UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from __________ to __________

Commission File Number 1-3761

TEXAS INSTRUMENTS INCORPORATED
(Exact name of Registrant as specified in its charter)

Delaware	**75-0289970**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
12500 TI Boulevard, P.O. Box 660199, Dallas, Texas	**75266-0199**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's Telephone Number, Including Area Code: 972-995-3773

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $43,524,868,296 as of June 30, 2006.

1,443,427,201 (Number of shares of common stock outstanding as of January 31, 2007)

Parts I, II and IV hereof incorporate information by reference to the Registrant's 2006 annual report to stockholders. Part III hereof incorporates information by reference to the Registrant's proxy statement for the 2007 annual meeting of stockholders.

PART I

ITEM 1.   Business.

Company Overview

Texas Instruments Incorporated (TI) is headquartered in Dallas, Texas, and has manufacturing, design or sales operations in more than 25 countries. We had two separate business segments in 2006: 1) Semiconductor, which accounted for 96 percent of our revenue and 2) Education Technology, which accounted for 4 percent of our revenue.

The year saw changes in our segments. In January we entered into a definitive agreement to sell our former Sensors & Controls business, and its results were reported as a discontinued operation. The sale closed on April 27, 2006. At the end of the year, we decided to rename a segment to reflect its strategic focus; Educational & Productivity Solutions became Education Technology.

Financial information with respect to TI's business segments and operations outside the United States is contained in the note to the financial statements captioned "Segment and Geographic Area Data" on pages 32 and 33 of TI's 2006 annual report to stockholders. It is incorporated herein by reference to such annual report.

The company began operations in 1930 and is incorporated in Delaware.

Semiconductor Segment

Semiconductors are electronic components that serve as the building blocks inside of modern electronic systems and equipment. Semiconductors come in two basic forms: individual transistors and integrated circuits (generally known as "chips") that combine different transistors on a single piece of material to form a complete electronic circuit. Our Semiconductor segment designs, manufactures and sells integrated circuits.

The global semiconductor market is characterized by constant, though generally incremental, advances in product designs and manufacturing methods. Typically, new chips are produced in limited quantities at first and then ramp to high-volume production over time. Chip prices and manufacturing costs tend to decline over time as manufacturing methods and product life cycles mature.

The "semiconductor cycle" is an important concept that refers to the ebb and flow of supply and demand. The semiconductor market historically has been characterized by periods of tight supply caused by strong demand and/or insufficient manufacturing capacity, followed by periods of surplus products caused by declining demand and/or excess manufacturing capacity. This cycle is affected by the significant time and money required to build and maintain semiconductor manufacturing facilities.

We were the world's third largest semiconductor company in 2006 as measured by revenue, according to preliminary estimates from iSuppli Corporation, an industry analyst. Historically, our Semiconductor segment averages a significantly higher growth rate than our Education Technology segment.

The majority of our Semiconductor revenue comes from our core products, which are analog semiconductors and digital signal processors, or DSPs. These products enhance, and often make possible, a variety of applications that serve the communications, computer, consumer electronics, automotive and industrial markets. We believe that virtually all of today's digital electronic equipment requires some form of analog or digital signal processing.

We also design and manufacture other types of semiconductors, such as DLP® products that enable exceptionally clear video, and microprocessors that serve as the brains of high-end computer servers.

Knowledge about the systems our products go into is becoming increasingly important, because it enables us to differentiate our product offerings for our customers. Where a customer may previously have required multiple chips for a system to operate, we are now integrating the functionality of those multiple chips onto a few or even a single chip because we have both the system-level knowledge and the manufacturing technology to do so. An example is our single-chip cell phone solution, which combines the functionality of many separate chips onto one. The digitization of electronics also requires more high-performance analog functionality. With expertise in both digital signal processing and analog at the system level, we believe we are one of a very few semiconductor companies capable of integrating both technologies onto a single chip.

In addition, we enable our customers, particularly original design manufacturers (ODMs), to take advantage of our system-level knowledge and thereby speed their time to market by making available to them standard chipsets and reference designs. (An ODM designs and manufactures products for other companies; those other companies then sell the products under their

own brands. A chipset is a group of integrated circuits based principally on our technology that are designed to work together for a specific application and are therefore packaged and sold as a unit. Reference designs are technical blueprints that contain all the essential elements of a system.) Customers using our reference designs, such as cell-phone ODMs, may enhance or modify the design as required. Our ability to deliver integrated solutions and system-level knowledge allows our customers to create more advanced systems and products.

