the stability of global credit and financial markets; natural events or domestic or international political, social, economic or other conditions; breaches of customer information technology systems that disrupt customer operations; or a customer's inability to access credit markets and other sources of needed liquidity.

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 margins may vary over time.

Our profit margins may be adversely affected by a number of factors, including decreases in customer demand and shipment volume; obsolescence of our inventory; and shifts in our product mix. In addition, we operate in a highly competitive market environment that 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 factory loadings, and can adversely affect profit margins as a result.

Cyclicalities in the semiconductor market may affect our performance.

Semiconductor products are the principal source of our revenue. The cyclical nature of the semiconductor market may lead 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.

Our global operations subject us to risks associated with domestic or international political, social, economic or other conditions.

We have facilities in more than 30 countries. About 85 percent of our revenue comes from shipments to locations outside the United States; in particular, shipments of products into China typically represent a large portion of our revenue. We are exposed to political, social and economic conditions, security risks, terrorism or other hostile acts, health conditions, labor 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 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 operate.

We have manufacturing, data and design facilities and other operations in locations subject to natural occurrences such as severe weather, geological events or health epidemics that could disrupt operations. A natural disaster that results in a prolonged disruption to our operations may adversely affect our results and financial condition.

We face supply chain and manufacturing risks.

We rely on third parties to supply us with goods and services in a cost-effective and timely manner. Our access to needed goods and services may be adversely affected if our suppliers' operations were disrupted as a result of, for example: quality excursions; uncertainty regarding the stability of global credit and financial markets; domestic or international political, social, economic and other conditions; natural events in the locations in which our suppliers operate; or limited or delayed access to key raw materials, natural resources, and utilities. Additionally, a breach of our suppliers' information technology systems could result in a release of our confidential or proprietary information. If our suppliers are unable to access credit markets and other sources of needed liquidity, we may be unable to obtain needed supplies, collect accounts receivable or access needed technology.

In particular, our manufacturing processes and critical manufacturing equipment require that certain key raw materials, natural resources and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Our products contain materials that are subject to conflict minerals reporting requirements. Our relationships with customers and suppliers may be adversely affected if we are unable to describe our products as conflict-free. Additionally, our costs may increase if one or more of our customers demands that we change the sourcing of materials we cannot identify as conflict-free.

Our 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 products, and we depend on third parties to provide advanced logic manufacturing process technology development. We do not have long-term contracts with all of these suppliers, and the number of alternate suppliers is limited. Reliance on these suppliers involves risks, including possible shortages of capacity in periods of high demand, suppliers' inability to develop and deliver advanced logic manufacturing process technology in a timely, cost effective, and appropriate manner and the possibility of suppliers' imposition of increased costs on us.

Our operating results and our reputation could be adversely affected by breaches of our information technology systems.

Breaches of our information technology systems could be caused by computer viruses, unauthorized access, sabotage, vandalism or terrorism. These breaches could compromise our information technology networks and 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, result in release of employee personal data, or cause us to incur increased information technology protection costs, any of which could adversely affect our operating results and our reputation.

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 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.

We actively enforce and protect our own intellectual property rights. However, there can be no assurance that our efforts will be adequate to prevent misappropriation or improper use of our protected technology. Moreover, the laws of countries where we operate may not protect our intellectual property rights to the same extent as U.S. laws.

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.

Our operations could be affected by the complex laws, rules and regulations to which our business is subject.

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, the environment, safety and health; exports and imports; bribery and corruption; tax; data privacy and protection; labor and employment; competition; and intellectual property ownership and infringement. Compliance with these laws, rules and regulations may be onerous and expensive, and if we fail to comply or if we become subject to enforcement activity, our ability to manufacture our products and operate our business could be restricted and we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules 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.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially 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, natural resources, or materials or gases used or emitted into the environment in connection with the manufacture of our products. A substitute for a prohibited raw material or process might not be available, or might not be available at reasonable cost.

Our results of operations and our reputation could be affected by warranty claims, product recalls, product liability claims, or legal proceedings.

We could be subject to claims based on warranty, product liability, epidemic or delivery failures, or other grounds relating to our products, manufacturing, services, designs or communications that could lead to significant expenses as we defend such claims or pay damage awards or settlements. In the event of a 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, product recalls or other legal proceedings may adversely affect our results of operations and financial condition and our reputation.

Our results of operations could be affected by changes in tax-related matters.

We have facilities in more than 30 countries 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. If our tax rate increases, our results of operations could be adversely affected. A number of factors could cause our tax rate to increase, including a change in the jurisdictions in which our profits are earned and taxed; a change in the mix of profits from those jurisdictions; changes in available tax credits; changes in applicable tax rates; or adverse resolution of audits by taxing authorities.

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.

We have not made a provision for U.S. income tax on the portion of our undistributed earnings of our non-U.S. subsidiaries that is considered permanently reinvested outside the United States. If in the future we repatriate any of these foreign earnings, we might incur incremental U.S. income tax, which could affect our results of operations.

Our results of operations could be adversely affected by our distributors' promotion of competing product lines or our distributors' financial performance.

In 2015, about 60 percent of our revenue was generated from sales of our products through distributors. Our distributors carry competing product lines, and our sales could be affected if our distributors promote competing products over our products. Moreover, our results of operations could be affected if our distributors suffer financial difficulties that result in their inability to pay amounts owed to us.

Our results of operations and financial condition could be adversely affected if a customer or a distributor suffers a loss with respect to our inventory.

We have consignment inventory programs in place for some of our largest customers and distributors. If a customer or distributor were to experience a loss with respect to TI-consigned inventory, our results of operations and financial condition may be adversely affected if we do not recover the full value of the lost inventory from the customer, distributor or insurer, or if our recovery is delayed.

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 returned to shareholders, or could cause us to raise funds by, for example, issuing new debt or equity or selling assets.

Our results of operations and liquidity 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 operations, invest in our business, make strategic acquisitions, service our debt obligations and meet our cash return objectives depends upon continuous access to our bank and investment accounts, and may depend on 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 and our ability to access the capital markets or redeem our investments could be restricted.

Increases in health care and pension benefit costs could affect our results of operations and financial condition.

Federal and state health care reform programs could increase our costs with regard to medical coverage of our employees, which could reduce profitability and affect our results of operations and financial condition. In addition, obligations related to our pension and other postretirement plans reflect assumptions that affect the planned funding and costs of these plans, including the actual return on plan assets, discount rates, plan participant population demographics and changes in pension regulations. Changes in these assumptions may affect plan funding, cash flow and results of operations, and our costs and funding obligations could increase significantly if our plans' actual experience differs from these assumptions.

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 ability to successfully implement business and organizational changes could affect our business plans and results of operations.

From time to time, we undertake business and organizational changes, including acquisitions, divestitures and restructuring actions, to support or carry out our strategic objectives. Our failure to successfully implement these changes could adversely affect our business plans and operating results. For example, we may not realize the expected benefits of an acquisition if we are unable to timely and successfully integrate acquired operations, product lines and

technology, and our pre-acquisition due diligence may not identify all possible issues and risks that might arise with respect to an acquisition. Further, we may not achieve or sustain the expected growth or cost savings benefits of business and organizational changes, and restructuring charges could differ materially in amount and timing from our expectations.

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.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

Our principal executive offices are located at 12500 TI Boulevard, Dallas, Texas. The following table indicates the general location of our principal manufacturing and design operations and the reportable segments that make major use of them. Except as otherwise indicated, we own these facilities.

	Embedded	
	Analog Processing	
Dallas, Texas [†]	X	X
Sherman, Texas	X	
Houston, Texas		X
Tucson, Arizona*	X	
Santa Clara, California	X	
South Portland, Maine	X	
Aguascalientes, Mexico*	X	
Aizu, Japan	X	X
Miho, Japan	X	X
Chengdu, China [†]	X	X
Shanghai, China*	X	X
Bangalore, India [†]	X	X
Kuala Lumpur, Malaysia [†]	X	X
Melaka, Malaysia [†]	X	
Baguio, Philippines [†]	X	X
Pampanga (Clark), Philippines [†]	X	X
Taipei, Taiwan [†]	X	X
Freising, Germany	X	X
Greenock, Scotland	X	

*Leased.

Portions of the facilities are leased and owned. This may include land leases, particularly for our non-U.S. sites.

Our facilities in the United States contained approximately 13.7 million square feet at December 31, 2015, of which approximately 1.2 million square feet were leased. Our facilities outside the United States contained approximately 10.2 million square feet at December 31, 2015, of which approximately 1.6 million square feet were leased.

At the end of 2015, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates generally within the next five years. We believe our current properties are suitable and adequate for both their intended purpose and our current and foreseeable future needs.

ITEM 3. Legal Proceedings.

We are involved in various inquiries and proceedings that arise in the ordinary course of our business. We believe that the amount of our liability, if any, will not have a material adverse effect upon our financial condition, results of operations or liquidity.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The information concerning the number of stockholders of record at December 31, 2015, is contained in Item 6, "Selected Financial Data."

Common stock prices and dividends

TI common stock is listed on The NASDAQ Global Select Market. The table below shows the high and low closing prices of TI common stock as reported by Bloomberg L.P. and the dividends paid per common share in each quarter during the past two years.

		Quarter			
		1st	2nd	3rd	4th
Stock prices:					
2015	High	\$59.94	\$58.73	\$52.08	\$58.98
	Low	51.78	51.51	43.52	48.44
2014	High	47.16	48.47	49.29	55.62
	Low	40.89	44.89	45.67	41.93
Dividends paid:					
2015		\$0.34	\$0.34	\$0.34	\$0.38
2014		0.30	0.30	0.30	0.34

Issuer purchases of equity securities

The following table contains information regarding our purchases of our common stock during the fourth quarter of 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
October 1, 2015 through October 31, 2015	8,220,390	\$ 52.16	8,220,390	\$8.13 billion
November 1, 2015 through November 30, 2015	3,028,345	57.09	3,028,345	7.96 billion
December 1, 2015 through December 31, 2015	458,008	55.41	458,008	7.93 billion
Total	11,706,743 ⁽²⁾	\$ 53.56	11,706,743 ⁽²⁾	\$7.93 billion ⁽³⁾

- (1) All purchases during the quarter were made under the authorization from our board of directors to purchase up to \$5.0 billion of additional shares of TI common stock announced on February 21, 2013. On September 17, 2015, our board of directors authorized the purchase of an additional \$7.5 billion of our common stock. No expiration date has been specified for these authorizations.
- (2) All purchases during the quarter were open-market purchases.
- (3) As of December 31, 2015, this amount consisted of the remaining portion of the \$5.0 billion authorized in February 2013 and the \$7.5 billion authorized in September 2015.

ITEM 6. Selected Financial Data.

(Millions of dollars, except share and per-share amounts)	For Years Ended December 31,				
	2015	2014	2013	2012	2011
Cash flow data:					
Cash flows from operating activities	\$4,268	\$3,892	\$3,384	\$3,414	\$3,256
Capital expenditures	551	385	412	495	816
Free cash flow (a)	3,717	3,507	2,972	2,919	2,440
Dividends paid	1,444	1,323	1,175	819	644
Stock repurchases	2,741	2,831	2,868	1,800	1,973
Income statement data:					
Revenue by segment:					
Analog	8,339	8,104	7,194	6,998	6,375
Embedded Processing	2,787	2,740	2,450	2,257	2,381
Other	1,874	2,201	2,561	3,570	4,979
Revenue	13,000	13,045	12,205	12,825	13,735
Gross profit	7,560	7,427	6,364	6,368	6,772
Operating expenses (R&D and SG&A)	3,028	3,201	3,380	3,681	3,353
Acquisition charges	329	330	341	450	315
Restructuring charges/other	(71)	(51)	(189)	264	112
Operating profit	4,274	3,947	2,832	1,973	2,992
Net income	\$2,986	\$2,821	\$2,162	\$1,759	\$2,236

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 earnings per share (EPS) is calculated using the following:

Net income	\$2,986	\$2,821	\$2,162	\$1,759	\$2,236
Income allocated to RSUs	(42)	(43)	(36)	(31)	(34)
Income allocated to common shares for diluted EPS	\$2,944	\$2,778	\$2,126	\$1,728	\$2,202
Average diluted shares outstanding, in millions	1,043	1,080	1,113	1,146	1,171
Diluted earnings per common share	\$2.82	\$2.57	\$1.91	\$1.51	\$1.88
Cash dividends declared per common share	\$1.40	\$1.24	\$1.07	\$0.72	\$0.56

(a) Free cash flow is a non-GAAP measure derived by subtracting Capital expenditures from Cash flows from operating activities.

