TEXAS INSTRUMENTS INC
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________

Commission File Number 001-03761

TEXAS INSTRUMENTS INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

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

12500 TI Boulevard, Dallas, Texas	75243
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

999,485,728

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

October 26, 2016

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Consolidated Statements of Income (Millions of dollars, except share and per-share amounts)	For Three Months Ended September 30, 2016	2015	For Nine Months Ended September 30, 2016	2015
Revenue	$ 3,675	$ 3,429	$ 9,956	$ 9,811
Cost of revenue (COR)	1,395	1,432	3,849	4,117
Gross profit	2,280	1,997	6,107	5,694
Research and development (R&D)	356	316	1,027	974
Selling, general and administrative (SG&A)	448	434	1,356	1,343
Acquisition charges	80	83	239	248
Restructuring charges/other	1	—	5	(3)
Operating profit	1,395	1,164	3,480	3,132
Other income (expense), net (OI&E)	4	6	14	13
Interest and debt expense	18	22	61	68
Income before income taxes	1,381	1,148	3,433	3,077
Provision for income taxes	413	350	1,018	927
Net income	$ 968	$ 798	$ 2,415	$ 2,150
Earnings per common share (EPS):				
Basic	$ .95	$ .77	$ 2.37	$ 2.05
Diluted	$ .94	$ .76	$ 2.34	$ 2.02
Average shares outstanding (millions):				
Basic	1,003	1,023	1,004	1,036
Diluted	1,017	1,035	1,017	1,049
Cash dividends declared per common share	$ .38	$ .34	$ 1.14	$ 1.02

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	$ 968	$ 798	$ 2,415	$ 2,150
Income allocated to RSUs	(11)	(11)	(29)	(30)
Income allocated to common stock for diluted EPS	$ 957	$ 787	$ 2,386	$ 2,120

See accompanying notes.

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TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Three Months Ended September 30, 2016	2015	For Nine Months Ended September 30, 2016	2015
Net income	$ 968	$ 798	$ 2,415	$ 2,150
Other comprehensive income (loss), net of taxes:				
Net actuarial gains (losses) of defined benefit plans:				
Adjustments	(17)	(33)	(47)	(43)
Recognized within Net income	12	13	39	40
Prior service (cost) credit of defined benefit plans:				
Adjustments	—	20	1	20
Recognized within Net income	(1)	—	(3)	1
Derivative instruments:				
Recognized within Net income	—	1	—	1
Other comprehensive income (loss)	(6)	1	(10)	19
Total comprehensive income	$ 962	$ 799	$ 2,405	$ 2,169

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets (Millions of dollars, except share amounts)	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 1,369	$ 1,000
Short-term investments	1,768	2,218
Accounts receivable, net of allowances of ($14) and ($7)	1,447	1,165
Raw materials	104	109
Work in process	949	846
Finished goods	755	736
Inventories	1,808	1,691
Prepaid expenses and other current assets	789	1,000
Total current assets	7,181	7,074
Property, plant and equipment at cost	4,982	5,465
Accumulated depreciation	(2,437)	(2,869)
Property, plant and equipment, net	2,545	2,596
Long-term investments	233	221
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,344	1,583
Deferred income taxes	355	201
Capitalized software licenses, net	50	46
Overfunded retirement plans	64	85
Other assets	82	62
Total assets	$ 16,216	$ 16,230
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 634	$ 1,000
Accounts payable	428	386
Accrued compensation	647	664
Income taxes payable	68	95
Accrued expenses and other liabilities	393	410
Total current liabilities	2,170	2,555
Long-term debt	2,977	3,120
Underfunded retirement plans	201	196
Deferred income taxes	35	37
Deferred credits and other liabilities	547	376
Total liabilities	5,930	6,284
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares		
Participating cumulative preferred. None issued.	—	—
Common stock, $1 par value. Authorized – 2,400,000,000 shares		
Shares issued – 1,740,815,939	1,741	1,741
Paid-in capital	1,757	1,629
Retained earnings	32,432	31,176
Treasury common stock at cost		

Shares: September 30, 2016 – 739,693,480; December 31, 2015 – 729,547,527	(25,102)	(24,068)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(542)	(532)
Total stockholders’ equity	10,286	9,946
Total liabilities and stockholders’ equity	$ 16,216	$ 16,230

