ALLERGAN INC
Form DEFA14A
June 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

x Soliciting Material Pursuant to §240.14a-12

Allergan, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

EXPLANATORY NOTE

In light of the Preliminary Solicitation Statement of PS Fund 1, LLC, a Delaware limited liability company, filed with the Securities and Exchange Commission (the SEC) on June 2, 2014 (the Preliminary Solicitation Statement), Allergan, Inc. (the Company) is filing the attached press releases, presentations and other communications (together, the Prior Communications) as soliciting material pursuant to Rule 14a-12 under the Securities Exchange Act of 1934, as amended. Each of the Prior Communications was issued publicly by the Company and/or filed with the SEC by the Company before the date of filing of the Preliminary Solicitation Statement.

Important Additional Information

The Company, its directors and certain of its officers and employees are participants in solicitations of Company stockholders. Information regarding the names of the Company s directors and executive officers and their respective interests in the Company by security holdings or otherwise is set forth in the Company s proxy statement for its 2014 annual meeting of stockholders, filed with the SEC on March 26, 2014 and as supplemented by the proxy information filed with the SEC on April 22, 2014. Additional information can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 25, 2014 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the SEC on May 7, 2014. To the extent holdings of the Company s securities have changed since the amounts printed in the proxy statement for the 2014 annual meeting of stockholders, such changes have been reflected on Initial Statements of Beneficial Ownership on Form 3 or Statements of Change in Ownership on Form 4 filed with the SEC. These documents are available free of charge at the SEC s website at www.sec.gov.

STOCKHOLDERS ARE ENCOURAGED TO READ ANY COMPANY SOLICITATION STATEMENT (INCLUDING ANY SUPPLEMENTS THERETO) AND ANY OTHER RELEVANT DOCUMENTS THAT THE COMPANY MAY FILE WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Stockholders will be able to obtain, free of charge, copies of any solicitation statement and any other documents filed by the Company with the SEC at the SEC s website at www.sec.gov. In addition, copies will also be available at no charge at the Investors section of the Company s website at www.allergan.com.

FOR IMMEDIATE RELEASE

Allergan Acknowledges Revised, Unsolicited Proposal from Valeant and Pershing Square

Advises Stockholders to Take No Action at This Time

Irvine, Calif., (May 30, 2014) Allergan, Inc. (NYSE: AGN) (Allergan or the Company) today acknowledged that Valeant Pharmaceuticals International, Inc. (Valeant) and Pershing Square Capital Management, L.P. (Pershing Square) have made a second revised, unsolicited proposal to acquire all of the outstanding shares of the Company for a combination of 0.83 of Valeant common shares, $72.00 in cash per share of common stock of the Company, and a Contingent Value Right (CVR) related to DARPin® sales (the Re-Revised Proposal).

Allergan has not yet received the Re-Revised Proposal from Valeant and Pershing Square. When the Company receives the Re-Revised Proposal, the Allergan Board of Directors (the Board) will carefully review and consider it and pursue the course of action that the Board believes is in the best interests of the Company and all of its stockholders. No action by Allergan s stockholders is required at this time.

The Company noted that on April 22, 2014, Valeant proposed acquiring all of the outstanding shares of Allergan for 0.83 shares of Valeant stock and $48.30 in cash (the Original Proposal). On May 12, 2014, after a comprehensive review conducted in consultation with its financial and legal advisors, the Board unanimously concluded that the Original Proposal substantially undervalued Allergan, created significant risks and uncertainties for the stockholders of Allergan, and was not in the best interests of the Company and its stockholders. Today s proposal is a re-revised proposal by both Valeant and Pershing Square updating the offer made by Valeant two days ago on May 28th, 2014 that the Board had not yet responded to.

In a May 27, 2014 investor presentation, Allergan noted a number of important issues regarding the sustainability of Valeant s business model and stock value that Allergan believes are highly relevant considerations for Allergan s stockholders.

Goldman, Sachs & Co. and BofA Merrill Lynch are serving as financial advisors to the Company and Latham & Watkins, Richards, Layton & Finger, P.A. and Wachtell, Lipton, Rosen & Katz are serving as legal counsel to the Company.

About Allergan

Allergan is a multi-specialty health care company established more than 60 years ago with a commitment to uncover the best of science and develop and deliver innovative and meaningful

treatments to help people reach their life s potential. Today, we have approximately 11,600 highly dedicated and talented employees, global marketing and sales capabilities with a presence in more than 100 countries, a rich and ever-evolving portfolio of pharmaceuticals, biologics, medical devices and over-the-counter consumer products, and state-of-the-art resources in R&D, manufacturing and safety surveillance that help millions of patients see more clearly, move more freely and express themselves more fully. From our beginnings as an eye care company to our focus today on several medical specialties, including eye care, neurosciences, medical aesthetics, medical dermatology, breast aesthetics, and urologics, Allergan is proud to celebrate more than 60 years of medical advances and proud to support the patients and customers who rely on our products and the employees and communities in which we live and work. For more information regarding Allergan, go to: www.allergan.com

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements regarding a proposed offer or proposal by Valeant and/or Pershing Square. These forward-looking statements are made as of the date they were first issued and are based on current expectations as well as the beliefs and assumptions of management. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond Allergan s control. Allergan expressly disclaims any intent or obligation to update these forward-looking statements except as required by law. Additional information concerning these and other risks can be found in press releases issued by Allergan, as well as Allergan s public filings with the U.S. Securities and Exchange Commission, including the discussion under the heading Risk Factors in Allergan s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. Copies of Allergan s press releases and additional information about Allergan are available at www.allergan.com or you can contact the Allergan Investor Relations Department by calling 1-714-246-4636.