(Millions of dollars, except Other data items)	December 31,				
	2015	2014	2013	2012	2011
Balance sheet data:					
Cash, cash equivalents and short-term investments	\$3,218	\$3,541	\$3,829	\$3,965	\$2,935
Total assets (b)	16,230	17,372	18,554	19,565	19,901
Current portion of long-term debt and commercial paper	1,000	1,001	1,000	1,500	1,381

borrowings					
Long-term debt (b)	3,120	3,630	4,145	4,175	4,201
Other data – Number of:					
Employees	29,977	31,003	32,209	34,151	34,759
Stockholders of record	15,563	16,361	17,213	18,128	19,733

(b) Prior periods reclassified to conform to the 2015 presentation, having adopted certain accounting standards. See Note 2.

See Notes to the financial statements and Management’s discussion and analysis of financial condition and results of operations.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We design, make and sell semiconductors to electronics designers and manufacturers all over the world. Our business model is carefully constructed around the following attributes:

- Industry's broadest portfolio of differentiated analog and embedded processing semiconductors. Our customers' design engineers need at least one, and most times multiple, chips for their systems. The breadth of our portfolio means we can solve more of these needs than can our competitors, which gives us access to more customers and the opportunity to generate more revenue per system. We invest more than \$1 billion each year to develop new products for our portfolio.
- A strong foundation of manufacturing technology and low-cost production. We invest in manufacturing technologies that differentiate the features of our semiconductors, and we do most of our own production in-house, as opposed to outsourcing it. This ability to directly control our manufacturing helps ensure a consistent supply of products for our customers. We produce billions of semiconductors each year on a mixture of 150-, 200- and 300-millimeter wafers, and we are able to keep costs low for manufacturing facilities and equipment because our analog and much of our embedded processing semiconductors can be made using mature assets that we acquire ahead of demand when their prices are most attractive. In 2015, we produced approximately 25 percent of our Analog semiconductors on 300-millimeter wafers, the industry's largest wafers, which have a 40 percent cost advantage per unpackaged chip over 200-millimeter wafers. The majority of our future Analog growth will be produced on 300-millimeter wafers, which will be meaningful to the growth of our margins and cash flow over the long term.
 - Industry's largest market channels. Our global sales force is larger than those of our competitors, and the breadth of our portfolio attracts tens of millions of visits to our web site each year where customers often begin their initial product searches and design-in journey. These capabilities combine to provide us unique access to more than 100,000 customers.
- Diversity and longevity in our products and in the markets we serve. The attributes above result in diverse and long-lived positions that deliver high terminal value to our shareholders. Because of the breadth of our portfolio we are not dependent on any single product, and because of the breadth of our markets we are not dependent on any single application or customer. Some of our products generate revenue for decades, which strengthens the return on our investments.

The combined effect of these attributes is that we have consistently grown free cash flow and gained market share in Analog and Embedded Processing. These attributes put us in a unique class of companies with the ability to grow, generate cash, and return that cash to shareholders.

Management's discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunction with the financial statements and the related notes that appear elsewhere in this document. In the following discussion of our results of operations:

- All dollar amounts in the tables are stated in millions of U.S. dollars.
- When we discuss our results:
 - o Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
 - o New products tend not to have a significant impact on our revenue in any given period because we sell such a large number of products.
 - o From time to time, our revenue and gross profit are affected by changes in demand for higher-priced or lower-priced products, which we refer to as changes in the "mix" of products shipped.
 - o Because we own much of our manufacturing capacity, a significant portion of our operating cost is fixed. When factory loadings decrease, our fixed costs are spread over reduced output and, absent other circumstances, our profit margins decrease. Conversely, as factory loadings increase, our fixed costs are spread over increased output and,

absent other circumstances, our profit margins increase. Increases and decreases in factory loadings tend to correspond to increases and decreases in demand.

o The term “legacy wireless products” refers to our baseband products, OMAP™ applications processors and connectivity products sold into smartphones and consumer tablets. Our exit from legacy wireless products was complete in 2013.

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· Our segments represent groups of similar products that are combined on the basis of similar design and development requirements, product characteristics, manufacturing processes and distribution channels, and how management allocates resources and measures results. See Note 1 to the financial statements for more information regarding our segments.

Results of operations

We continued to perform well in 2015, reflecting our focus on Analog and Embedded Processing semiconductors. These products serve highly diverse markets with thousands of applications, and we believe have dependable long-term growth opportunities. In 2015, Analog and Embedded Processing represented 86 percent of revenue, up from 83 percent in 2014. Gross margin of 58.2 percent for the year, a new record, reflects the quality of our product portfolio, as well as the efficiency of our manufacturing strategy.

Our focus on Analog and Embedded Processing allows us to generate strong cash flow from operations. In 2015, free cash flow, also a record, was 28.6 percent of revenue, up from 26.9 percent a year ago and consistent with our targeted range of 20-30 percent of revenue. During the year, we returned \$4.2 billion of cash to investors through a combination of stock repurchases and dividends. Free cash flow is a non-GAAP financial measure. For a reconciliation to GAAP and an explanation of the reason for providing this non-GAAP measure, see the Non-GAAP financial information section after the Liquidity and capital resources section.

Details of financial results – 2015 compared with 2014

Revenue of \$13.00 billion was about even with 2014, as higher revenue from Analog and Embedded Processing was offset by lower revenue from Other. Our 2015 revenue was negatively affected by about \$150 million from changes in foreign currency exchange rates.

Gross profit was \$7.56 billion, an increase of \$133 million, or 2 percent, due to lower manufacturing costs. Gross profit margin was 58.2 percent of revenue compared with 56.9 percent.

Operating expenses were \$1.28 billion for R&D and \$1.75 billion for SG&A. R&D expense decreased \$78 million, or 6 percent, and SG&A decreased \$95 million, or 5 percent. Both comparisons reflect savings from ongoing efforts across the company to align costs with growth opportunities, including the completed restructuring actions in Embedded Processing and Japan. These decreases were partially offset by higher compensation-related costs.

Acquisition charges were related to our 2011 acquisition of National Semiconductor and were \$329 million, about even with 2014. These non-cash charges were primarily from the amortization of intangible assets. See Note 13 to the financial statements.

Restructuring charges/other was a net credit of \$71 million, which included gains on sales of assets of \$83 million that were partially offset by \$12 million related to restructuring charges and other credits. This compared with a net credit of \$51 million in 2014, reflecting gains on sales of assets of \$75 million that were partially offset by restructuring charges and other expenses of \$24 million. These amounts are included in Other for segment reporting purposes. See Note 3 to the financial statements.

Operating profit was \$4.27 billion, or 32.9 percent of revenue, compared with \$3.95 billion, or 30.3 percent of revenue.

The income tax provision was \$1.23 billion compared with \$1.05 billion. The increase in the total tax provision was due to higher income before income taxes and, to a lesser extent, a lower benefit from non-U.S. effective tax rates. Our annual effective tax rate was 29 percent in 2015 and 27 percent in 2014. See Note 6 to the financial statements for

a reconciliation of the income tax provision to the statutory federal tax.

Net income was \$2.99 billion, an increase of \$165 million, or 6 percent. EPS was \$2.82 compared with \$2.57. EPS benefited \$0.07 due to a lower number of average shares outstanding as a result of our stock repurchase program.

In the near term, for the first quarter of 2016, we expect about a \$150 million decline in revenue from the first quarter of 2015 within a sector of the personal electronics market.

Segment results – 2015 compared with 2014

Analog (includes High Volume Analog & Logic (HVAL), Power Management (Power), High Performance Analog (HPA) and Silicon Valley Analog (SVA) product lines)

	2015	2014	Change	
Revenue	\$8,339	\$8,104	3	%
Operating profit	3,048	2,786	9	%
Operating profit % of revenue	36.6 %	34.4 %		

Analog revenue increased primarily due to HVAL. Power and SVA also grew, but to a lesser extent. HPA declined due to the mix of products shipped. Operating profit increased due to higher revenue and associated gross profit and, to a lesser extent, lower manufacturing costs.

Embedded Processing (includes Microcontrollers, Processors and Connectivity product lines)

	2015	2014	Change	
Revenue	\$2,787	\$2,740	2	%
Operating profit	596	384	55	%
Operating profit % of revenue	21.4 %	14.0 %		

Embedded Processing revenue increased due about equally to Connectivity and Microcontrollers, which together offset a decline in Processors. Operating profit increased primarily due to lower operating expenses.

Other (includes DLP products, calculators, custom ASICs and royalties)

	2015	2014	Change	
Revenue	\$1,874	\$2,201	(15)	%
Operating profit*	630	777	(19)	%
Operating profit % of revenue	33.6 %	35.3 %		

*Includes Acquisition charges and Restructuring charges/other

Other revenue declined primarily due to custom ASICs. Revenue from DLP products also declined, but to a lesser extent. Operating profit declined primarily due to lower revenue and associated gross profit.

Prior results of operations

In 2014, Analog revenue grew 13 percent and Embedded Processing revenue grew 12 percent. Gross margin of 56.9 percent for 2014 reflected the diversity and longevity of our product portfolio, as well as the efficiency of our manufacturing strategy. In 2014, free cash flow was 26.9 percent of revenue, up from 24.4 percent in 2013. During 2014, we returned \$4.2 billion of cash to investors through a combination of stock repurchases and dividends.

Details of financial results – 2014 compared with 2013

Revenue was \$13.05 billion, up \$840 million, or 7 percent, from 2013 due to higher revenue from Analog and Embedded Processing. These increases more than offset lower revenue from legacy wireless products.

Gross profit was \$7.43 billion, an increase of \$1.06 billion, or 17 percent, from 2013 primarily due to higher revenue and, to a lesser extent, the mix of products shipped. Gross profit margin was 56.9 percent of revenue compared with 52.1 percent in 2013.

Operating expenses were \$1.36 billion for R&D and \$1.84 billion for SG&A. R&D expense decreased \$164 million, or 11 percent, from 2013 primarily due to savings from ongoing efforts across the company to align costs with growth opportunities, including the wind-down of our legacy wireless products and restructuring actions in Embedded Processing and Japan. SG&A expense was about even, as higher variable compensation costs were offset by savings from our cost alignment efforts.

Acquisition charges were related to our 2011 acquisition of National Semiconductor and were \$330 million compared with \$341 million in 2013. The charges were primarily from the amortization of intangible assets.

Restructuring charges/other was a net credit of \$51 million, which included gains on sales of assets of \$75 million that were partially offset by restructuring charges and other expenses of \$24 million. This compared with a net credit of \$189 million in 2013, reflecting a \$315 million gain from our transfer of wireless connectivity technology to a customer that was partially offset by restructuring charges of \$126 million.

Operating profit was \$3.95 billion, or 30.3 percent of revenue, compared with \$2.83 billion, or 23.2 percent, in 2013.

The income tax provision was \$1.05 billion compared with \$592 million in 2013. The increase in the total tax provision was due to higher income before income taxes and, to a lesser extent, the effect of the retroactive reinstatement of the federal research tax credit for 2012 in 2013. Our annual effective tax rate was 27 percent in 2014 and 24 percent in 2013.

Net income was \$2.82 billion, an increase of \$659 million, or 30 percent, from 2013. EPS was \$2.57 compared with \$1.91 in 2013. EPS benefited \$0.07 from 2013 due to a lower number of average shares outstanding as a result of our stock repurchase program.