In each of our product categories, we face significant competition. We believe that competitive performance in the semiconductor market depends upon several factors, including the breadth of a company's product line as well as technological innovation, quality, reliability, price, customer service, technical support and scale.

Following is detailed information on each product category:

Analog

Analog semiconductors process "real world" inputs, such as sound, temperature, pressure and visual images, conditioning them, amplifying them and converting them into digital signals. They also assist in the management of power distribution and consumption, aspects critical to today's portable electronic devices.

The analog semiconductor market is diverse and complex, and it is one of the largest sectors of the semiconductor industry. We are the world's largest supplier of analog semiconductors. Analog chips generated about 40 percent of our Semiconductor revenue in 2006.

Our analog product portfolio includes custom mixed-signal products that are designed to a particular customer's or application's specifications. These products account for about 55 percent of our analog revenue. The remainder of our analog revenue comes from standard products that are sold across a range of customers and applications. About 40 percent of our analog revenue is from high-performance standard products and about 5 percent is from commodity standard products.

Many of our custom and standard products are proprietary and difficult for competitors to imitate. Many standard analog chips tend to have long life spans.

Our mixed-signal products combine multiple types of analog functionality or analog and digital functions on a single chip. Purchasers of our custom mixed-signal products tend to be very large companies that require high-volume designs for specific applications such as communications, displays, printers and automotive. Entry into this market requires significant up-front investment as well as expertise in both analog and digital functionality. A primary competitive factor in this market is manufacturing expertise and scale.

In the standard analog chip sub-category known as high-performance analog, we have a portfolio of about 15,000 products, including data converters, amplifiers, power management devices and interface chips. Our high-performance analog products are used by more than 50,000 customers. These products are sold primarily through distributors. Prices in this market tend to be stable, with relatively high gross profit margins. The primary competitive factors are a diverse product portfolio to meet wide-ranging customer needs, and manufacturing process technologies that allow us to provide differentiated levels of performance. Products with higher levels of performance tend to command a premium price.

Other standard analog chips are commodity in nature. We design and manufacture thousands of low-cost, high-volume standard products that are sold primarily through distributors. End applications are very diverse and include portable electronic devices and communications. The primary competitive factors in this market are price and availability. Pricing is strongly influenced by supply and demand.

Overall in the analog market, we compete globally with numerous large and small companies, both broad-based suppliers and niche suppliers. Our primary competitors include Analog Devices, Inc.; Freescale Semiconductor, Inc.; Infineon Technologies AG; Linear Technology Corporation; Maxim Integrated Products, Inc.; National Semiconductor Corporation; NXP B.V.; and STMicroelectronics NV.

Digital Signal Processors, or DSPs

DSP is one of the fastest-growing sectors of the semiconductor industry. We are the world's largest DSP supplier, and DSP represents about 40 percent of our Semiconductor revenue.

DSPs use complex algorithms and compression techniques to alter and improve a data stream. DSPs perform these functions instantaneously and power-efficiently. These products are ideal for applications that require precise, real-time processing of real-world analog signals that have been converted into digital form. Their power efficiency is important for battery-powered devices.

The combination of DSP with analog functionality enables a broad range of significant applications. In a cell phone, the process works as follows: 1) the sender's voice is picked up by an analog sensor in the cell phone's microphone; 2) an analog-to-digital converter chip changes the analog sound waves of the sender's voice into a digital code; 3) the DSP compresses these digital signals and removes background noise; and 4) in the listener's cell phone, the digital code is converted back into the analog sound of the sender's voice. All this happens in real time.

We offer programmable DSPs, which, among other benefits, enable manufacturers to differentiate their product designs via software rather than having to design new hardware.

Our DSP portfolio includes custom, application-specific and standard products. Custom products are designed for specific customers with very high volumes in established markets. Application-specific products are implementations crafted for specific applications like wireless infrastructure, VoIP (Voice over Internet Protocol) gateways, digital still cameras and residential gateways, to name a few. Our standard DSP products are sold into a broad range of applications and seed the next generation of signal-processing innovation.