Allergan Contacts

Bonnie Jacobs, Allergan (714) 246-5134

Joele Frank, Dan Katcher, and Scott Bisang, Joele Frank, Wilkinson Brimmer Katcher (212) 355-4449

FOR IMMEDIATE RELEASE

Allergan Confirms Receipt of Revised, Unsolicited Proposal from Valeant

Advises Stockholders to Take No Action at This Time

Irvine, Calif., (May 28, 2014) Allergan, Inc. (NYSE: AGN) (Allergan or the Company) today confirmed that it has received a revised, unsolicited proposal from Valeant Pharmaceuticals International, Inc. (Valeant) to acquire all of the outstanding shares of the Company for a combination of 0.83 of Valeant common shares, $58.30 in cash per share of common stock of the Company, and a Contingent Value Right (CVR) related to DARPin® sales (the Revised Proposal).

The Allergan Board of Directors (the Board) will carefully review and consider the Revised Proposal and pursue the course of action that the Board believes is in the best interests of the Company and all of its stockholders. No action by Allergan s stockholders is required at this time.

The Company noted that on April 22, 2014, Valeant proposed acquiring all of the outstanding shares of Allergan for 0.83 shares of Valeant stock and $48.30 in cash (the Original Proposal). On May 12, 2014, after a comprehensive review conducted in consultation with its financial and legal advisors, the Board unanimously concluded that the Original Proposal substantially undervalued Allergan, created significant risks and uncertainties for the stockholders of Allergan, and was not in the best interests of the Company and its stockholders.

Following that decision and in order to address questions and concerns raised by Allergan s stockholders, the Company retained two nationally-recognized financial consultants and forensic accountants, Alvarez & Marsal and FTI Consulting, to evaluate the inherent value of Valeant s business model and stock. As part of this review, Allergan filed an investor presentation with the Securities and Exchange Commission on May 27, 2014 detailing the analysis of publicly-available data on Valeant and, among other things, the opaque nature of Valeant s pro-forma driven financial reporting. The presentation addresses a number of important issues regarding the sustainability of Valeant s business model and stock value that Allergan believes are highly relevant considerations for Allergan s stockholders.

Goldman, Sachs & Co. and BofA Merrill Lynch are serving as financial advisors to the Company and Latham & Watkins, Richards, Layton & Finger, P.A. and Wachtell, Lipton, Rosen & Katz are serving as legal counsel to the Company.

About Allergan

Allergan is a multi-specialty health care company established more than 60 years ago with a commitment to uncover the best of science and develop and deliver innovative and meaningful treatments to help people reach their life s potential. Today, we have approximately 11,600 highly dedicated and talented employees, global marketing and sales capabilities with a presence in more than 100 countries, a rich and ever-evolving portfolio of pharmaceuticals, biologics, medical devices and over-the-counter consumer products, and state-of-the-art resources in R&D, manufacturing and safety surveillance that help millions of patients see more clearly, move more freely and express themselves more fully. From our beginnings as an eye care company to our focus today on several medical specialties, including eye care, neurosciences, medical aesthetics, medical dermatology, breast aesthetics, and urologics, Allergan is proud to celebrate more than 60 years of medical advances and proud to support the patients and customers who rely on our products and the employees and communities in which we live and work. For more information regarding Allergan, go to: www.allergan.com

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements regarding a proposed offer or proposal by Valeant and/or Pershing Square. These forward-looking statements are made as of the date they were first issued and are based on current expectations as well as the beliefs and assumptions of management. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond Allergan s control. Allergan expressly disclaims any intent or obligation to update these forward-looking statements except as required by law. Additional information concerning these and other risks can be found in press releases issued by Allergan, as well as Allergan s public filings with the U.S. Securities and Exchange Commission, including the discussion under the heading Risk Factors in Allergan s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. Copies of Allergan s press releases and additional information about Allergan are available at www.allergan.com or you can contact the Allergan Investor Relations Department by calling 1-714-246-4636.