Segment results – 2014 compared with 2013

Analog

	2014	2013	Change	
Revenue	\$8,104	\$7,194	13	%
Operating profit	2,786	1,859	50	%
Operating profit % of revenue	34.4 %	25.8 %		

Analog revenue increased in all products lines. Revenue from Power grew the most, followed by revenue from, in decreasing order, HPA, HVAL and SVA. Operating profit increased primarily due to higher revenue and associated gross profit.

Embedded Processing

	2014	2013	Change	
Revenue	\$2,740	\$2,450	12	%
Operating profit	384	185	108	%
Operating profit % of revenue	14.0 %	7.6 %		

Embedded Processing revenue increased primarily due to Microcontrollers and Processors, which contributed about equally to the increase. Connectivity increased to a lesser extent. Revenue from Processors increased as a result of the mix of products shipped. Operating profit increased primarily due to higher revenue and associated gross profit.

Other

	2014	2013	Change
Revenue	\$2,201	\$2,561	(14)%
Operating profit*	777	788	(1)%
Operating profit % of revenue	35.3 %	30.8 %	

*Includes Acquisition charges and Restructuring charges/other

Other revenue decreased due to legacy wireless products. Operating profit was about even as reductions in operating expenses were offset by changes in Restructuring charges/other.

Financial condition

At the end of 2015, total cash (Cash and cash equivalents plus Short-term investments) was \$3.22 billion, a decrease of \$323 million from the end of 2014.

Accounts receivable were \$1.17 billion at the end of 2015. This was a decrease of \$81 million compared with the end of 2014. Days sales outstanding were 33 at the end of 2015 compared with 34 at the end of 2014.

Inventory was \$1.69 billion at the end of 2015. This was a decrease of \$93 million from the end of 2014. Days of inventory at the end of 2015 were 115 compared with 117 at the end of 2014.

Liquidity and capital resources

Our primary source of liquidity is cash flow from operations. Additional sources of liquidity are Cash and cash equivalents, Short-term investments and a variable rate revolving credit facility. Cash flows from operating activities for 2015 was \$4.27 billion, an increase of \$376 million from 2014 primarily due to an increase in cash provided by working capital.

Our revolving credit facility is with a consortium of investment-grade banks and allows us to borrow up to \$2 billion until March 2020. This credit facility also serves as support for the issuance of commercial paper. As of December 31, 2015, our credit facility was undrawn, and we had no commercial paper outstanding.

In 2015, investing activities used \$302 million compared with \$377 million in 2014. For 2015, Capital expenditures were \$551 million compared with \$385 million in 2014. Capital expenditures in both periods were primarily for semiconductor manufacturing equipment. In 2015, we had sales of short-term investments, net of purchases, that provided cash of \$125 million. In comparison, in 2014 we had purchases of short-term investments, net of sales, that used cash of \$141 million. In addition, we had proceeds from sales of assets of \$110 million in 2015 compared with \$142 million in 2014.

In 2015, financing activities used \$4.17 billion compared with \$3.94 billion in 2014. In both 2015 and 2014, we received proceeds of \$498 million from the issuance of fixed-rate long-term debt (net of original issuance discount) and repaid \$1.00 billion of maturing debt. Dividends paid in 2015 were \$1.44 billion compared with \$1.32 billion in 2014, reflecting increases in the dividend rate. During 2015, the quarterly dividend increased from \$0.34 to \$0.38 per share, resulting in an annualized dividend payment of \$1.52 per share. During 2014, we increased our quarterly dividend from \$0.30 to \$0.34 per share. In 2015, we used \$2.74 billion to repurchase 51.4 million shares of our common stock. This compared with \$2.83 billion used in 2014 to repurchase 61.7 million shares. Employee exercises of stock options are also reflected in Cash flows from financing activities. In 2015, these exercises provided cash proceeds of \$442 million compared with \$616 million in 2014.

We had \$1.00 billion of Cash and cash equivalents and \$2.22 billion of Short-term investments as of December 31, 2015, with our U.S. entities owning about 80 percent of these amounts combined at the end of 2015. We believe we have the necessary financial resources and operating plans to fund our working capital needs, capital expenditures, dividend and debt-related payments, and other business requirements for at least the next 12 months.

Non-GAAP financial information

This MD&A includes references to free cash flow and ratios based on that measure. These are financial measures that were not prepared in accordance with generally accepted accounting principles in the United States (GAAP). Free cash flow was calculated by subtracting Capital expenditures from the most directly comparable GAAP measure, Cash flows from operating activities (also referred to as cash flow from operations). We believe that free cash flow and the associated ratios provide insight into our liquidity, our cash-generating capability and the amount of cash potentially available to return to investors, as well as insight into our financial performance. These non-GAAP measures are supplemental to the comparable GAAP measures. Reconciliation to the most directly comparable GAAP-based measures is provided in the table below.

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	For Years Ended		
	December 31,		
	2015	2014	2013
Cash flow from operations (GAAP)	\$4,268	\$3,892	\$3,384
Capital expenditures	(551)	(385)	(412)
Free cash flow (non-GAAP)	\$3,717	\$3,507	\$2,972
Revenue	\$13,000	\$13,045	\$12,205
Cash flow from operations as a percent of revenue (GAAP)	32.8 %	29.8 %	27.7 %
Free cash flow as a percent of revenue (non-GAAP)	28.6 %	26.9 %	24.4 %

Long-term contractual obligations

Contractual Obligations	Payments Due by Period				Total
	2016	2017/2018	2019/2020	Thereafter	
Long-term debt obligations (a)	\$ 1,083	\$ 1,224	\$ 1,312	\$ 782	\$4,401
Operating lease obligations (b)	69	90	40	62	261
Software license obligations (c)	30	2	—	—	32
Purchase obligations (d)	95	94	50	1	240
Deferred compensation plan (e)	13	39	35	82	169
Total (f)	\$ 1,290	\$ 1,449	\$ 1,437	\$ 927	\$5,103

(a) Includes the related interest payments and amounts classified as the current portion of long-term debt, specifically obligations that will mature within 12 months.

(b) Includes minimum payments for leased facilities and equipment and purchases of industrial gases under contracts accounted for as operating leases.

(c) Includes payments under license agreements for electronic design automation software.

(d) Includes contractual arrangements with suppliers where there is a fixed, non-cancellable payment schedule or minimum payments due with a reduced delivery schedule. Excluded from the table are cancellable arrangements. However, depending on when certain purchase arrangements may be cancelled, an additional \$4 million of cancellation penalties may be required to be paid, which are not reflected in the table.

(e) Includes an estimate of payments under this plan for the liability that existed at December 31, 2015.

(f) Excluded from the table are \$84 million of uncertain tax liabilities under ASC 740, as well as any planned future funding contributions to retirement benefit plans. Amounts associated with uncertain tax liabilities have been excluded because of the difficulty in making reasonably reliable estimates of the timing of cash settlements with the respective taxing authorities. Regarding future funding of retirement benefit plans, we plan to contribute about \$100 million in 2016, but funding projections beyond 2016 are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plans' asset performance, interest rates and potential U.S. and non-U.S. legislation.

Critical accounting policies

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States, we use statistical analyses, estimates and projections that affect the reported amounts and related disclosures and may vary from actual results. We consider the following accounting policies to be those that are most important to the portrayal of our financial condition and that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a significant effect on our financial statements.

Revenue recognition

We recognize revenue from sales of our products, including direct sales to our distributors, when title and risk of loss pass, which usually occurs upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order; when persuasive evidence of an arrangement exists; when sales amounts are fixed or determinable; and when collectability is reasonably assured. For sales to distributors, payment is due on our standard commercial terms and is not contingent upon resale of the products.

We recognize revenue net of allowances, which are management's estimates of future credits to be granted to customers or distributors under programs common in the semiconductor industry. These allowances are based on analysis of historical data, current economic conditions and contractual terms, and are recorded when revenue is recognized. Allowances may include volume-based incentives, product returns due to quality issues, incentives designed to maximize growth opportunities and special pricing arrangements. For instance, we sell to distributors at standard published prices, but we may grant them price adjustment credits in response to individual competitive opportunities. To estimate allowances, we use statistical percentages of revenue, which are determined quarterly based upon recent historical adjustment trends. Historical claims data are maintained for each of the programs, with differences among geographic regions taken into consideration. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in distributor revenue and inventory levels. Allowances are also adjusted when recent historical data do not represent anticipated future activity.

We may also provide distributors an allowance to scrap certain slow-selling or obsolete products in their inventory, estimated as a negotiated fixed percentage of each distributor's purchases from us. In addition, if we publish a new price for a product that is lower than that paid by distributors for the same product still remaining in each distributor's on-hand inventory, we may credit them for the

difference between those prices. The allowance for this type of credit is based on the identified product price difference applied to our estimate of each distributor's on-hand inventory of that product.

We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

Revenue from sales of our products that are subject to inventory consignment agreements, including consignment arrangements with distributors, is recognized in accordance with the principles discussed above, but delivery occurs when the customer or distributor pulls product from consignment inventory that we store at designated locations.

We determine the amount and timing of royalty revenue related to licenses of our patent portfolio based on our contractual agreements with licensees. We recognize royalty revenue when earned under the terms of the agreements and when we consider realization of payment to be probable.

In addition, we record allowances for accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of the accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made. We include amounts received from customers for reimbursement of shipping fees in revenue. We include the costs of shipping and handling in COR.

Income taxes

In determining Net income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities, and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. In this process, certain relevant criteria are evaluated including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior years that can be used to absorb net operating losses and credit carrybacks, and taxable income in future years. Our judgment regarding future recoverability of our deferred tax assets based on these criteria may change due to various factors, including changes in U.S. or international tax laws and changes in market conditions and their impact on our assessment of taxable income in future periods. These changes, if any, may require material adjustments to the deferred tax assets and an accompanying reduction or increase in Net income in the period when such determinations are made. Also, our plans for the permanent reinvestment or eventual repatriation of the accumulated earnings of certain of our non-U.S. operations could change. Such changes could have a material effect on tax expense in future years.

In addition to the factors described above, the effective tax rate reflected in forward-looking statements is based on then-current tax law. Significant changes in tax law enacted during the year could affect these estimates. Retroactive changes in tax law enacted subsequent to the end of a reporting period are reflected in the period of enactment as a discrete tax item.

Inventory valuation allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. Statistical allowances are determined quarterly for raw materials and work-in-process based on historical disposals of inventory for salability and obsolescence reasons. For finished goods, quarterly statistical allowances are determined by comparing inventory levels of individual parts to historical shipments, current backlog and estimated future sales in order to identify inventory judged unlikely to be sold. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. Examples are an end-of-life part or demand with imminent risk of cancellation. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of market prices for those products. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Changes in accounting standards

See Note 2 to the financial statements for information on new accounting standards.

Off-balance sheet arrangements

As of December 31, 2015, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Commitments and contingencies

See Note 12 to the financial statements for a discussion of our commitments and contingencies.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign exchange risk

The U.S. dollar is the functional currency for financial reporting. Our non-U.S. entities own assets or liabilities denominated in U.S. dollars or other currencies. Exchange rate fluctuations can have a significant impact on taxable income in those jurisdictions, and consequently on our effective tax rate.

Our balance sheet also reflects amounts remeasured from non-U.S. dollar currencies. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by forward currency exchange contracts, based on year-end 2015 balances and currency exchange rates, a hypothetical 10 percent plus or minus fluctuation in non-U.S. currency exchange rates relative to the U.S. dollar would result in a pre-tax currency exchange gain or loss of less than \$1 million.

We use these forward currency exchange contracts to reduce the earnings impact exchange rate fluctuations may have on our non-U.S. dollar net balance sheet exposures. For example, at year-end 2015, we had forward currency exchange contracts outstanding with a notional value of \$464 million to hedge net balance sheet exposures (including \$175 million to sell Japanese yen and \$139 million to sell euros). Similar hedging activities existed at year-end 2014.