About 80 percent of our DSP revenue comes from the cell-phone market, most of which is derived from custom chips that we develop with large cell-phone manufacturer customers. These products are typically highly integrated semiconductor devices that allow our customers to differentiate their cell-phone products from their competitors' products through performance, features or cost, and are sold only to a single, high-volume customer. Additional DSP revenue from this market comes from our sales of chipsets. Also included in our DSP-based wireless portfolio are the widely used OMAP™ processors, which are high-performance processors that enable multimedia applications in cell phones and other electronic devices.

In the DSP market, we compete globally with numerous large and small companies, both broad-based and niche suppliers of DSPs as well as suppliers of other technologies that deliver functionality that competes with DSPs. Primary competitive factors are the ability to design and cost-effectively manufacture products, system-level knowledge about targeted end markets, software expertise and applications support. Our primary competitors in the DSP market are Agere Systems, Inc.; Analog Devices, Inc.; Freescale Semiconductor, Inc.; and NXP B.V. Others who offer competing technologies include Broadcom Corp., Marvell Technology Group, Ltd. and QUALCOMM Incorporated.

Other Semiconductor Products

Our other Semiconductor products, which combined account for about 20 percent of our Semiconductor revenue, include the following:

DLP® Products

Our DLP technology is a digital display technology used in projectors and high-definition televisions. Projectors based on this technology are used in businesses, homes, professional venues and digital cinemas. The technology consists of micro-electromechanical devices that use optical semiconductors to digitally manipulate light. At the center of every DLP product is an array of up to 2.2 million microscopic mirrors. Each mirror tilts back and forth thousands of times each second to create a high resolution, highly reliable, full color image. This technology is used by more than 70 of the world's top projector and television manufacturers. Since early 1996 when DLP products were first marketed, TI has shipped more than 10 million DLP sub-systems to customers all over the world.

Our DLP technology competes against other display technologies such as liquid crystal display (LCD), plasma and cathode-ray tube (CRT). The primary competitive elements in this market include picture quality, product form factors, versatility and price.

Reduced Instruction-Set Computing (RISC) Microprocessors

A microprocessor is the central processing unit of a computer system. RISC microprocessors are designed to provide very fast computing, typically for a specialized application such as servers. Our RISC products are primarily 64-bit microprocessors designed by Sun Microsystems, Inc. for use in Sun servers.

Microcontrollers

A microcontroller is a microprocessor designed to control a very specific task for electronic equipment. Key applications for our microcontrollers include automotive, industrial motors and controls, meters and consumer products. Primary competitive factors in this market include integration of control peripherals for reduced board space and number of components, an integrated development environment for fast system development and a broad range of microcontroller solutions for upgradeability and flexibility in system design.

Standard Logic

Standard logic devices are chips generally used to manage the interchange and manipulation of signals within a system. A substantial number of our standard logic products are considered commodities, for which price and delivery are the key competitive factors. We sell thousands of different standard logic products, primarily to distributors. End applications include consumer products and communications.

Royalties

An additional source of revenue for TI is royalties received for our patented technology that we license to other electronics companies.

Applications for Our Semiconductor Products

The table below lists the major end markets that use our Semiconductor products and the approximate percentage of our Semiconductor revenue that the market represents. The chart also lists the most frequent applications and our products used within these key markets.

End Market	Applications	TI Products
Communications (50% of Semiconductor revenue)	Cell phones and infrastructure equipment (wireless) Broadband (including high-speed wireless home networking, cable modem, digital subscriber line (DSL)) High-frequency radio, telecom accessories (hands-free and voice-enhancement solutions), navigation systems	DSP, Analog, Logic
Computing (25% of Semiconductor revenue)	Printers Hard disk drives Monitors and projectors Notebook and desktop personal computers and servers	Analog, DLP Products, Microprocessors, Logic, DSP
Consumer Electronics (10% of Semiconductor revenue)	High-definition televisions Digital still cameras Digital audio players Personal video players Car audio (radios and CD players) DVD players and recorders Home theater systems	DSP, Analog, Logic, DLP Products
Industrial (<10% of Semiconductor revenue)	Controls - digital power controls (switch mode power supplies, uninterruptible power supply), motor controls (heating/ventilation/air conditioning, industrial control motor drives, power tools, printers/copiers) Medical - biophysical monitoring, digital hearing aids, medical imagery, personal medical devices Security - biometrics (fingerprint identification and authentication), intelligent sensing (smoke and glass-breakage detection)	Analog, Logic, DSP, Microcontrollers
Automotive (5% of Semiconductor revenue)	Body systems Chassis systems Driver information/telemetrics Powertrain Safety systems Security systems	Microcontrollers, Analog, DSP, Logic

Manufacturing

We have semiconductor manufacturing sites in North America, Japan, Asia and Europe. These facilities include high-volume wafer fabrication plants and assembly/test sites. Our semiconductor manufacturing facilities require substantial investment to construct and are largely fixed-cost assets once they are in operation. Because we own most of our manufacturing capacity, a significant portion of our operating costs are fixed. In general, these costs do not decline when

customer demand or our capacity utilization rates drop, and this can hurt our profit margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which should benefit profit margins.