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Millions of dollars)	For Nine Months Ended September 30, 2016	2015
Cash flows from operating activities		
Net income	$ 2,415	$ 2,150
Adjustments to Net income:		
Depreciation	466	594
Amortization of acquisition-related intangibles	239	240
Amortization of capitalized software	23	38
Stock-based compensation	204	228
Gains on sales of assets	—	(3)
Deferred income taxes	(160)	(106)
Increase (decrease) from changes in:		
Accounts receivable	(274)	(241)
Inventories	(117)	13
Prepaid expenses and other current assets	130	89
Accounts payable and accrued expenses	(56)	(190)
Accrued compensation	(26)	(37)
Income taxes payable	153	21
Changes in funded status of retirement plans	56	65
Other	(24)	(23)
Cash flows from operating activities	3,029	2,838
Cash flows from investing activities		
Capital expenditures	(421)	(387)
Proceeds from asset sales	—	10
Purchases of short-term investments	(2,171)	(1,713)
Proceeds from short-term investments	2,625	2,455
Other	2	8
Cash flows from investing activities	35	373
Cash flows from financing activities		
Proceeds from issuance of long-term debt	499	498
Repayment of debt	(1,000)	(1,000)
Dividends paid	(1,147)	(1,058)
Stock repurchases	(1,657)	(2,114)
Proceeds from common stock transactions	484	332
Excess tax benefit from share-based payments	129	68
Other	(3)	(3)
Cash flows from financing activities	(2,695)	(3,277)
Net change in Cash and cash equivalents	369	(66)
Cash and cash equivalents at beginning of period	1,000	1,199
Cash and cash equivalents at end of period	$ 1,369	$ 1,133

See accompanying notes.

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TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Notes to financial statements

1. Description of business, including segment information

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

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

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

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

Segment information

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Analog	$ 2,323	$ 2,182	$ 6,246	$ 6,266
Embedded Processing	795	725	2,279	2,087
Other	557	522	1,431	1,458
Total revenue	$ 3,675	$ 3,429	$ 9,956	$ 9,811
Operating profit:				
Analog	$ 949	$ 812	$ 2,399	$ 2,261
Embedded Processing	220	174	591	432
Other	226	178	490	439
Total operating profit	$ 1,395	$ 1,164	$ 3,480	$ 3,132

2. Basis of presentation and significant accounting policies and practices

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and on the same basis as the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2015. The Consolidated Statements of Income, Comprehensive Income and Cash Flows for the periods ended September 30, 2016 and 2015, and the Consolidated Balance Sheet as of September 30, 2016, are not audited but reflect all adjustments that are of a normal recurring nature and are necessary for a fair statement of the results of the periods shown. Certain information and note disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Because the consolidated interim financial statements do not include all of the information and notes required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our annual report on Form 10-K for the year ended December 31, 2015. The results for the three- and nine-month periods are not necessarily indicative of a full year's results.

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

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Significant accounting policies and practices

Earnings per share (EPS)

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

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

	For Three Months Ended September 30,					
	2016			2015		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$ 968			$ 798		
Income allocated to RSUs	(11)			(11)		
Income allocated to common stock for basic EPS calculation	$ 957	1,003	$ .95	$ 787	1,023	$ .77
Adjustment for dilutive shares:						
Stock-based compensation plans		14			12	
Diluted EPS:						
Net income	$ 968			$ 798		
Income allocated to RSUs	(11)			(11)		
Income allocated to common stock for diluted EPS calculation	$ 957	1,017	$ .94	$ 787	1,035	$ .76

	For Nine Months Ended September 30,					
	2016			2015		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$ 2,415			$ 2,150		
Income allocated to RSUs	(30)			(31)		
Income allocated to common stock for basic EPS calculation	$ 2,385	1,004	$ 2.37	$ 2,119	1,036	$ 2.05
Adjustment for dilutive shares:						
Stock-based compensation plans		13			13	

Diluted EPS:						
Net income	$ 2,415			$ 2,150		
Income allocated to RSUs	(29)			(30)		
Income allocated to common stock for diluted EPS calculation	$ 2,386	1,017	$ 2.34	$ 2,120	1,049	$ 2.02

There were no potentially dilutive securities excluded from the computation of diluted earnings per common share during the third quarter of 2016. Potentially dilutive securities representing 14 million shares of common stock that were outstanding during the third quarter of 2015, and 8 million and 12 million shares outstanding during the first nine months of 2016 and 2015, respectively, were excluded from the computation of diluted earnings per common share for these periods because their effect would have been anti-dilutive.