Interest rate risk

We have the following potential exposure to changes in interest rates: (1) the effect of changes in interest rates on the fair value of our investments in cash equivalents and short-term investments, which could produce a gain or a loss; and (2) the effect of changes in interest rates on the fair value of our debt.

As of December 31, 2015, a hypothetical 100 basis point increase in interest rates would decrease the fair value of our investments in cash equivalents and short-term investments by \$6 million and decrease the fair value of our long-term debt by \$111 million. Because interest rates on our long-term debt are fixed, changes in interest rates would not affect the cash flows associated with long-term debt.

Equity risk

Long-term investments at year-end 2015 include the following:

- Investments in mutual funds – includes mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.

- Investments in venture capital funds – includes investments in limited partnerships (accounted for under either the equity or cost method).
- Equity investments – includes non-marketable (non-publicly traded) equity securities.

Investments in mutual funds are stated at fair value. Changes in prices of the mutual fund investments are expected to offset related changes in deferred compensation liabilities such that a 10 percent increase or decrease in the investments' fair values would not materially affect operating results. Non-marketable equity securities and some venture capital funds are stated at cost. Impairments deemed to be other-than-temporary are expensed in Net income. Investments in the remaining venture capital funds are stated using the equity method. See Note 8 to the financial statements for details of equity and other long-term investments.

ITEM 8. Financial Statements and Supplementary Data.
List of Financial Statements (Item 15(a))

Income for each of the three years in the period ended December 31, 2015

Comprehensive income for each of the three years in the period ended December 31, 2015

Balance sheets at December 31, 2015 and 2014

Cash flows for each of the three years in the period ended December 31, 2015

Stockholders' equity for each of the three years in the period ended December 31, 2015

Schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

Consolidated Statements of Income (Millions of dollars, except share and per-share amounts)	For Years Ended December 31,		
	2015	2014	2013
Revenue	\$ 13,000	\$ 13,045	\$ 12,205
Cost of revenue (COR)	5,440	5,618	5,841
Gross profit	7,560	7,427	6,364
Research and development (R&D)	1,280	1,358	1,522
Selling, general and administrative (SG&A)	1,748	1,843	1,858
Acquisition charges	329	330	341
Restructuring charges/other	(71)	(51)	(189)
Operating profit	4,274	3,947	2,832
Other income (expense), net (OI&E)	32	21	17
Interest and debt expense	90	94	95
Income before income taxes	4,216	3,874	2,754
Provision for income taxes	1,230	1,053	592
Net income	\$ 2,986	\$ 2,821	\$ 2,162
Earnings per common share (EPS):			
Basic	\$ 2.86	\$ 2.61	\$ 1.94
Diluted	\$ 2.82	\$ 2.57	\$ 1.91
Average shares outstanding (millions):			
Basic	1,030	1,065	1,098
Diluted	1,043	1,080	1,113
Cash dividends declared per common share	\$ 1.40	\$ 1.24	\$ 1.07

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	\$ 2,986	\$ 2,821	\$ 2,162
Income allocated to RSUs	(42)	(43)	(36)
Income allocated to common stock for diluted EPS	\$ 2,944	\$ 2,778	\$ 2,126

See accompanying notes.

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Years Ended December 31,		
	2015	2014	2013
Net income	\$ 2,986	\$ 2,821	\$ 2,162
Other comprehensive income (loss)			
Net actuarial gains (losses) of defined benefit plans:			
Adjustment, net of tax benefit (expense) of \$36, \$25 and (\$60)	(74)	(46)	105
Recognized within Net income, net of tax benefit (expense) of (\$25), (\$21) and (\$37)	53	42	71
Prior service (cost) credit of defined benefit plans:			
Adjustment, net of tax benefit (expense) of (\$11), \$0 and \$1	20	(1)	(3)
Recognized within Net income, net of tax benefit (expense) of \$0, \$0 and \$2	—	—	(3)
Derivative instruments:			
Recognized within Net income, net of tax benefit (expense) of (\$1), (\$1) and (\$1)	1	1	1
Other comprehensive income (loss), net of taxes	—	(4)	171
Total comprehensive income	\$ 2,986	\$ 2,817	\$ 2,333

See accompanying notes.

Consolidated Balance Sheets (Millions of dollars, except share amounts)	December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,000	\$ 1,199
Short-term investments	2,218	2,342
Accounts receivable, net of allowances of (\$7) and (\$12)	1,165	1,246
Raw materials	109	101
Work in process	846	896
Finished goods	736	787
Inventories	1,691	1,784
Prepaid expenses and other current assets	1,000	850
Total current assets	7,074	7,421
Property, plant and equipment at cost	5,465	6,266
Accumulated depreciation	(2,869)	(3,426)
Property, plant and equipment, net	2,596	2,840
Long-term investments	221	224
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,583	1,902
Deferred income taxes	201	180
Capitalized software licenses, net	46	83
Overfunded retirement plans	85	127
Other assets	62	233
Total assets	\$ 16,230	\$ 17,372
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 1,000	\$ 1,001
Accounts payable	386	437
Accrued compensation	664	651
Income taxes payable	95	71
Accrued expenses and other liabilities	410	498
Total current liabilities	2,555	2,658
Long-term debt	3,120	3,630
Underfunded retirement plans	196	225
Deferred income taxes	37	64
Deferred credits and other liabilities	376	405
Total liabilities	6,284	6,982
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	1,629	1,368
Retained earnings	31,176	29,653
Treasury common stock at cost		
Shares: 2015 – 729,547,527; 2014 – 694,189,127	(24,068)	(21,840)

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Accumulated other comprehensive income (loss), net of taxes (AOCI)	(532)	(532)
Total stockholders' equity	9,946	10,390
Total liabilities and stockholders' equity	\$ 16,230	\$ 17,372

See accompanying notes.

Consolidated Statements of Cash Flows (Millions of dollars)	For Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net income	\$ 2,986	\$ 2,821	\$ 2,162
Adjustments to Net income:			
Depreciation	766	850	879
Amortization of acquisition-related intangibles	319	321	336
Amortization of capitalized software	48	59	82
Stock-based compensation	286	277	287
Gains on sales of assets	(85)	(73)	(6)
Deferred income taxes	(55)	(61)	50
Increase (decrease) from changes in:			
Accounts receivable	77	(49)	16
Inventories	93	(53)	26
Prepaid expenses and other current assets	94	65	(136)
Accounts payable and accrued expenses	(188)	(194)	(284)
Accrued compensation	7	89	18
Income taxes payable	11	(81)	78
Changes in funded status of retirement plans	(23)	(58)	28
Other	(68)	(21)	(152)
Cash flows from operating activities	4,268	3,892	3,384
Cash flows from investing activities			
Capital expenditures	(551)	(385)	(412)
Proceeds from asset sales	110	142	21
Purchases of short-term investments	(2,767)	(3,107)	(3,907)
Proceeds from short-term investments	2,892	2,966	4,249
Other	14	7	46
Cash flows from investing activities	(302)	(377)	(3)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	498	498	986
Repayment of debt	(1,000)	(1,000)	(1,500)
Dividends paid	(1,444)	(1,323)	(1,175)
Stock repurchases	(2,741)	(2,831)	(2,868)
Proceeds from common stock transactions	442	616	1,314
Excess tax benefit from share-based payments	83	100	80
Other	(3)	(3)	(7)
Cash flows from financing activities	(4,165)	(3,943)	(3,170)
Net change in Cash and cash equivalents	(199)	(428)	211
Cash and cash equivalents at beginning of period	1,199	1,627	1,416
Cash and cash equivalents at end of period	\$ 1,000	\$ 1,199	\$ 1,627

See accompanying notes.

Consolidated Statements of Stockholders' Equity (Millions of dollars, except per-share amounts)	Common Stock	Paid-in Capital	Retained Earnings	Treasury	
				Common Stock	AOCI
Balance, December 31, 2012	\$ 1,741	\$ 1,176	\$ 27,205	\$ (18,462)	\$ (699)
2013					
Net income	—	—	2,162	—	—
Dividends declared and paid (\$1.07 per share)	—	—	(1,175)	—	—
Common stock issued for stock-based awards	—	(273)	—	1,540	—
Stock repurchases	—	—	—	(2,868)	—
Stock-based compensation	—	287	—	—	—
Tax impact from exercise of options	—	25	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	171
Dividend equivalents paid on restricted stock units	—	—	(19)	—	—
Other	—	(4)	—	—	—
Balance, December 31, 2013	1,741	1,211	28,173	(19,790)	(528)
2014					
Net income	—	—	2,821	—	—
Dividends declared and paid (\$1.24 per share)	—	—	(1,323)	—	—
Common stock issued for stock-based awards	—	(226)	—	781	—
Stock repurchases	—	—	—	(2,831)	—
Stock-based compensation	—	277	—	—	—
Tax impact from exercise of options	—	110	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	(4)
Dividend equivalents paid on restricted stock units	—	—	(18)	—	—
Other	—	(4)	—	—	—
Balance, December 31, 2014	1,741	1,368	29,653	(21,840)	(532)
2015					
Net income	—	—	2,986	—	—
Dividends declared and paid (\$1.40 per share)	—	—	(1,444)	—	—
Common stock issued for stock-based awards	—	(116)	—	513	—
Stock repurchases	—	—	—	(2,741)	—
Stock-based compensation	—	286	—	—	—
Tax impact from exercise of options	—	90	—	—	—
Other comprehensive income (loss), net of taxes	—	—	—	—	—
Dividend equivalents paid on restricted stock units	—	—	(19)	—	—
Other	—	1	—	—	—
Balance, December 31, 2015	\$ 1,741	\$ 1,629	\$ 31,176	\$ (24,068))	\$ (532)

See accompanying notes.

Notes to financial statements

1. Description of business, including segment and geographic area 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, which consists primarily of products that we acquired through our purchase of National Semiconductor Corporation (National) in 2011.
 - 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.

We also include in Other items that are not used in evaluating the results of or in allocating resources to our segments. Examples of these items include Acquisition charges (see Note 13); restructuring charges (see Note 3); revenue from our legacy wireless products; and certain corporate-level items, such as litigation expenses, environmental costs, insurance settlements, and gains and losses from other activities, including asset dispositions. We allocate the remainder of our expenses associated with corporate activities to our operating segments based on specific methodologies, such as percentage of operating expenses or headcount.

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. The assets and liabilities associated with these organizations are included in Other.

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the chief operating decision maker evaluate operating segments using discrete asset information. We have no material intersegment revenue. The accounting policies of the segments are the same as those described below in the summary of significant accounting policies and practices.

Segment information

	For Years Ended December 31,		
	2015	2014	2013
Revenue:			
Analog	\$ 8,339	\$ 8,104	\$ 7,194
Embedded Processing	2,787	2,740	2,450
Other	1,874	2,201	2,561
Total revenue	\$ 13,000	\$ 13,045	\$ 12,205

Operating profit:

Analog	\$ 3,048	\$ 2,786	\$ 1,859
Embedded Processing	596	384	185
Other	630	777	788
Total operating profit	\$ 4,274	\$ 3,947	\$ 2,832

Geographic area information

The following geographic area information includes revenue, based on product shipment destination and royalty payor location, and property, plant and equipment, based on physical location. The revenue information is not necessarily indicative of the geographic area in which the end applications containing our products are ultimately consumed because our products tend to be shipped to the locations where our customers manufacture their products. Specifically, many of our products are shipped to our customers in China who may include these parts in the manufacture of their own end products, which they may in turn export to their customers around the world.

	For Years Ended December 31,		
	2015	2014	2013
Revenue:			
United States	\$ 1,612	\$ 1,625	\$ 1,666
Asia (a)	7,910	7,915	7,370
Europe, Middle East and Africa	2,163	2,294	1,926
Japan	1,127	1,032	1,072
Rest of world	188	179	171
Total revenue	\$ 13,000	\$ 13,045	\$ 12,205

(a) Revenue from products shipped into China, including Hong Kong, was \$5.8 billion in 2015, \$5.7 billion in 2014 and \$5.2 billion in 2013.