The semiconductor manufacturing process begins with a thin silicon wafer on which an array of semiconductor devices is fabricated. The wafer is then tested, cut into chips, and assembled into packages that are then individually retested.

Our advanced digital products require the most advanced and most capital-intensive manufacturing processes. DSPs and other digital products tend to move to more advanced production techniques every couple of years. Consequently, maintaining an industry leadership position requires significant capital expenditures for new manufacturing capabilities.

Our manufacturing strategy for advanced digital processes is to build internal capacity to a level we believe will remain fully utilized over the equipment's asset lifetime. We then outsource remaining capacity from outside suppliers, including semiconductor foundries and assembly/test subcontractors. We also outsource the manufacturing of some products when it would be less cost-efficient to make those products in-house, for instance, relatively low-volume products that are unlikely to keep internal equipment fully utilized. This internal/external strategy is designed to reduce the level of our required capital expenditures, and thereby reduce our subsequent levels of depreciation. The expected end result is less fluctuation in our profit margins due to changing product demand. Currently, outside foundries provide about 25 percent of our total wafers produced.

Another element of our manufacturing strategy is the development of advanced digital manufacturing processes. We have traditionally developed these processes in-house. Moving forward, we will work collaboratively with our foundry suppliers to specify and drive the next generations of digital process technology instead of separately creating our own process technology. We expect that our 32-nanometer manufacturing process will be the first process technology developed entirely through this new collaboration. This strategic shift will allow us to better serve customers with cost-effective digital process technology from our foundry suppliers, while increasing the efficiency of our own research and development (R&D) and capital. We will continue to develop our own analog process technologies.

As we move to each succeeding generation of manufacturing process technology, we utilize less space per transistor, which enables us to either: 1) fit more transistors on an equivalent-size chip, 2) decrease the chip's size or 3) integrate new features onto the chip. By shrinking the size of transistors, we also can provide faster chips that consume less power and cost less per unit to manufacture.

Our manufacturing capabilities are on par with the best in the semiconductor industry. As of December 31, 2006, we have shipped more than half a billion chips manufactured using 90-nanometer process technology, and our 65-nanometer process is in the early stages of production. Our advanced semiconductor R&D is now done side-by-side with production of 300-millimeter (mm) wafers in our Dallas DMOS 6 fabrication plant. 300-mm wafers greatly expand the number of equivalent chips we can put on a single wafer, compared with the previous 200-mm wafers. Construction of our new 300-mm wafer fabrication plant in Richardson, Texas (RFAB) has been completed.

In 2006, a majority of our advanced digital products were built using 130- or 90-nanometer manufacturing process technology, while devices using 65-nanometer technology continued to increase throughout the year. One nanometer is one billionth of a meter.

Since analog manufacturing technology evolves more slowly than digital manufacturing technology, analog products typically do not require us to build new manufacturing facilities. This tends to improve the profit margin on analog products, since the equipment on which they are manufactured is frequently fully depreciated.

Design Centers

Our design centers provide design, engineering and product application support as well as after-sales customer service design. The design centers are strategically located around the world to take advantage of key technical and engineering talent and proximity to key customers.

Customers

Our Semiconductor products are sold to original equipment manufacturers (OEMs), ODMs, contract manufacturers and distributors. (An OEM designs and sells products under its own brand that it manufactures in-house or has manufactured by others.) Our largest single customer in 2006 was an OEM, the Nokia group of companies. Direct sales to Nokia were more than 10 percent of our revenue in both 2005 and 2006.

Sales and Distribution

We market and sell our products through a direct sales force, distributors and authorized third-party sales representatives. We have sales or marketing offices in over 25 countries worldwide. Distributors, located around the world, account for about 30 percent of our Semiconductor revenue, and they sell our products directly to a wide range of customers. These distributors typically maintain an inventory of our products. They also sell products from our competitors.