Allergan Contacts

Bonnie Jacobs, Allergan (714) 246-5134

Joele Frank, Dan Katcher, and Scott Bisang, Joele Frank, Wilkinson Brimmer Katcher (212) 355-4449

Allergan Files Investor Presentation Detailing Concerns About the Sustainability of Valeant s

Business Model

Presentation Raises Significant Issues to be Considered

When Evaluating the Value of Valeant s Equity

Irvine, Calif., (May 27, 2014) Allergan, Inc. (NYSE: AGN) (Allergan or the Company) today announced that it has filed an investor presentation with the Securities and Exchange Commission (SEC) and posted the presentation under the Investors section of the Company s website detailing its initial concerns about the sustainability of Valeant Pharmaceuticals International, Inc. s (Valeant) business model.

Allergan retained two nationally-recognized financial consultants and forensic accountants, Alvarez & Marsal and FTI Consulting, to evaluate certain concerns about the inherent value of Valeant s business model and stock. With the assistance of these two independent firms, and in response to feedback from numerous Allergan stockholders and analysts, Allergan and its legal and financial advisors carefully analyzed publicly available data on Valeant and the opaque nature of Valeant s pro-forma driven financial reporting.

The presentation raises a number of important issues about Valeant s business model and stock value that Allergan s stockholders need to be aware of.

¡ **What is Valeant s real organic growth?**

Allergan believes that Valeant s organic sales growth, which is primarily driven by price increases, is overstated based on changing definitions and classifications with no disclosure of key products. The pro-forma revenue growth from Valeant s SEC filings paints a picture far different from what is communicated to investors. Valeant s pro-forma revenue growth including acquisitions for fiscal year 2013 was -0.5%. In the first quarter of 2014, the growth rate declined to -1.4%.

¡ **How have the two largest Valeant acquisitions (Bausch & Lomb and Medicis) performed under Valeant s ownership? How have other acquisitions performed?**

Analysis based upon data acquired from IMS FIRST, a provider of top-line information about pharmaceutical companies and the largest vendor of U.S. physician prescribing data, raises concerns about the source of Bausch & Lomb s growth. This analysis indicates substantial erosion in units sold for three out of four of Bausch & Lomb s largest prescription ophthalmic products, for which Valeant compensates with significant list price increases.

The Medicis business is losing market share and increasing prices at, we believe, an unsustainable pace. Since Valeant acquired Medicis, Allergan has rapidly accelerated its capture of market share. Over this

same timeframe, Valeant increased prices for Medicis six largest products by a significant and, we believe, unsustainable amount.

- **Does Valeant have any experience promoting products of Allergan s scale?**

Valeant s limited experience with large, global scale products represents a material execution risk attempting to grow Allergan s categories and launching significant new large products through existing channels. Allergan would be Valeant s largest acquisition and the synergies proposed by Valeant are the most aggressive to date. Botox s annual sales are more than seven times greater than each of Valeant s largest products, Zovirax and Wellbutrin, which are declining or stagnant.

- **How stable is Valeant s management team?**

The only executive officers continuing to serve at Valeant since 2011 are J. Michael Pearson and Robert R. Chai-Onn. Seven executive officers have departed over this period. In addition, three Board members, Fred Hassan, G. Mason Morfit and Lloyd M. Segal, recently resigned, with two citing potential conflicts - one of whom withdrew after a tenure of less than a year.

- **Can Valeant cut $2.7bn of Allergan s expenses without disrupting the performance of the business?**

Valeant will only be able to achieve a fraction of its stated SG&A and R&D synergies without destroying Allergan s near-term and long-term value. Valeant has indicated it will maintain R&D required for post-approval and maintenance, product line extensions and late phase projects, but drastically underestimates the spend required by approximately $350 million. Moreover, Valeant s purported SG&A synergies are unrealistic given Valeant s goals, as communicated in numerous letters to its customers: I want to reassure all of you that we remain committed to investing in you and in the fields of Dermatology, Aesthetics and Eye Care.[1]

- **What is the relative distribution strength of Allergan vs. Valeant in important emerging markets (BRICs)?**

In the BRIC Countries, Allergan s sales are approximately 4 times larger than Bausch & Lomb s prescription ophthalmic sales. While Valeant boasts market growth in emerging markets, it is important to clarify that these are smaller markets with less revenue potential.

- **Is Valeant s low tax rate sustainable?**

Valeant s multiple off-shore tax deferral structures are aggressive, difficult to sustain and compound risk in multiple jurisdictions. No other pharmaceutical or healthcare peers that have recently re-domiciled outside the U.S. have achieved tax rates nearly as low as Valeant, which suggests that Valeant s tax strategies are abnormally aggressive.

- **Are Valeant s accounting practices clearly consistent with others in the industry?**

Valeant s management team, which seems to change reporting methodology when convenient, has realigned Valeant s segment reporting structure three times in the past three years, decreasing the level of disaggregation each time. Furthermore, in a survey conducted by an independent consultant, Valeant was the only company that organizes segments on a geographic basis.

[1] Permission to use quotations was neither sought nor obtained.