	December 31,		
	2015	2014	2013
Property, plant and equipment, net:			
United States	\$ 1,370	\$ 1,436	\$ 1,765
Asia (a)	958	1,096	1,277
Europe, Middle East and Africa	130	162	196
Japan	122	124	144
Rest of world	16	22	17
Total property, plant and equipment, net	\$ 2,596	\$ 2,840	\$ 3,399

(a) Property, plant and equipment at our two sites in the Philippines was \$471 million in 2015, \$546 million in 2014 and \$678 million in 2013.

Major customer

Our largest single end customer in 2015 was Apple Inc., accounting for approximately 11 percent of revenue, recognized primarily in our Analog segment. No customer accounted for 10 percent or more of revenue in 2014 or 2013.

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). The basis of these financial statements is comparable for all periods presented herein.

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 2015 presentation, including to apply retrospectively the following:

- A new standard on classifying deferred income taxes (see Changes in accounting standards below and Note 6), and
 - A new standard on classifying debt issuance costs (see Changes in accounting standards below and Note 11).
- The preparation of financial statements requires the use of estimates from which final results may vary.

Significant accounting policies and practices

Revenue recognition

We recognize revenue from sales of our products, including direct sales to our distributors, when title and risk of loss pass, which usually occurs upon shipment or delivery to the customer or distributor, depending upon the terms of the sales order; when persuasive evidence of an arrangement exists; when sales amounts are fixed or determinable; and when collectability is reasonably assured. For sales to distributors, payment is due on our standard commercial terms and is not contingent upon resale of the products.

We recognize revenue net of allowances, which are management's estimates of future credits to be granted to customers or distributors under programs common in the semiconductor industry. These allowances are based on analysis of historical data, current economic conditions, and contractual terms and are recorded when revenue is recognized. Allowances may include volume-based incentives, product returns due to quality issues, incentives designed to maximize growth opportunities and special pricing arrangements. For instance, we sell to distributors at standard published prices, but we may grant them price adjustment credits in response to individual competitive opportunities. To estimate allowances, we use statistical percentages of revenue, which are determined quarterly based upon recent historical adjustment trends. Historical claims data are maintained for each of the programs, with differences among geographic regions taken into consideration. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in distributor revenue and inventory levels. Allowances are also adjusted when recent historical data do not represent anticipated future activity.

We may also provide distributors an allowance to scrap certain slow-selling or obsolete products in their inventory, estimated as a negotiated fixed percentage of each distributor's purchases from us. In addition, if we publish a new price for a product that is lower than that paid by distributors for the same product still remaining in each distributor's on-hand inventory, we may credit them for the difference between those prices. The allowance for this type of credit is based on the identified product price difference applied to our estimate of each distributor's on-hand inventory of that product.

We believe we can reasonably and reliably estimate allowances for credits to distributors in a timely manner.

Revenue from sales of our products that are subject to inventory consignment agreements, including consignment arrangements with distributors, is recognized in accordance with the principles discussed above, but delivery occurs when the customer or distributor pulls product from consignment inventory that we store at designated locations.

We determine the amount and timing of royalty revenue related to licenses of our patent portfolio based on our contractual agreements with licensees. We recognize royalty revenue when earned under the terms of the agreements and when we consider realization of payment to be probable.

In addition, we record allowances for accounts receivable that we estimate may not be collected. We monitor collectability of accounts receivable primarily through review of the accounts receivable aging. When collection is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made.

We recognize shipping fees received from customers in revenue, and we include the shipping and handling costs in COR.

Advertising costs

We expense advertising and other promotional costs as incurred. This expense was \$46 million in 2015, \$45 million in 2014 and \$46 million in 2013.

Restructuring charges

Restructuring charges may consist of voluntary or involuntary severance-related charges, asset-related charges and other costs due to exit activities. We recognize voluntary termination benefits when the employee accepts the offered benefit arrangement. We recognize involuntary severance-related charges depending on whether the termination benefits are provided under an ongoing benefit arrangement or under a one-time benefit arrangement. If the former, we recognize the charges once they are probable and the amounts are estimable. If the latter, we recognize the charges once the benefits have been communicated to employees.

Restructuring activities associated with assets are recorded as an adjustment to the basis of the asset, not as a liability. When we commit to a plan to abandon a long-lived asset before the end of its previously estimated useful life, we accelerate the recognition of depreciation to reflect the use of the asset over its shortened useful life. When an asset is held for sale, we write down the carrying value to its net realizable value and cease depreciation. Restructuring actions may be viewed as an impairment indicator requiring testing of the recoverability of intangible assets, including goodwill.

Income taxes

We account for income taxes using an asset and liability approach. We record the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences of events that have been recognized in the financial statements or tax returns. We record a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Other assessed taxes

Some transactions require us to collect taxes such as sales, value-added and excise taxes from our customers. These transactions are presented in our Consolidated Statements of Income on a net (excluded from revenue) basis.

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 Years Ended December 31,									
	2015			2014			2013			
	Net			Net			Net			
	Income	Shares	EPS	Income	Shares	EPS	Income	Shares	EPS	
Basic EPS:										
Net income	\$ 2,986			\$ 2,821			\$ 2,162			
Income allocated to RSUs	(43)			(44)			(37)			
Income allocated to common stock for basic EPS calculation	\$ 2,943	1,030	\$ 2.86	\$ 2,777	1,065	\$ 2.61	\$ 2,125	1,098	\$ 1.94	
Adjustment for dilutive shares:										
Stock-based compensation plans		13			15			15		
Diluted EPS:										
Net income	\$ 2,986			\$ 2,821			\$ 2,162			
Income allocated to RSUs	(42)			(43)			(36)			
Income allocated to common stock for diluted EPS calculation	\$ 2,944	1,043	\$ 2.82	\$ 2,778	1,080	\$ 2.57	\$ 2,126	1,113	\$ 1.91	

Potentially dilutive securities representing 12 million and 11 million shares of common stock that were outstanding during 2015 and 2014, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive. There were no potentially dilutive securities to exclude from the computation of diluted earnings per common share during 2013.

Investments

We present investments on our Consolidated Balance Sheets as cash equivalents, short-term investments or long-term investments. Specific details are as follows:

- Cash equivalents and short-term investments: We consider investments in debt securities with maturities of 90 days or less from the date of our investment to be cash equivalents. We consider investments in debt securities with maturities beyond 90 days from the date of our investment as being available for use in current operations and include them in short-term investments. The primary objectives of our cash equivalent and short-term investment activities are to preserve capital and maintain liquidity while generating appropriate returns.
- Long-term investments: Long-term investments consist of mutual funds, venture capital funds and non-marketable equity securities.

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·Classification of investments: Depending on our reasons for holding the investment and our ownership percentage, we classify our investments as either available for sale, trading, equity method or cost method, which are more fully described in Note 8. We determine cost or amortized cost, as appropriate, on a specific identification basis.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates cost on a first-in first-out basis. Standard cost is based on the normal utilization of installed factory capacity. Cost associated with underutilization of capacity is expensed as incurred. Inventory held at consignment locations is included in our finished goods inventory. Consigned inventory was \$275 million and \$258 million as of December 31, 2015 and 2014, respectively.

We review inventory quarterly for salability and obsolescence. A statistical allowance is provided for inventory considered unlikely to be sold. The statistical allowance is based on an analysis of historical disposal activity, historical customer shipments, as well as estimated future sales. A specific allowance for each material type will be carried if there is a significant event not captured by the statistical allowance. We write off inventory in the period in which disposal occurs.

Property, plant and equipment; acquisition-related intangibles and other capitalized costs

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Our cost basis includes certain assets acquired in business combinations that were initially recorded at fair value as of the date of acquisition. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. We amortize acquisition-related intangibles on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Impairments of long-lived assets

We regularly review whether facts or circumstances exist that indicate the carrying values of property, plant and equipment or other long-lived assets, including intangible assets, are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Any impairment charge is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

Goodwill and indefinite-lived intangibles

Goodwill is not amortized but is reviewed for impairment annually or more frequently if certain impairment indicators arise. We perform our annual goodwill impairment test as of October 1 for our reporting units, which compares the fair value for each reporting unit to its associated carrying value, including goodwill. See Note 9 for additional information.

Foreign currency

The functional currency for our non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than the U.S. dollar are remeasured into the functional currency. Current assets (except inventories), deferred income taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Property, plant and equipment with associated depreciation and inventories are valued at historical exchange rates. Revenue and expense accounts other than depreciation for each month are remeasured at the

appropriate daily rate of exchange. Currency exchange gains and losses from remeasurement are credited or charged to OI&E. See Note 13 for additional information.

Derivatives and hedging

We 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.

In connection with the issuance of 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 do not use derivatives for speculative or trading purposes.

Changes in accounting standards

Adopted standards for current period

In April and August 2015, respectively, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements – Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. These standards require that costs associated with the issuance of debt, except for costs associated with line-of-credit arrangements, be reported as a direct reduction of the related debt balance. Previously, such costs were recorded as deferred assets. Costs associated with line-of-credit arrangements may continue to be recorded as deferred assets. We adopted these standards as of December 31, 2015, and retrospectively applied the standards to prior periods presented herein. The effect of the reclassification on our Consolidated Balance Sheets is quantified in Note 11. The reclassification we made to address these standards had no impact on our Consolidated Statements of Income.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This standard requires that companies classify all deferred tax assets and liabilities within a taxing jurisdiction as noncurrent on their consolidated balance sheets. The effect of this new requirement is that deferred income taxes previously reported in either current assets or current liabilities shall be reclassified to noncurrent assets or liabilities. This standard can be applied either prospectively or retrospectively, and is effective for annual and interim periods beginning after December 15, 2016. Early adoption is allowed. We adopted this standard as of December 31, 2015, and retrospectively applied it to prior periods presented herein. The effect of the reclassifications on our Consolidated Balance Sheets is quantified in Note 6.

Standards not yet adopted

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. In July 2015, the FASB deferred the effective date by one year to December 15, 2017, for annual and interim reporting periods beginning after that date. This standard permits early adoption, but not before the original effective date of December 15, 2016, and permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the potential impact of this standard on our financial position and results of operations, as well as our selected transition method. Based on our preliminary assessment, we believe the new standard will not have a material impact on our financial position and results of operations as we do not expect to change the manner or timing of recognizing revenue on a majority of our revenue transactions. We recognize revenue on sales to customers, including sales to distributors, upon satisfaction of our performance obligations when the goods are shipped. For consignment sales, we recognize revenue when the goods are pulled from consignment inventory.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which changes the way reporting entities evaluate certain investment holdings for possible consolidation and also includes possible changes in disclosures resulting from that evaluation. This standard is effective for annual and interim reporting periods beginning January 1, 2016, and will have no material impact on our financial position and

results of operations.

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In April 2015, the FASB issued ASU No. 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance on whether a cloud-computing arrangement contains a software license, and whether that license should be accounted for separately as an asset or solely as a service contract. This standard also aligns the accounting for licenses of internal-use software with the accounting for licenses of other acquired intangible assets. This standard is effective beginning January 1, 2016, and we will adopt it prospectively to all arrangements entered into or materially modified after the effective date. We do not expect this standard to have a material impact on our financial position and results of operations.

3. Restructuring charges/other

Restructuring charges/other is comprised of the following components:

	For Years Ended December 31,		
	2015	2014	2013
Restructuring charges (a)	\$ 14	\$ 20	\$ 126
Gains on sales of assets	(83)	(75)	—
Gain on technology transfer	—	—	(315)
Other	(2)	4	—
Restructuring charges/other	\$ (71)	\$ (51)	\$ (189)

(a) Includes severance and benefits, along with changes in estimates; 2014 and 2013 also include other exit costs and accelerated depreciation.

Restructuring charges/other are recognized in Other for segment reporting purposes.