Derivatives and hedging

We use derivative financial instruments to manage exposure to foreign currency 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 occasionally 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.

Fair values of financial instruments

The fair values of our derivative financial instruments were not material as of September 30, 2016. 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 5 for the definition of Level 2 inputs.

Changes in accounting standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, and is effective for annual and interim reporting periods beginning after December 15, 2017. This standard permits early adoption, but not before 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 and 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 April 2016, the FASB issued an amendment to this guidance, ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which, among other things, provides clarification about whether revenue related to a distinct license of intellectual property is recognized over time or at a point in time. Based on our preliminary assessment of this amendment, the periods over which we recognize revenue from our fixed-payment royalty arrangements from licensing our intellectual property may change. However, the effect of such change on our financial position and results of operations recognized in any reporting period is not expected to be material.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Under this standard, all equity investments except those accounted for under the equity method are required to be measured at fair value. Equity investments that do not have a readily determinable fair value may, as a practical expedient, be measured at cost, adjusted for changes in observable prices minus impairment. This standard is effective for our interim and annual periods beginning January 1, 2018. This standard must be applied using a cumulative-effect adjustment in net income to the beginning of the fiscal year of adoption, except for equity investments without a readily determinable fair value, which are to be applied prospectively to equity investments as of the adoption date. We do not expect this standard to have a material impact on our financial position and results of operations, as nearly all of our equity investments are already recorded at fair value or under the equity method.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard will be effective for our interim and annual periods beginning January 1, 2019, and must be applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. We are currently evaluating the timing of adoption and the potential impact of this standard on our financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard provides for several changes to the accounting for share-based awards. Among other changes, this standard will require recognition of certain income tax effects of awards in net income in the period in which the awards are settled or vested, rather than through additional paid-in capital in the equity section of the balance sheet. The standard also changes the presentation of excess tax benefits and statutory tax withholdings in the statement of cash flows. This standard will be effective for our interim and annual periods beginning January 1, 2017; however, early adoption is permitted. Each of the various provisions within this standard has its own specified transition method; some will be applied prospectively and others will be applied on a retrospective or modified retrospective basis. We are currently evaluating the timing of adoption and the potential impact of this standard on our financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than under the current incurred loss approach, which required waiting to recognize a loss until it is probable of having been incurred. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. This standard will be effective for our interim and annual periods beginning after December 15, 2019, and permits earlier application but not before December 15, 2018. The standard will be applied using a modified retrospective approach. We are currently evaluating the potential impact of this standard, but we expect it will not have a material impact on our financial position and results of operations.

3. Restructuring charges/other

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

Restructuring charges

For the three and nine months ended September 30, 2016, we incurred restructuring charges of $1 million and $5 million, respectively, related to our plans to phase out a manufacturing facility in Greenock, Scotland, through the end of 2018. These charges were comprised of severance and benefits costs, as well as accelerated depreciation. Total restructuring charges, primarily severance and related benefit costs, are estimated to be about $40 million, of which $22 million has been recognized through September 30, 2016. The remaining charges are expected to be recognized through the end of 2018.

Restructuring balances

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 balance as of December 31, 2015, was composed of $17 million related to the Scotland facility and $15 million related to prior actions. The $23 million balance as of September 30, 2016, is composed of $17 million related to the Scotland facility and $6 million related to prior actions.

Balance, December 31, 2015	$	32
Restructuring charges		5
Payments		(10)
Non-cash items (a)		(4)
Balance, September 30, 2016	$	23

(a) Reflects charges for impacts of accelerated depreciation and changes in exchange rates.

4. Income taxes

Federal income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. As of September 30, 2016, the estimated annual effective tax rate for 2016 is about 30 percent, which differs from the 35 percent statutory corporate tax rate due to lower statutory tax rates applicable to our operations in many of the jurisdictions in which we operate and from U.S. tax benefits.