- **Is a business model centered on a serial acquisition and cost cutting strategy sustainable?**

Valeant s model of taking on debt to serially acquire companies will become incrementally harder to do as interest rates move higher. While appearing on CNBC on May 15, 2014, Jim Chanos, president and founder of Kynikos Associates, noted many of the same issues other Allergan stockholders expressed, stating, Roll ups are generally accounting-driven, and we certainly think that s the case in [Valeant]. We think [Valeant] is playing some very aggressive accounting games when they buy companies, write down the assets, and also engaged in what we call spring-loading.[1] Allergan expressed these concerns as well.

Alvarez & Marsal and FTI Consulting are acting as Allergan s financial consultants and forensic accountants.

Goldman, Sachs & Co. and BofA Merrill Lynch are serving as financial advisors to the Company and Latham & Watkins, Richards, Layton & Finger, P.A. and Wachtell, Lipton, Rosen & Katz are serving as legal counsel to the Company.

About Allergan

Allergan is a multi-specialty health care company established more than 60 years ago with a commitment to uncover the best of science and develop and deliver innovative and meaningful treatments to help people reach their life s potential. Today, we have approximately 11,600 highly dedicated and talented employees, global marketing and sales capabilities with a presence in more than 100 countries, a rich and ever-evolving portfolio of pharmaceuticals, biologics, medical devices and over-the-counter consumer products, and state-of-the-art resources in R&D, manufacturing and safety surveillance that help millions of patients see more clearly, move more freely and express themselves more fully. From our beginnings as an eye care company to our focus today on several medical specialties, including eye care, neurosciences, medical aesthetics, medical dermatology, breast aesthetics, and urologics, Allergan is proud to celebrate more than 60 years of medical advances and proud to support the patients and customers who rely on our products and the employees and communities in which we live and work. For more information regarding Allergan, go to: www.allergan.com

Important Information

Information contained in this press release regarding Valeant is taken directly from the information publicly disclosed by Valeant and we do not make any representations or warranties, either express or implied, with respect to such information s accuracy or completeness. In addition, certain other information contained in this press release is based on publicly available sources as of the date of this press release, and while we have no reason to believe that such information is not accurate, we can provide no such assurances with respect thereto. IMS data used in this press release has been purchased from IMS Health, a provider of healthcare information. The information in this press release represents the opinions of Allergan and investors and stockholders should make their own independent investigations of the matters referenced in this press release and draw their own conclusions.

Allergan Contacts

Bonnie Jacobs, Allergan (714) 246-5134

Joele Frank, Dan Katcher, and Scott Bisang, Joele Frank, Wilkinson Brimmer Katcher (212) 355-4449

[1] Permission to use quotations was neither sought nor obtained.

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

$

668

$

656

Income allocated to RSUs

(9

)

(9

)

Income allocated to common stock for diluted EPS

$

659

$

647

See accompanying notes.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Millions of dollars)	For Three Months Ended March 31, 2016	2015
Net income	$ 668	$ 656
Other comprehensive income (loss), net of taxes:		
Net actuarial gains (losses) of defined benefit plans:		
Adjustments	(12)	(10)
Recognized within Net income	14	10
Prior service (cost) credit of defined benefit plans:		
Recognized within Net income	(1)	1
Other comprehensive income (loss)	1	1
Total comprehensive income	$ 669	$ 657

See accompanying notes.

3

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets (Millions of dollars, except share amounts)	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 1,281	$ 1,000
Short-term investments	1,519	2,218
Accounts receivable, net of allowances of ($11) and ($7)	1,269	1,165
Raw materials	105	109
Work in process	888	846
Finished goods	812	736
Inventories	1,805	1,691
Prepaid expenses and other current assets	785	1,000
Total current assets	6,659	7,074
Property, plant and equipment at cost	5,290	5,465
Accumulated depreciation	(2,736)	(2,869)
Property, plant and equipment, net	2,554	2,596
Long-term investments	220	221
Goodwill, net	4,362	4,362
Acquisition-related intangibles, net	1,503	1,583
Deferred income taxes	175	201
Capitalized software licenses, net	53	46
Overfunded retirement plans	84	85
Other assets	76	62
Total assets	$ 15,686	$ 16,230
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 1,249	$ 1,000
Accounts payable	387	386
Accrued compensation	340	664
Income taxes payable	67	95
Accrued expenses and other liabilities	377	410
Total current liabilities	2,420	2,555
Long-term debt	2,869	3,120
Underfunded retirement plans	195	196
Deferred income taxes	38	37
Deferred credits and other liabilities	382	376
Total liabilities	5,904	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	1,558	1,629
Retained earnings	31,457	31,176
Treasury common stock at cost		

Shares: March 31, 2016 – 734,244,179; December 31, 2015 – 729,547,527	(24,443)	(24,068)
Accumulated other comprehensive income (loss), net of taxes (AOCI)	(531)	(532)
Total stockholders’ equity	9,782	9,946
Total liabilities and stockholders’ equity	$ 15,686	$ 16,230

See accompanying notes.