Restructuring charges

As a result of management’s decision in the fourth quarter of 2015, we announced in January 2016 our intentions to phase out a small, older manufacturing facility in Greenock, Scotland, over the next three years. Plans are to move production from this facility to more cost-effective 200-millimeter TI manufacturing facilities in Germany, Japan and Maine, resulting in annualized savings of about \$35 million per year. Total restructuring charges, primarily severance and related benefit costs associated with the expected reduction of about 350 jobs, are estimated to be about \$40 million. We recognized charges of \$17 million in the fourth quarter of 2015. The remaining charges are expected to be recognized over the next three years. As of December 31, 2015, no payments have been made.

The 2014 and 2013 restructuring charges related to prior actions in Embedded Processing, Japan, our former Wireless business and factory closures in Houston, Texas, and Hiji, Japan. These actions have been completed.

Changes in accrued restructuring balances

	2015	2014	2013
Balance, January 1	\$ 57	\$ 161	\$ 349
Restructuring charges	14	20	126
Non-cash items (a)	—	—	(22)
Payments	(39)	(124)	(292)
Balance, December 31	\$ 32	\$ 57	\$ 161

(a) Reflects charges for impacts of accelerated depreciation and postretirement benefit plans.

The restructuring accrual balances are primarily reported as a component of either Accrued expenses and other liabilities or Deferred credits and other liabilities on our Consolidated Balance Sheets, depending on the expected timing of payment. The \$32 million as of December 31, 2015 is composed of \$17 million related to the 2015 action and \$15 million related to prior actions.

Other

Gains on sales of assets

We recognized \$83 million of gains on sales of assets in 2015. This included \$48 million associated with the sale of a site in Plano, Texas, and \$34 million associated with the sale of a manufacturing facility in Houston, Texas.

We recognized \$75 million of gains on sales of assets in 2014. This consisted of \$30 million associated with the sale of a site in Nice, France; \$28 million associated with the sales of real estate in Santa Clara, California; and \$17 million of asset sales associated primarily with the factory closures in Houston, Texas, and Hiji, Japan.

Gain on technology transfer

During 2013, we recognized a gain of \$315 million on the transfer of wireless connectivity technology to a customer. This technology was associated with the former Wireless business.

4. Stock-based compensation

We have stock options outstanding to participants under long-term incentive plans. We also have assumed stock options that were granted by companies that we later acquired. Unless the options are acquisition-related replacement options, the option price per share may not be less than 100 percent of the fair market value of our common stock on the date of the grant. Substantially all the options have a 10-year term and vest ratably over four years. Our options generally continue to vest after the option recipient retires.

We also have RSUs outstanding under long-term incentive plans. Each RSU represents the right to receive one share of TI common stock on the vesting date, which is generally four years after the date of grant. Upon vesting, the shares are issued without payment by the grantee. Beginning with 2013 grants, RSUs generally continue to vest after the recipient retires. Holders of most RSUs receive an annual cash payment equivalent to the dividends paid on our common stock.

We have options and RSUs outstanding to non-employee directors under director compensation plans. The plans generally provide for annual grants of stock options and RSUs, a one-time grant of RSUs to each new non-employee director and the issuance of TI common stock upon the distribution of stock units credited to deferred compensation accounts established for such directors.

We also have an employee stock purchase plan under which options are offered to all eligible employees in amounts based on a percentage of the employee's compensation, subject to a cap. Under the plan, the option price per share is 85 percent of the fair market value on the exercise date, and options have a three-month term.

Total stock-based compensation expense recognized was as follows:

For Years Ended
December 31,

	2015	2014	2013
COR	\$ 47	\$ 48	\$ 49
R&D	60	62	67
SG&A	169	156	160
Acquisition charges	10	11	11
Total	\$ 286	\$ 277	\$ 287

These amounts include expenses related to non-qualified stock options, RSUs and stock options offered under our employee stock purchase plan and are net of expected forfeitures.

We issue awards of non-qualified stock options with graded vesting provisions (e.g., 25 percent per year for four years). Generally, we recognize the related compensation expense on a straight-line basis over the minimum service period required for vesting of the award, adjusting for expected forfeiture activity. Awards issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis.

Our RSUs generally vest four years after the date of grant. We recognize the related compensation expense on a straight-line basis over the vesting period, adjusting for expected forfeiture activity. Beginning with 2013 grants, RSUs issued to employees who are retirement eligible or nearing retirement eligibility are expensed on an accelerated basis.

Fair-value methods and assumptions

We account for all awards granted under our various stock-based compensation plans at fair value. We estimate the fair values for non-qualified stock options using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions.

	For Years Ended December 31,		
	2015	2014	2013
Weighted average grant date fair value, per share	\$ 9.49	\$ 8.13	\$ 6.78
Weighted average assumptions used:			
Expected volatility	22 %	22 %	26 %
Expected lives (in years)	7.3	7.3	7.4
Risk-free interest rates	1.64%	2.45%	1.43%
Expected dividend yields	2.52%	2.72%	2.56%

We determine expected volatility on all options granted using available implied volatility rates. We believe that market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates.

We determine expected lives of options based on the historical option exercise experience of our optionees using a rolling 10-year average. We believe the historical experience method is the best estimate of future exercise patterns currently available.

Risk-free interest rates are determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the options.

Expected dividend yields are based on the annualized approved quarterly dividend rate and the current market price of our common stock at the time of grant. No assumption for a future dividend rate change is included unless there is an approved plan to change the dividend in the near term.

The fair value per share of RSUs is determined based on the closing price of our common stock on the date of grant.

Our employee stock purchase plan is a discount-purchase plan and consequently the Black-Scholes-Merton option-pricing model is not used to determine the fair value per share of these awards. The fair value per share under this plan equals the amount of the discount.

Long-term incentive and director compensation plans

Stock option and RSU transactions under our long-term incentive and director compensation plans during 2015 were as follows:

Stock Options

RSUs

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		Weighted Average Exercise Price		Weighted Average Grant Date Fair Value
	Shares	per Share	Shares	per Share
Outstanding grants, December 31, 2014	57,647,446	\$ 32.84	17,303,815	\$ 35.24
Granted	11,913,832	53.95	2,679,437	53.22
Vested RSUs	—	—	(3,386,415)	33.72
Forfeited and expired	(833,840)	42.71	(541,295)	36.94
Exercised	(11,953,455)	31.33	—	—
Outstanding grants, December 31, 2015	56,773,983	37.45	16,055,542	38.51

The weighted average grant date fair value of RSUs granted during the years 2015, 2014 and 2013 was \$53.22, \$44.71 and \$33.70 per share, respectively. For the years ended December 31, 2015, 2014 and 2013, the total grant date fair value of shares vested from RSU grants was \$114 million, \$133 million and \$98 million, respectively.

Summarized information about stock options outstanding at December 31, 2015, is as follows:

Exercise Price Range	Stock Options Outstanding			Options Exercisable	
	Number Outstanding (Shares)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable (Shares)	Weighted Average Exercise Price per Share
\$ 14.47 to 20.00	3,499,029	3.1	\$ 14.96	3,499,029	\$ 14.96
20.01 to 30.00	8,385,885	3.1	25.56	8,377,295	25.56
30.01 to 40.00	21,215,903	6.0	33.00	12,732,409	33.21
40.01 to 50.00	12,012,519	8.1	44.11	2,229,828	44.10
50.01 to 58.98	11,660,647	9.1	53.96	1,521	55.41
14.47 to 58.98	56,773,983	6.5	37.45	26,840,082	29.35

During the years ended December 31, 2015, 2014 and 2013, the aggregate intrinsic value (i.e., the difference in the closing market price on the date of exercise and the exercise price paid by the optionee) of options exercised was \$290 million, \$367 million and \$427 million, respectively.

Summarized information as of December 31, 2015, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, is as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest) (a)	Options Exercisable
Number of outstanding (shares)	55,421,103	26,840,082
Weighted average remaining contractual life (in years)	6.4	4.6
Weighted average exercise price per share	\$ 37.17	\$ 29.35
Intrinsic value (millions of dollars)	\$ 978	\$ 683

(a) Includes effects of expected forfeitures of approximately 1 million shares. Excluding the effects of expected forfeitures, the aggregate intrinsic value of stock options outstanding was \$986 million.

As of December 31, 2015, the total future compensation cost related to equity awards not yet recognized in the Consolidated Statements of Income was \$273 million, consisting of \$112 million related to unvested stock options and \$161 million related to unvested RSUs. The \$273 million is expected to be recognized as follows: \$140 million in 2016, \$86 million in 2017, \$42 million in 2018 and \$5 million in 2019.

Director deferred compensation

Directors who retire or resign from the board may receive stock distributions for compensation they elected to defer. For these stock distributions, we issue treasury shares. Director deferred stock activity during 2015 was as follows:

	Director Deferred Stock (Shares)
Outstanding, December 31, 2014	135,722
New shares deferred	14,722
Issued	(7,531)
Outstanding, December 31, 2015	142,913

Employee stock purchase plan

Options outstanding under the employee stock purchase plan at December 31, 2015, had an exercise price equal to 85 percent of the fair market value of TI common stock on the date of automatic exercise. The automatic exercise occurred on January 4, 2016, resulting in an exercise price of \$46.19 per share. Of the total outstanding options, none were exercisable at year-end 2015.

Employee stock purchase plan transactions during 2015 were as follows:

	Employee Stock Purchase Plan	Exercise Price
	(Shares)	
Outstanding grants, December 31, 2014	374,703	\$ 45.46
Granted	1,530,127	44.75
Exercised	(1,532,264)	44.57
Outstanding grants, December 31, 2015	372,566	46.19

The weighted average grant date fair value of options granted under the employee stock purchase plans during the years 2015, 2014 and 2013 was \$7.89, \$7.34 and \$5.71 per share, respectively. During the years ended December 31, 2015, 2014 and 2013, the total intrinsic value of options exercised under these plans was \$12 million, \$12 million and \$13 million, respectively.

Effect on shares outstanding and treasury shares

Treasury shares were acquired in connection with the board-authorized stock repurchase program. As of December 31, 2015, \$7.93 billion of stock repurchase authorizations remain, and no expiration date has been specified.

Our current practice is to issue shares of common stock from treasury shares upon exercise of stock options, distribution of director deferred compensation and vesting of RSUs. The table below reflects the changes in our treasury shares:

	Stock Options	RSUs	Treasury Shares
Balance, December 31, 2012			632,636,970
Repurchases			77,564,013
Shares used for:			
Stock options/RSUs	(45,507,711)	(5,741,981)	
Stock applied to taxes	—	1,461,422	
ESPP	(2,386,834)	—	
Director deferred stock	—	—	(12,909)
Total issued	(47,894,545)	(4,280,559)	(52,175,104)
Balance, December 31, 2013			658,012,970
Repurchases			61,665,209
Shares used for:			
Stock options/RSUs	(19,503,382)	(5,609,627)	
Stock applied to exercises or taxes	6,618	1,408,701	
ESPP	(1,784,184)	—	

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Director deferred stock	—	—	(7,178)
Total issued	(21,280,948)	(4,200,926)	(25,481,874)
Balance, December 31, 2014			694,189,127
Repurchases			51,384,339
Shares used for:			
Stock options/RSUs	(11,953,455)	(3,386,415)	
Stock applied to exercises or taxes	8,562	845,164	
ESPP	(1,532,264)	—	
Director deferred stock	—	—	(7,531)
Total issued	(13,477,157)	(2,541,251)	(16,018,408)
Balance, December 31, 2015			729,547,527

Shares available for future grants and reserved for issuance are summarized below:

Shares	December 31, 2015		
	Long-Term Incentive and Director Compensation Plans	Employee Stock Purchase Plan	Total
Reserved for issuance (a)	105,793,583	38,032,774	143,826,357
Shares to be issued upon exercise of outstanding options and RSUs (a)	(72,972,438)	(372,566)	(73,345,004)
Available for future grants	32,821,145	37,660,208	70,481,353

(a) Includes 142,913 shares credited to directors' deferred stock accounts that settle in shares of TI common stock. These shares are not included as grants outstanding at December 31, 2015.