5. Valuation of debt and equity investments and certain liabilities

Debt and equity investments

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

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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Details of our investments are as follows:

	September 30, 2016			December 31, 2015		
	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	$ 658	$ —	$ —	$ 395	$ —	$ —
Corporate obligations	43	489	—	132	285	—
U.S. Government agency and Treasury securities	475	1,279	—	245	1,933	—
Trading securities:						
Mutual funds	—	—	199	—	—	187
Total	1,176	1,768	199	772	2,218	187
Other measurement basis:						
Equity-method investments	—	—	25	—	—	25
Cost-method investments	—	—	9	—	—	9
Cash on hand	193	—	—	228	—	—
Total	$ 1,369	$ 1,768	$ 233	$ 1,000	$ 2,218	$ 221

As of September 30, 2016, and December 31, 2015, 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 nine months ended September 30, 2016, and September 30, 2015.

For the nine months ended September 30, 2016, and September 30, 2015, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $2.63 billion and $2.46 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 as of September 30, 2016:

Due	Fair Value
One year or less	$ 2,904
One to two years	40

Other-than-temporary declines and impairments in the values of long-term investments recognized in OI&E were not material in the nine months ended September 30, 2016, and September 30, 2015.

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.

- 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 September 30, 2016, and December 31, 2015, 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 September 30, 2016, and December 31, 2015. 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 September 30, 2016			December 31, 2015		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						
Money market funds	$ 658	$ 658	$ —	$ 395	$ 395	$ —
Corporate obligations	532	—	532	417	—	417
U.S. Government agency and Treasury securities	1,754	1,539	215	2,178	1,828	350
Mutual funds	199	199	—	187	187	—
Total assets	$ 3,143	$ 2,396	$ 747	$ 3,177	$ 2,410	$ 767
Liabilities:						
Deferred compensation	$ 214	$ 214	$ —	$ 198	$ 198	$ —
Total liabilities	$ 214	$ 214	$ —	$ 198	$ 198	$ —

6. Goodwill and acquisition-related intangibles

Goodwill, net, was $4.36 billion as of September 30, 2016, and December 31, 2015. There was no impairment of goodwill during the nine months ended September 30, 2016, or September 30, 2015.

The components of Acquisition-related intangibles, net, are as follows:

	Amortization	September 30, 2016			December 31, 2015		
	Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	$ 2,131	$ 1,090	$ 1,041	$ 2,131	$ 928	$ 1,203
Customer relationships	8	810	507	303	810	431	379
Other intangibles	n/a	—	—	—	3	2	1
Total		$ 2,941	$ 1,597	$ 1,344	$ 2,944	$ 1,361	$ 1,583

Amortization of acquisition-related intangibles was $80 million for the third quarters of both 2016 and 2015, and $239 million and $240 million for the first nine months of 2016 and 2015, respectively, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

7. Postretirement benefit plans

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	
For Three Months Ended September 30,	2016	2015	2016	2015	2016	2015
Service cost	$ 5	$ 6	$ 1	$ 1	$ 9	$ 9
Interest cost	10	10	5	5	14	13
Expected return on plan assets	(10)	(12)	(4)	(5)	(18)	(19)
Recognized net actuarial loss	5	4	2	2	6	6
Amortization of prior service cost (credit)	—	—	(1)	—	—	—
Net periodic benefit costs	10	8	3	3	11	9
Settlement losses	4	7	—	—	—	—
Total	$ 14	$ 15	$ 3	$ 3	$ 11	$ 9

	U.S. Defined Benefit		U.S. Retiree Health Care		Non-U.S. Defined Benefit	
For Nine Months Ended September 30,	2016	2015	2016	2015	2016	2015
Service cost	$ 16	$ 17	$ 4	$ 4	$ 25	$ 26
Interest cost	32	31	15	15	40	40
Expected return on plan assets	(31)	(36)	(14)	(16)	(52)	(57)
Recognized net actuarial loss	15	14	5	6	19	18
Amortization of prior service cost (credit)	—	—	(3)	3	(1)	(1)
Net periodic benefit costs	32	26	7	12	31	26
Settlement losses	17	19	—	—	1	2
Total	$ 49	$ 45	$ 7	$ 12	$ 32	$ 28

8. Debt and lines of credit

Short-term borrowings

We maintain a line of credit to support commercial paper borrowings, if any, and to provide additional liquidity through bank loans. As of September 30, 2016, we had a variable-rate revolving credit facility from a consortium of investment-grade banks that allows us to borrow up to $2 billion until March 2021. The interest rate on borrowings under this credit facility, if drawn, is indexed to the applicable London Interbank Offered Rate (LIBOR). As of September 30, 2016, our credit facility was undrawn and we had no commercial paper outstanding.