4

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Millions of dollars)	For Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net income	$ 668	$ 656
Adjustments to Net income:		
Depreciation	161	203
Amortization of acquisition-related intangibles	80	80
Amortization of capitalized software	8	13
Stock-based compensation	72	78
Gains on sales of assets	—	(1)
Deferred income taxes	24	1
Increase (decrease) from changes in:		
Accounts receivable	(100)	(154)
Inventories	(114)	(60)
Prepaid expenses and other current assets	43	54
Accounts payable and accrued expenses	(104)	(108)
Accrued compensation	(322)	(294)
Income taxes payable	131	147
Changes in funded status of retirement plans	18	19
Other	(18)	(25)
Cash flows from operating activities	547	609
Cash flows from investing activities		
Capital expenditures	(124)	(123)
Proceeds from asset sales	—	1
Purchases of short-term investments	(200)	(335)
Proceeds from short-term investments	900	615
Other	(3)	—
Cash flows from investing activities	573	158
Cash flows from financing activities		
Dividends paid	(383)	(356)
Stock repurchases	(630)	(670)
Proceeds from common stock transactions	131	246
Excess tax benefit from share-based payments	43	56
Cash flows from financing activities	(839)	(724)
Net change in Cash and cash equivalents	281	43
Cash and cash equivalents at beginning of period	1,000	1,199
Cash and cash equivalents at end of period	$ 1,281	$ 1,242

See accompanying notes.

5

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 March 31,	
	2016	2015
Revenue:		
Analog	$ 1,879	$ 2,035
Embedded Processing	729	672
Other	400	443
Total revenue	$ 3,008	$ 3,150
Operating profit:		
Analog	$ 679	$ 721
Embedded Processing	182	123
Other	107	114
Total operating profit	$ 968	$ 958

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 March 31, 2016 and 2015, and the Consolidated Balance Sheet as of March 31, 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-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 March 31,					
	2016			2015		
	Net Income	Shares	EPS	Net Income	Shares	EPS
Basic EPS:						
Net income	$ 668			$ 656		
Income allocated to RSUs	(9)			(9)		
Income allocated to common stock for basic EPS calculation	$ 659	1,007	$ .65	$ 647	1,046	$ .62
Adjustment for dilutive shares:						
Stock-based compensation plans		11			15	
Diluted EPS:						
Net income	$ 668			$ 656		
Income allocated to RSUs	(9)			(9)		
Income allocated to common stock for diluted EPS calculation	$ 659	1,018	$ .65	$ 647	1,061	$ .61

Potentially dilutive securities representing 22 million and 12 million shares of common stock that were outstanding during the first quarters 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 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 March 31, 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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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 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.

3. Restructuring charges/other

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

Restructuring charges

For the three months ended March 31, 2016, we incurred $2 million in restructuring charges 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 $19 million has been recognized through March 31, 2016. The remaining charges are expected to be recognized through the end of 2018. As of March 31, 2016, no payments have been made.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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 $29 million balance as of March 31, 2016, is composed of $17 million related to the Scotland facility and $12 million related to prior actions.

Balance, December 31, 2015	$	32
Restructuring charges		2
Payments		(3)
Non-cash items (a)		(2)
Balance, March 31, 2016	$	29

(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 March 31, 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 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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Details of our investments are as follows:

	March 31, 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	$ 536	$ —	$ —	$ 395	$ —	$ —
Corporate obligations	146	255	—	132	285	—
U.S. Government agency and Treasury securities	370	1,264	—	245	1,933	—
Trading securities:						
Mutual funds	—	—	186	—	—	187
Total	1,052	1,519	186	772	2,218	187
Other measurement basis:						
Equity-method investments	—	—	25	—	—	25
Cost-method investments	—	—	9	—	—	9
Cash on hand	229	—	—	228	—	—
Total	$ 1,281	$ 1,519	$ 220	$ 1,000	$ 2,218	$ 221

At March 31, 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 three months ended March 31, 2016, and March 31, 2015.

For the three months ended March 31, 2016, and March 31, 2015, the proceeds from sales, redemptions and maturities of short-term available-for-sale investments were $900 million and $615 million, 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 March 31, 2016:

Due	Fair Value
One year or less	$ 2,541
One to two years	30

Other-than-temporary declines and impairments in the values of long-term investments recognized in OI&E were not material in the three months ended March 31, 2016, and March 31, 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.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

- 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 March 31, 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 March 31, 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 March 31, 2016	Level 1	Level 2
Assets:			
Money market funds	$ 536	$ 536	$ —
Corporate obligations	401	—	401
U.S. Government agency and Treasury securities	1,634	1,104	530
Mutual funds	186	186	—
Total assets	$ 2,757	$ 1,826	$ 931
Liabilities:			
Deferred compensation	$ 202	$ 202	$ —
Total liabilities	$ 202	$ 202	$ —

	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	$ —

6. Goodwill and acquisition-related intangibles

Goodwill, net, was $4.36 billion as of March 31, 2016, and December 31, 2015. There was no impairment of goodwill during the three months ended March 31, 2016, and March 31, 2015.