The effects on cash flows were as follows:

	For Years Ended December 31,		
	2015	2014	2013
Proceeds from common stock transactions	\$ 442	\$ 616	\$ 1,314
Tax benefit realized from stock options exercised	171	218	227

5. Profit sharing plans

Profit sharing benefits are generally formulaic and determined by one or more subsidiary or company-wide financial metrics. We pay profit sharing benefits primarily under the company-wide TI Employee Profit Sharing Plan. This plan provides for profit sharing to be paid based solely on TI's operating margin for the full calendar year. Under this plan, TI must achieve a minimum threshold of 10 percent operating margin before any profit sharing is paid. At 10 percent operating margin, profit sharing will be 2 percent of eligible payroll. The maximum amount of profit sharing available under the plan is 20 percent of eligible payroll, which is paid only if TI's operating margin is at or above 35 percent for a full calendar year.

We recognized \$309 million, \$269 million and \$161 million of profit sharing expense under the TI Employee Profit Sharing Plan in 2015, 2014 and 2013, respectively.

6. Income taxes

Income before Income Taxes

	U.S.	Non-U.S.	Total
2015	\$ 3,218	\$ 998	\$ 4,216
2014	2,684	1,190	3,874
2013	1,507	1,247	2,754

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Provision (Benefit) for Income Taxes

	U.S. Federal	Non-U.S.	U.S. State	Total
2015				
Current	\$ 1,110	\$ 168	\$ 7	\$ 1,285
Deferred	(72)	14	3	(55)
Total	\$ 1,038	\$ 182	\$ 10	\$ 1,230
2014				
Current	\$ 911	\$ 194	\$ 9	\$ 1,114
Deferred	(73)	11	1	(61)
Total	\$ 838	\$ 205	\$ 10	\$ 1,053
2013				
Current	\$ 291	\$ 247	\$ 4	\$ 542
Deferred	17	33	—	50
Total	\$ 308	\$ 280	\$ 4	\$ 592

Principal reconciling items from income tax computed at the statutory federal rate follow:

	For Years Ended December 31,		
	2015	2014	2013
Computed tax at statutory rate	\$ 1,476	\$ 1,356	\$ 964
Non-U.S. effective tax rates	(167)	(212)	(156)
U.S. tax benefit for manufacturing	(69)	(51)	(66)
U.S. R&D tax credit	(56)	(59)	(129)
Non-deductible expenses	13	6	13
Impact of changes to uncertain tax positions	8	3	(14)
Other	25	10	(20)
Total provision for income taxes	\$ 1,230	\$ 1,053	\$ 592

The total provision for 2013 in the reconciliation above includes \$79 million of discrete tax benefits primarily for the reinstatement of the U.S. R&D tax credit retroactive to 2012.

Our annual effective tax rate benefits from lower rates (compared to the U.S. statutory rate) applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits. These lower non-U.S. tax rates are generally statutory in nature, without expiration and available to companies that operate in those taxing jurisdictions. Also included in the non-U.S. effective tax rates reconciling item above are benefits from tax holidays of \$60 million, \$44 million and \$40 million in 2015, 2014 and 2013, respectively. The tax benefits relate to our operations in Malaysia and the Philippines, and expire in 2018 and 2017, respectively. The terms of the Malaysia tax holiday are currently under governmental review as required for the end of the first five years of the holiday period.

We do not expect any potential change in the holiday to have a material impact on the financial statements.

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The primary components of deferred income tax assets and liabilities were as follows:

	December 31,	
	2015	2014
Deferred income tax assets:		
Stock-based compensation	\$ 244	\$ 229
Deferred loss and tax credit carryforwards	226	289
Accrued expenses	215	246
Inventories and related reserves	147	156
Retirement costs for defined benefit and retiree health care	87	80
Other	101	87
Total deferred income tax assets, before valuation allowance	1,020	1,087
Valuation allowance	(186)	(195)
Total deferred income tax assets, after valuation allowance	834	892
Deferred income tax liabilities:		
Acquisition-related intangibles and fair-value adjustments	(565)	(672)
International earnings	(105)	(104)
Total deferred income tax liabilities	(670)	(776)
Net deferred income tax asset	\$ 164	\$ 116

The deferred income tax assets and liabilities based on tax jurisdictions are presented on the Consolidated Balance Sheets as follows:

	December 31,	
	2015	2014
Noncurrent deferred income tax assets	\$ 201	\$ 180
Noncurrent deferred income tax liabilities	(37)	(64)
Net deferred income tax asset	\$ 164	\$ 116

As a result of our early adoption of ASU 2015-17, Balance Sheet Classification of Deferred Taxes, we have adjusted the presentation of deferred taxes on the Consolidated Balance Sheets. We have retrospectively adjusted the 2014 Consolidated Balance Sheets to conform to the 2015 presentation by reclassifying current deferred income tax assets and liabilities to noncurrent deferred income tax assets and liabilities. The effect of applying the new standard, as shown in the following table, is the result of netting Current deferred income tax assets with Noncurrent deferred income tax liabilities, by tax jurisdiction. See Note 2 for additional information.

	2014	Effect of Applying	2014
	As Reported	New Standard	As Adjusted
Current deferred income tax assets	\$ 347	\$ (347)	\$ —

Noncurrent deferred income tax assets	172	8	180
Current deferred income tax liabilities	(4)	4	—
Noncurrent deferred income tax liabilities	(399)	335	(64)
Net deferred income tax asset	\$ 116	\$ —	\$ 116

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. This assessment is based on our evaluation of relevant criteria, including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, taxable income in prior carryback years and expectations for future taxable income. Changes in valuation allowance balances in the years 2015, 2014 and 2013 of \$9 million, \$24 million and \$2 million, respectively, had no impact on Net income.

We have U.S. and non-U.S. tax loss carryforwards of approximately \$35 million, none of which will expire before the year 2025.

A provision has been made for deferred taxes on undistributed earnings of non-U.S. subsidiaries to the extent that dividend payments from these subsidiaries are expected to result in additional tax liability. The remaining undistributed earnings of approximately \$8.35 billion at December 31, 2015, have been indefinitely reinvested outside of the United States; therefore, no U.S. tax provision has been made for taxes due upon remittance of these earnings. The indefinitely reinvested earnings of our non-U.S. subsidiaries are primarily invested in working capital and property, plant and equipment. Determination of the amount of unrecognized deferred income tax liability is not practical because of the complexities associated with its hypothetical calculation.

Cash payments made for income taxes, net of refunds, were \$1.167 billion, \$1.104 billion and \$569 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Uncertain tax positions

We operate in a number of tax jurisdictions, and our income tax returns are subject to examination by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the matters challenged by authorities are typically complex, their ultimate outcome is uncertain. Before any benefit can be recorded in the financial statements, we must determine that it is “more likely than not” that a tax position will be sustained by the appropriate tax authorities. We recognize accrued interest related to uncertain tax positions and penalties as components of OI&E.

The changes in the total amounts of uncertain tax positions are summarized as follows:

	2015	2014	2013
Balance, January 1	\$ 108	\$ 91	\$ 184
Additions based on tax positions related to the current year	11	10	7
Additions for tax positions of prior years	3	52	19
Reductions for tax positions of prior years	(21)	(9)	(10)
Settlements with tax authorities	(17)	(36)	(96)
Expiration of the statute of limitations for assessing taxes	—	—	(13)
Balance, December 31	\$ 84	\$ 108	\$ 91
Interest income (expense) recognized in the year ended December 31	\$ 8	\$ 6	\$ (10)
Interest receivable (payable) as of December 31	\$ 9	\$ —	\$ (5)

The liability for uncertain tax positions is a component of Deferred credits and other liabilities on our Consolidated Balance Sheets.

All of the \$84 million liability for uncertain tax positions as of December 31, 2015, is comprised of positions that, if recognized, would impact the tax rate. If these tax liabilities are ultimately realized, \$12 million of existing deferred tax assets would also be realized, related to refunds from counterparty jurisdictions resulting from procedures for relief from double taxation. It is reasonably possible that the liability could increase in 2016 by up to \$150 million for a tax depreciation-related position. The increase would offset the tax benefit realized with no net profit impact.

All of the \$108 million liability for uncertain tax positions as of December 31, 2014, is comprised of positions that, if recognized, would impact the tax rate. If these tax liabilities are ultimately realized, \$56 million of existing deferred tax assets would also be realized, primarily related to refunds from counterparty jurisdictions resulting from procedures for relief from double taxation.

As of December 31, 2015, the statute of limitations remains open for U.S. federal tax returns for 2010 and following years. Audit activities related to our U.S. federal tax returns through 2009 have been completed except for certain pending tax treaty procedures for relief from double taxation and the review of refunds claimed on amended returns for years prior to 2010. The procedures for relief from double taxation pertain to U.S. federal tax returns for the years 2006 through 2009.

In non-U.S. jurisdictions, the years open to audit represent the years still open under the statute of limitations. With respect to major jurisdictions outside the United States, our subsidiaries are no longer subject to income tax audits for years before 2007.

7. Financial instruments and risk concentration

Financial instruments

We hold derivative financial instruments such as forward foreign currency exchange contracts, the fair value of which was not material as of December 31, 2015. Our forward foreign currency exchange contracts outstanding as of December 31, 2015, had a notional value of \$464 million to hedge our non-U.S. dollar net balance sheet exposures, including \$175 million to sell Japanese yen and \$139 million to sell euros.

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Our investments in cash equivalents, short-term investments and certain long-term investments, as well as our postretirement plan assets and deferred compensation liabilities, are carried at fair value. 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 Level 2 inputs. See Note 8 for a description of fair value and the definition of Level 2 inputs.

Risk concentration

We are subject to counterparty risks from financial institutions, customers and issuers of debt securities. Financial instruments that could subject us to concentrations of credit risk are primarily cash deposits, cash equivalents, short-term investments and accounts receivable. To manage our credit risk exposure, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on cash deposits and financial derivative contracts to financial institutions with investment-grade ratings.

Concentrations of credit risk with respect to accounts receivable are limited due to our large number of customers and their dispersion across different industries and geographic areas. We maintain allowances for expected returns, disputes, adjustments, incentives and collectability. These allowances are deducted from accounts receivable on our Consolidated Balance Sheets.

Details of these accounts receivable allowances are as follows:

	2015	2014	2013
Balance, January 1	\$ 12	\$ 22	\$ 31
Additions charged (credited) to operating results	(5)	(9)	(9)
Recoveries and write-offs, net	—	(1)	—
Balance, December 31	\$ 7	\$ 12	\$ 22

8. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

We classify our investments as either 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 or broker quotes. See the 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:

	December 31, 2015			December 31, 2014		
	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	\$ 395	\$ —	\$ —	\$ 522	\$ —	\$ —
Corporate obligations	132	285	—	97	390	—
U.S. Government agency and Treasury securities	245	1,933	—	365	1,952	—
Trading securities:						
Mutual funds	—	—	187	—	—	185
Total	772	2,218	187	984	2,342	185
Other measurement basis:						
Equity-method investments	—	—	25	—	—	27
Cost-method investments	—	—	9	—	—	12
Cash on hand	228	—	—	215	—	—
Total	\$ 1,000	\$ 2,218	\$ 221	\$ 1,199	\$ 2,342	\$ 224

At December 31, 2015 and 2014, unrealized gains and losses associated with our available-for-sale investments were not material. We did not recognize any credit losses related to available-for-sale investments for the years ended December 31, 2015, 2014 and 2013.

For the years ended December 31, 2015, 2014 and 2013, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were \$2.89 billion, \$2.97 billion and \$4.25 billion, respectively. Gross realized gains and losses from these sales were not material.