Long-term debt

In May 2016, we issued a principal amount of $500 million of fixed-rate long-term debt due in 2022. We incurred $3 million of issuance and other related costs, which are amortized to Interest and debt expense over the term of the debt. The proceeds of the offering were $499 million, net of the original issuance discount, and were used toward the repayment of a portion of $1.0 billion of maturing debt retired in May 2016.

Long-term debt outstanding is as follows:

	September 30, 2016	December 31, 2015
Notes due 2016 at 2.375%	$ —	$ 1,000
Notes due 2017 at 0.875%	250	250
Notes due 2017 at 6.60% (assumed with National acquisition)	375	375
Notes due 2018 at 1.00%	500	500
Notes due 2019 at 1.65%	750	750

Notes due 2020 at 1.75%	500	500
Notes due 2021 at 2.75%	250	250
Notes due 2022 at 1.85%	500	—
Notes due 2023 at 2.25%	500	500
Total debt	3,625	4,125
Net unamortized discounts, premiums and debt issuance costs	(14)	(5)
Total debt, including net unamortized discounts, premiums and debt issuance costs	3,611	4,120
Current portion of long-term debt	(634)	(1,000)
Long-term debt	$ 2,977	$ 3,120

Interest and debt expense was $18 million and $22 million for the third quarters of 2016 and 2015, respectively, and $61 million and $68 million for the first nine months of 2016 and 2015, respectively. This was net of the amortization of the debt discounts, premiums and other debt issuance costs. Capitalized interest was not material.

9. Contingencies

Indemnification guarantees

We routinely sell products with an intellectual property indemnification included in the terms of sale. Historically, we have had only minimal, infrequent losses associated with these indemnities. Consequently, we cannot reasonably estimate any future liabilities that may result.

Warranty costs/product liabilities

We accrue for known product-related claims if a loss is probable and can be reasonably estimated. During the periods presented, there have been no material accruals or payments regarding product warranty or product liability. Historically, we have experienced a low rate of payments on product claims. Although we cannot predict the likelihood or amount of any future claims, we do not believe they will have a material adverse effect on our financial condition, results of operations or liquidity. Typically, our warranties for semiconductor products obligate us to repair, replace or credit the purchase price of a covered product back to the buyer. Product claims may exceed the price of our products.

General

We are subject to various legal and administrative proceedings. Although it is not possible to predict the outcome of these matters, we believe that the results of these proceedings will not have a material adverse effect on our financial condition, results of operations or liquidity.

10. Supplemental financial information

Acquisition charges

We incurred various costs as a result of the 2011 acquisition of National Semiconductor Corporation (National) that are included in Other for segment reporting purposes, consistent with how management measures the performance of its segments. For the three and nine months ended September 30, 2016, and September 30, 2015, Acquisition charges were primarily from the ongoing amortization of intangible assets resulting from the National acquisition. See Note 6 for additional information.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Details on amounts reclassified out of Accumulated other comprehensive income (loss), net of taxes, to Net income

Our Consolidated Statements of Comprehensive Income include items that have been recognized within Net income during the periods ended September 30, 2016, and September 30, 2015. The table below details where in the Consolidated Statements of Income these transactions are recorded.

	For Three Months Ended September 30, 2016	2015	For Nine Months Ended September 30, 2016	2015	Impact to Related Statements of Income Lines
Net actuarial gains (losses) of defined benefit plans:					
Recognized net actuarial loss and Settlement losses (a)	$ 17	$ 19	$ 57	$ 59	Increase to Pension expense (b)
Tax effect	(5)	(6)	(18)	(19)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	$ 12	$ 13	$ 39	$ 40	Decrease to Net income
Prior service (cost) credit of defined benefit plans:					
Amortization of prior service cost (credit) (a)	$ (1)	$ —	$ (4)	$ 2	(Decrease) increase to Pension expense (b)
Tax effect	—	—	1	(1)	Increase (decrease) to Provision for income taxes
Recognized within Net income, net of taxes	$ (1)				