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

	Amortization Period (Years)	March 31, 2016 Gross Carrying Amount	Accumulated Amortization	Net	December 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	7 - 10	$ 2,131	$ 982	$ 1,149	$ 2,131	$ 928	$ 1,203
Customer relationships	8	810	456	354	810	431	379
Other intangibles	n/a	—	—	—	3	2	1
Total		$ 2,941	$ 1,438	$ 1,503	$ 2,944	$ 1,361	$ 1,583

Amortization of acquisition-related intangibles was $80 million for the three months ended March 31, 2016, and March 31, 2015, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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 March 31,	2016	2015	2016	2015	2016	2015
Service cost	$ 5	$ 6	$ 1	$ 1	$ 8	$ 9
Interest cost	11	10	5	5	13	13
Expected return on plan assets	(10)	(12)	(5)	(5)	(17)	(19)
Recognized net actuarial loss	5	5	2	2	6	6
Amortization of prior service cost (credit)	—	—	(1)	1	—	—
Net periodic benefit costs	11	9	2	4	10	9
Settlement losses	6	1	—	—	1	—
Total	$ 17	$ 10	$ 2	$ 4	$ 11	$ 9

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 March 31, 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 March 31, 2016, our credit facility was undrawn and we had no commercial paper outstanding.

Long-term debt

Long-term debt outstanding as of March 31, 2016, and December 31, 2015 is as follows:

	March 31, 2016	December 31, 2015
Notes due 2016 at 2.375%	$ 1,000	$ 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 2023 at 2.25%	500	500
Total debt	4,125	4,125
Net unamortized discounts, premiums and debt issuance costs	(7)	(5)
Total debt, including net unamortized discounts, premiums and debt issuance costs	4,118	4,120
Current portion of long-term debt	(1,249)	(1,000)
Long-term debt	$ 2,869	$ 3,120

Interest and debt expense was $22 million for the three months ended March 31, 2016, and March 31, 2015. 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 months ended March 31, 2016, and March 31, 2015, Acquisition charges were primarily from the ongoing amortization of intangible assets resulting from the National acquisition. See Note 6 for additional information.

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 March 31, 2016, and March 31, 2015. The table below details where on the Consolidated Statements of Income these transactions are recorded.

	For Three Months Ended March 31,		
	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)	$ 20	$ 14	Increase to Pension expense (b)
Tax effect	(6)	(4)	Decrease to Provision for income taxes
Recognized within Net income, net of taxes	$ 14	$ 10	Decrease to Net income
Prior service (cost) credit of defined benefit plans:			
Amortization of prior service cost (credit) (a)	$ (1)	$ 1	(Decrease) increase to Pension expense (b)
Tax effect	—	—	Increase (decrease) to Provision for income taxes
Recognized within Net income, net of taxes	$ (1)	$ 1	(Increase) decrease to Net income

(a) Detailed in Note 7.
(b) Pension expense is included in COR, R&D and SG&A in the Consolidated Statements of Income.

ITEM 2. 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. Together, 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:
  - Unless otherwise noted, changes in our revenue are attributable to changes in customer demand, which are evidenced by fluctuations in shipment volumes.
  - 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.
  - 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.
  - 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.

- 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.

Performance summary

Our first-quarter revenue was $3.01 billion, net income was $668 million and earnings per share (EPS) were $0.65.

Revenue for the quarter was in the upper half of our expected range. Compared with a year ago, notable market activity for our products included continuing strength in automotive, as well as improvement in industrial and communications equipment. Revenue was down 5 percent due to weakness within the personal electronics market, which declined as expected.

Our core businesses of Analog and Embedded Processing comprised 87 percent of first-quarter revenue. From a year ago, Analog revenue declined 8 percent while Embedded Processing revenue grew 8 percent. Operating margin increased in both businesses.

Gross margin of 60.6 percent was a new record, reflecting the quality of our product portfolio, as well as the efficiency of our manufacturing strategy, including the benefit of 300-millimeter Analog production.

Our cash flow from operations once again underscored the strength of our business model. Free cash flow for the trailing 12 months was up 1 percent from a year ago to $3.7 billion. This represents 28.4 percent of revenue, up from 27.3 percent a year ago, and is consistent with our targeted range of 20-30 percent of revenue.

We have returned $4.2 billion to shareholders in the past 12 months through stock repurchases and dividends.

Our strategy to return to shareholders 100 percent of free cash flow plus proceeds from exercises of equity compensation minus net debt retirement reflects our confidence in the long-term sustainability of our business model.

Our balance sheet remains strong with $2.8 billion of cash and short-term investments at the end of the quarter, 80 percent of which was owned by the company’s U.S. entities. Inventory ended the quarter at 137 days.

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.

Results of operations – first-quarter 2016 compared with first-quarter 2015

Revenue decreased $142 million, or 5 percent, due to lower revenue from Analog, and to a lesser extent, Other. Embedded Processing revenue grew.