The following table presents the aggregate maturities of investments in debt securities classified as available for sale at December 31, 2015:

Due	Fair Value
One year or less	\$ 2,970
One to two years	20

Gross realized gains and losses from sales of long-term investments were not material for 2015, 2014 and 2013. Other-than-temporary declines and impairments in the values of these investments recognized in OI&E were not material in 2015, 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. 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.

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·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. As of December 31, 2015 and 2014, we had no Level 3 assets or liabilities, other than certain assets held by our postretirement plans.

The following are our assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2015 and 2014. 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		
	December 31, 2015	Level 1	Level 2
Assets:			
Money market funds	\$ 395	\$ 395	\$ —
Corporate obligations	417	—	417
U.S. Government agency and Treasury securities	2,178	1,828	350
Mutual funds	187	187	—
Total assets	\$ 3,177	\$ 2,410	\$ 767
Liabilities:			
Deferred compensation	\$ 198	\$ 198	\$ —
Total liabilities	\$ 198	\$ 198	\$ —

	Fair Value		
	December 31, 2014	Level 1	Level 2
Assets:			
Money market funds	\$ 522	\$ 522	\$ —
Corporate obligations	487	—	487
U.S. Government agency and Treasury securities	2,317	1,762	555
Mutual funds	185	185	—
Total assets	\$ 3,511	\$ 2,469	\$ 1,042
Liabilities:			
Deferred compensation	\$ 202	\$ 202	\$ —
Total liabilities	\$ 202	\$ 202	\$ —

9. Goodwill and acquisition-related intangibles

The following table summarizes goodwill, net, by segment for the years ended December 31, 2015 and 2014.

	Goodwill
Analog	\$ 4,158
Embedded Processing	172
Other	32
Total	\$ 4,362

We perform our annual goodwill impairment test as of October 1 and determine whether the fair value of each of our reporting units is in excess of its carrying value. Determination of fair value is based upon management estimates and judgment, using unobservable inputs in discounted cash flow models to calculate the fair value of each reporting unit. These unobservable inputs are considered Level 3 measurements. For the years ended December 31, 2015, 2014 and 2013, we determined no impairment was indicated. See Note 8 for additional information.

The components of Acquisition-related intangibles, net, as of December 31, 2015 and 2014, are as follows:

Acquisition-Related Intangibles	Amortization Period (Years)	December 31, 2015			December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	\$ 2,131	\$ 928	\$ 1,203	\$ 2,135	\$ 714	\$ 1,421
Customer relationships	8	810	431	379	810	330	480
Other intangibles	5	3	2	1	3	2	1
Total		\$ 2,944	\$ 1,361	\$ 1,583	\$ 2,948	\$ 1,046	\$ 1,902

Amortization of acquisition-related intangibles was \$319 million, \$321 million and \$336 million for 2015, 2014 and 2013, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization. Future estimated amortization of acquisition-related intangibles for the years ended December 31 is as follows:

Amortization of	
Acquisition-Related Intangibles	
2016	\$ 319
2017	318
2018	318
2019	288
2020	198
Thereafter	142

10. Postretirement benefit plans

Plan descriptions

We have various employee retirement plans, including defined contribution, defined benefit and retiree health care benefit plans. For qualifying employees, we offer deferred compensation arrangements.

U.S. retirement plans

Our principal retirement plans in the U.S. are a defined contribution plan; an enhanced defined contribution plan; and qualified and non-qualified defined benefit pension plans. The defined benefit plans were closed to new participants in 1997, and then-current participants were allowed to make a one-time election to continue accruing a benefit in the plans, or to cease accruing a benefit and instead to participate in the enhanced defined contribution plan described below.

Both defined contribution plans offer an employer-matching savings option that allows employees to make pre-tax contributions to various investment choices, including a TI common stock fund. Employees who elected to continue accruing a benefit in the qualified defined benefit pension plans may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2 percent of the employee's annual eligible earnings. Employees who elected not to continue accruing a benefit in the defined benefit pension plans, and employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2 percent of the employee's annual eligible earnings, plus an employer-matching contribution of up to 4 percent of the employee's annual eligible earnings. Employees hired after December 31, 2003, do not receive the fixed employer contribution of 2 percent of the employee's annual eligible earnings.

At December 31, 2015 and 2014, as a result of employees' elections, TI's U.S. defined contribution plans held shares of TI common stock totaling 13 million shares and 14 million shares valued at \$704 million and \$740 million, respectively. Dividends paid on these shares for both 2015 and 2014 were \$19 million.

Our aggregate expense for the U.S. defined contribution plans was \$60 million in both 2015 and 2014 and \$62 million in 2013.

The defined benefit pension plans include employees still accruing benefits, as well as employees and participants who no longer accrue service-related benefits, but instead, may participate in the enhanced defined contribution plan. Benefits under the qualified defined benefit pension plan are determined using a formula based upon years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of applicable local laws and regulations, plus such additional amounts as we deem appropriate. The non-qualified defined benefit plans are unfunded and closed to new participants.

U.S. retiree health care benefit plan

U.S. employees who meet eligibility requirements are offered medical coverage during retirement. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee's date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the plan's participants. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement.

Non-U.S. retirement plans

We provide retirement coverage for non-U.S. employees, as required by local laws or to the extent we deem appropriate, through a number of defined benefit and defined contribution plans. Retirement benefits are generally based on an employee's years of service and compensation. Funding requirements are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

As of December 31, 2015 and 2014, as a result of employees' elections, TI's non-U.S. defined contribution plans held TI common stock valued at \$17 million. Dividends paid on these shares of TI common stock for 2015 and 2014 were not material.

Effects on the Consolidated Statements of Income and Balance Sheets

Expense related to defined benefit and retiree health care benefit plans was as follows:

	U.S. Defined Benefit			U.S. Retiree Health Care			Non-U.S. Defined Benefit		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Service cost	\$ 22	\$ 21	\$ 26	\$ 5	\$ 4	\$ 5	\$ 35	\$ 39	\$ 41
Interest cost	43	45	45	20	22	20	53	68	61
Expected return on plan assets	(48)	(42)	(48)	(22)	(20)	(24)	(76)	(80)	(67)
Amortization of prior service cost (credit)	—	—	1	2	4	4	(2)	(2)	(3)
Recognized net actuarial loss	19	26	21	8	7	11	24	24	31
Net periodic benefit costs	36	50	45	13	17	16	34	49	63
Settlement losses	25	5	41	—	—	—	2	1	4
Curtailment gain	—	—	—	—	—	—	—	(2)	(7)
Total, including other postretirement losses (gains)	\$ 61	\$ 55	\$ 86	\$ 13	\$ 17	\$ 16	\$ 36	\$ 48	\$ 60

For the U.S. qualified pension and retiree health care plans, the expected return on plan assets component of net periodic benefit cost is based upon a market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets is the fair value adjusted by a smoothing technique whereby certain gains and losses are phased in over a period of three years.

Changes in the benefit obligations and plan assets for defined benefit and retiree health care benefit plans were as follows:

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
	2015	2014	2015	2014	2015	2014
Change in plan benefit obligation:						
Benefit obligation at beginning of year	\$ 1,076	\$ 955	\$ 513	\$ 472	\$ 2,316	\$ 2,276
Service cost	22	21	5	4	35	39
Interest cost	43	45	20	22	53	68
Participant contributions	—	—	19	19	6	5
Benefits paid	(8)	(66)	(46)	(45)	(73)	(84)
Medicare subsidy	—	—	3	4	—	—
Actuarial loss (gain)	(6)	133	(21)	37	14	275
Settlements	(94)	(12)	—	—	(18)	(7)
Curtailments	—	—	—	—	—	(11)
Plan amendments	—	—	(30)	—	—	—
Effects of exchange rate changes	—	—	—	—	(102)	(245)
Benefit obligation at end of year (BO)	\$ 1,033	\$ 1,076	\$ 463	\$ 513	\$ 2,231	\$ 2,316
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 1,082	\$ 941	\$ 497	\$ 485	\$ 2,213	\$ 2,179
Actual return on plan assets	(24)	132	—	24	25	295
Employer contributions (funding of qualified plans)	52	75	1	10	72	64
Employer contributions (payments for non-qualified plans)	11	12	—	—	—	—
Participant contributions	—	—	19	19	6	5
Benefits paid	(8)	(66)	(46)	(45)	(73)	(84)
Medicare subsidy	—	—	—	4	—	—
Settlements	(94)	(12)	—	—	(18)	(7)
Effects of exchange rate changes	—	—	—	—	(91)	(239)
Other	—	—	(30)	—	—	—
Fair value of plan assets at end of year (FVPA)	\$ 1,019	\$ 1,082	\$ 441	\$ 497	\$ 2,134	\$ 2,213
Funded status (FVPA – BO) at end of year	\$ (14)	\$ 6	\$ (22)	\$ (16)	\$ (97)	\$ (103)

Amounts recognized on the Consolidated Balance Sheets as of December 31, 2015, were as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
Overfunded retirement plans	\$ 51	\$ —	\$ 34	\$ 85
Accrued expenses and other liabilities	(16)	—	(6)	(22)

Underfunded retirement plans	(49)	(22)	(125)	(196)
Funded status (FVPA – BO) at end of year \$	(14)	\$ (22)	\$ (97)	\$ (133)

Amounts recognized on the Consolidated Balance Sheets as of December 31, 2014, were as follows:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
Overfunded retirement plans	\$ 72	\$ —	\$ 55	\$ 127
Accrued expenses and other liabilities	(9)	—	(6)	(15)
Underfunded retirement plans	(57)	(16)	(152)	(225)
Funded status (FVPA – BO) at end of year \$	6	\$ (16)	\$ (103)	\$ (113)

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute about \$100 million to our retirement benefit plans in 2016. The amounts shown for underfunded U.S. defined benefit plans were for non-qualified pension plans, which we do not fund because contributions to them are not tax deductible.

Accumulated benefit obligations, which are generally less than the projected benefit obligations as they exclude the impact of future salary increases, were \$948 million and \$968 million at December 31, 2015 and 2014, respectively, for the U.S. defined benefit plans, and \$2.09 billion and \$2.15 billion at December 31, 2015 and 2014, respectively, for the non-U.S. defined benefit plans.

The amounts recorded in AOCI for the years ended December 31, 2015 and 2014, are detailed below by plan type:

	U.S. Defined Benefit	U.S. Retiree Health Care		Non-U.S. Defined Benefit		Total	
	Net Actuarial Loss	Net Actuarial Loss	Prior Service Cost (Credit)	Net Actuarial Loss	Prior Service Cost (Credit)	Net Actuarial Loss	Prior Service Cost (Credit)
AOCI balance, net of taxes,							
December 31, 2014	\$ 153	\$ 85	\$ 8	\$ 291	\$ (8)	\$ 529	\$ —
Changes in AOCI by category							
Adjustments	65	—	(30)	45	(1)	110	(31)
Recognized within Net income	(43)	(8)	(2)	(27)	2	(78)	—
Tax effect	(8)	3	11	(6)	—	(11)	11
Total change to AOCI	14	(5)	(21)	12	1	21	(20)
AOCI balance, net of taxes,							
December 31, 2015	\$ 167	\$ 80	\$ (13)	\$ 303	\$ (7)	\$ 550	\$ (20)

The estimated amounts of net actuarial loss and unrecognized prior service cost (credit) included in AOCI as of December 31, 2015, that are expected to be amortized into net periodic benefit cost over the next fiscal year are: \$20 million and none for the U.S. defined benefit plans; \$7 million and (\$4) million for the U.S. retiree health care benefit plan; and \$24 million and (\$2) million for the non-U.S. defined benefit plans.

Information on plan assets

We report and measure the plan assets of our defined benefit pension and other postretirement plans at fair value. The tables below set forth the fair value of our plan assets as of December 31, 2015 and 2014, using the same three-level hierarchy of fair-value inputs described in Note 8.

	Fair Value December 31,	Level 1	Level 2	Level 3
Assets of U.S. defined benefit plan:	2015			

Fixed income securities and cash equivalents	\$ 664	\$ —	\$ 664	\$ —
Equity securities	355			