Gross profit of $1.82 billion was about even despite lower revenue primarily due to a combination of lower manufacturing costs and, to a lesser extent, a higher percentage of more profitable products. As a percentage of revenue, gross profit was 60.6 percent compared with 57.7 percent.

Operating expenses were $326 million for R&D and $448 million for SG&A. R&D expense decreased $12 million, or 4 percent, due to savings from ongoing efforts across the company to align costs with growth opportunities, including the completed restructuring action in Embedded Processing. SG&A expense increased $9 million, or 2 percent, due to higher compensation-related costs.

Acquisition charges associated with our 2011 acquisition of National were $80 million compared with $83 million. These non-cash charges were from the ongoing amortization of intangible assets.

Operating profit was $968 million, or 32.2 percent of revenue, compared with $958 million, or 30.4 percent of revenue.

Quarterly income taxes are calculated using the estimated annual effective tax rate. At the end of the first quarter, our estimated annual effective tax rate for 2016 was about 30 percent. Our annual effective tax rate benefits from lower tax 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.

Our tax provision was $282 million, about even with the year-ago quarter.

Net income was $668 million compared with $656 million, and EPS was $0.65 compared with $0.61.

First-quarter 2016 segment results

Our segment results compared with the year-ago quarter are as follows:

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

	1Q16	1Q15	Change
Revenue	$1,879	$2,035	-8%
Operating profit	679	721	-6%
Operating profit % of revenue	36.1%	35.4%	

Analog revenue decreased primarily due to HVAL. Power and HPA also declined, but to a lesser extent. SVA revenue increased due to the mix of products shipped. Operating profit decreased primarily due to lower revenue, which was partially offset by lower manufacturing costs and a higher percentage of more profitable products.

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

	1Q16	1Q15	Change
Revenue	$729	$672	8%
Operating profit	182	123	48%
Operating profit % of revenue	25.0%	18.3%	

Embedded Processing revenue increased in all three product lines, led by Processors. Connectivity and Microcontrollers increased, but to a lesser extent. The increases in Processors and Microcontrollers were primarily due to the mix of products shipped. Operating profit increased primarily due to higher revenue and associated gross profit, as well as lower operating expenses.

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

	1Q16	1Q15	Change
Revenue	$400	$443	-10%
Operating profit*	107	114	-6%
Operating profit % of revenue	26.8%	25.7%	

* Includes Acquisition charges and Restructuring charges/other

Other revenue decreased primarily due to custom ASICs. Operating profit decreased by $7 million.

Financial condition

At the end of the first quarter of 2016, total cash (Cash and cash equivalents plus Short-term investments) was $2.80 billion, a decrease of $418 million from the end of 2015.

Accounts receivable were $1.27 billion, an increase of $104 million compared with the end of 2015. Days sales outstanding were 38 at the end of the first quarter compared with 33 at the end of 2015.

Inventory was $1.81 billion, an increase of $114 million from the end of 2015. Days of inventory at the end of the first quarter were 137 compared with 115 at the end of 2015. The days increased as we staged our inventory for increased shipments in the second quarter. Also included were 3 to 4 days associated with the portion of the personal electronics market that started slowing late in the fourth quarter of 2015. We expect to ship this material later in the year.

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 the first quarter of 2016 was $547 million, a decrease of $62 million from the year-ago period primarily due to an increase in cash used for 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 2021. This credit facility also serves as support for the issuance of commercial paper. As of March 31, 2016, our credit facility was undrawn, and we had no commercial paper outstanding.

For the first three months of 2016, investing activities provided $573 million compared with $158 million in the year-ago period. Capital expenditures were $124 million, about even with the year-ago period, and were primarily for semiconductor manufacturing equipment. We received proceeds from sales of short-term investments, net of purchases, of $700 million, compared with $280 million in the year-ago period.

For the first three months of 2016, financing activities used cash of $839 million compared with $724 million in the year-ago period. We paid dividends of $383 million compared with $356 million in the year-ago period, reflecting an increase in the dividend rate, partially offset by fewer shares outstanding. We used $630 million to repurchase 12.4 million shares of our common stock, compared with $670 million used in the year-ago period to repurchase 12.0 million shares. Employee exercises of stock options provided cash proceeds of $131 million compared with $246 million in the year-ago period.

On April 29, 2016, we agreed to issue $500 million principal amount of debt, which we expect to use for repayment of a portion of maturing debt. The offering is expected to close on May 6, 2016.

We had $1.28 billion of Cash and cash equivalents and $1.52 billion of Short-term investments as of March 31, 2016. 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 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.

	For 12 Months Ended March 31,

	2016	2015	Change
Cash flow from operations (GAAP)	$4,206	$4,039	4%
Capital expenditures	(552)	(431)	
Free cash flow (non-GAAP)	$3,654	$3,608	1%
Revenue	$12,858	$13,212	
Cash flow from operations as a percent of revenue (GAAP)	32.7%	30.6%	
Free cash flow as a percent of revenue (non-GAAP)	28.4%	27.3%	

Long-term contractual obligations

Information regarding long-term debt obligations is described in the long-term contractual obligations table in Item 7 of our Form 10-K for the year ended December 31, 2015.

Changes in accounting standards

See Note 2 to the financial statements for detailed information regarding the status of new accounting and reporting standards.

ITEM 4. Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective. In addition, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1A. Risk Factors.

Information concerning our risk factors is contained in Item 1A of our Form 10-K for the year ended December 31, 2015, and is incorporated by reference herein.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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

ISSUER PURCHASES OF EQUITY SECURITIES

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]
January 1, 2016 through January 31, 2016	8,812,616	$ 51.05	8,812,616	7.48 billion
February 1, 2016 through February 29, 2016	3,547,824	50.77	3,547,824	7.30 billion
March 1, 2016 through March 31, 2016	—	—	—	7.30 billion
Total	12,360,440 [2]	$ 50.97	12,360,440 [2]	7.30 billion [3]

[1] All purchases during the quarter were made either 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 (of which approximately $430 million was available on January 1, 2016) or under the $7.5 billion authorization authorized on September 17, 2015.

[2] All purchases during the quarter were open-market purchases.

[3] As of March 31, 2016, this amount consisted of the remaining portion of the $7.5 billion authorized in September 2015. No expiration date has been specified for this authorization.

ITEM 6. Exhibits.

Designation of Exhibits in This Report	Description of Exhibit
3(a)	Restated Certificate of Incorporation of the Registrant, dated April 18, 1985, as amended (incorporated by reference to Exhibit 3(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
3(b)	By-Laws of the Registrant (incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014).
31(a)	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e). †
31(b)	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e). †
32(a)	Certification by Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. †
32(b)	Certification by Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350. †
101.ins	XBRL Instance Document†
101.def	XBRL Taxonomy Extension Definition Linkbase Document†
101.sch	XBRL Taxonomy Extension Schema Document†
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document†
101.lab	XBRL Taxonomy Extension Label Linkbase Document†
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document†

† Filed or furnished herewith.

Notice regarding forward-looking statements

This report includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as TI or its management "believes," "expects," "anticipates," "foresees," "forecasts," "estimates" or other words c phrases of similar import. Similarly, statements herein that describe TI's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in forward-looking statements.

We urge you to carefully consider the following important factors that could cause actual results to differ materially from the expectations of TI or its management:

- Market demand for semiconductors, particularly in TI's end markets;
- TI's ability to compete in products and prices in an intensely competitive industry;
- Losses or curtailments of purchases from key customers and the timing and amount of distributor and other customer inventory adjustments;
- Customer demand that differs from forecasts and the financial impact of inadequate or excess TI inventory that results from demand that differs from projections;
- TI's ability to maintain or improve profit margins, including its ability to utilize its manufacturing facilities at sufficient levels to cover its fixed operating costs, in an intensely competitive and cyclical industry;
- TI's ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- Economic, social and political conditions in the countries in which TI, its customers or its suppliers operate, including security risks, health conditions, possible disruptions in transportation, communications and information technology networks and fluctuations in foreign currency exchange rates;
- Natural events such as severe weather, geological events or health epidemics in the locations in which TI, its customers or its suppliers operate;
- Breaches of TI's information technology systems or those of its customers or suppliers;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- Timely implementation of new manufacturing technologies and installation of manufacturing equipment, and the ability to obtain needed third-party foundry and assembly/test subcontract services;
- TI's ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties, expiration of license agreements between TI and its patent licensees, and market conditions reducing royalty payments to TI;
- Compliance with or changes in the complex laws, rules and regulations to which TI is or may become subject, or actions of enforcement authorities, that restrict TI's ability to manufacture its products or operate its business, or subject us to fines, penalties, or other legal liability;
- Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to TI products, manufacturing, services, design or communications, or recalls by TI customers for a product containing a TI part;
- Changes in the tax rate applicable to TI as the result of changes in tax law, the jurisdictions in which profits are determined to be earned and taxed, adverse resolution of tax audits and the ability to realize deferred tax assets;
- Financial difficulties of distributors or their promotion of competing product lines to TI's detriment;
- A loss suffered by a customer or distributor of TI with respect to TI-consigned inventory;
- Instability in the global credit and financial markets that affects TI's ability to fund its daily operations, invest in the business, make strategic acquisitions, or make principal and interest payments on its debt;

- Increases in health care and pension benefit costs;
- TI's ability to recruit and retain skilled personnel;
- TI's ability to successfully integrate and realize opportunities for growth from acquisitions, and its ability to realize its expectations regarding the amount and timing of restructuring charges and associated cost savings; and
- Impairments of TI's non-financial assets.

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of our most recent Form 10-K. The forward-looking statements included in this report are made only as of the date of this report, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances. If we do update any forward-looking statement, you should not infer that we will make additional updates with respect to that statement or any other forward-looking statement.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS INSTRUMENTS INCORPORATED

BY /s/ Kevin P. March
Kevin P. March
Senior Vice President and
Chief Financial Officer

Date: May 4, 2016

22