Education Technology Segment

Education Technology is a leading supplier of graphing handheld calculators. This business segment also provides its customers with business and scientific calculators and a wide range of advanced classroom tools and professional development resources to help students and teachers interactively explore math and science. Education Technology relies on third-party manufacturers to build its products. This segment contributed 4 percent of our 2006 revenue.

Competition

Our principal competitors in this business are U.S.- and Japan-based companies. The principal competitive factors are an understanding of the education market, technology expertise and price.

Sales and Distribution

Education Technology sells its products primarily through retailers and instructional dealers.

Acquisitions, Divestitures and Investments

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

In January 2006, we closed the acquisition of Chipcon Group ASA, a leading company in the design of short-range, low-power wireless radio-frequency (RF) transceiver devices. Chipcon's product line complements our existing high-performance analog, power management and ultra-low-power microcontroller portfolio. We paid $183 million in cash for Chipcon.

In January 2006, we entered into a definitive agreement to sell the Sensors & Control segment, excluding the radio frequency identification (RFID) systems operations, to an affiliate of Bain Capital, LLC, for $3 billion in cash. The sale was completed on April 27, 2006. The RFID operations are now included in the Semiconductor business segment.

Backlog

Our backlog of orders was $1.64 billion at December 31, 2006, and $1.88 billion at December 31, 2005. A substantial number of orders are shipped during the quarter in which they are received. We define backlog as of a particular date as firm purchase orders with a customer-requested delivery date within a maximum length of time. As customer requirements and industry conditions change, orders may be, under certain circumstances, subject to cancellation or modification of terms such as pricing, quantity or delivery date. Customer order placement practices continually evolve based on customers' individual business needs and capabilities, as well as industry supply and capacity considerations. Accordingly, we believe that our backlog at any particular date may not be indicative of revenue for any future period.

Raw Materials

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

Intellectual Property

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

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

We often participate in industry initiatives to set technical standards. Our competitors may also participate in the same initiatives. Participation in these initiatives may require us to license our patents to other companies.

We own trademarks that are used in the conduct of our business. These trademarks are valuable assets, the most important of which are "Texas Instruments" and our corporate monogram. Other valuable trademarks include DLP® and OMAP™.

Research and Development

Our primary area of R&D investment is semiconductor products and semiconductor manufacturing technology. We conduct most of our R&D internally. However, we also closely engage with a wide range of external industry consortia and universities and collaborate with our foundry suppliers.

From time to time we may terminate R&D projects before completion or decide not to manufacture and sell a developed product. We do not expect that all of our R&D projects will result in products that are ultimately released for sale or that our projects will contribute to revenue until at least a few years following completion.

Our R&D expense was $2.20 billion in 2006, compared with $1.99 billion in 2005 and $1.95 billion in 2004.

Seasonality

Our revenue and operating results are subject to some seasonal variation. Education Technology experiences its strongest results in the second and third quarters in preparation for the back-to-school season. The Semiconductor segment generally has a weak first quarter, particularly in product areas such as wireless and consumer electronics that have stronger sales later in the year as manufacturers prepare for the holiday selling season.

Executive Officers of the Registrant

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

Name	Age	Position
R. Gregory Delagi	44	Senior Vice President
Thomas J. Engibous	54	Director; Chairman of the Board
Arthur L. George, Jr.	45	Senior Vice President
Michael J. Hames	48	Senior Vice President
Joseph F. Hubach	49	Senior Vice President, Secretary and General Counsel
Chung-Shing (C.S.) Lee	52	Senior Vice President
Melendy E. Lovett	48	Senior Vice President (President, Education Technology)
Gregg A. Lowe	44	Senior Vice President
Kevin P. March	49	Senior Vice President and Chief Financial Officer
Kevin J. Ritchie	50	Senior Vice President
Richard K. Templeton	48	Director; President and Chief Executive Officer
John C. Van Scoter	45	Senior Vice President
Teresa L. West	46	Senior Vice President
Darla H. Whitaker	41	Senior Vice President

The term of office of the above-listed officers is from the date of their election until their successor shall have been elected and qualified. All executive officers of the company have been employees of the company for more than five years. Ms. West and Messrs. Engibous, Hames, Hubach, Lee, Lowe and Templeton have served as executive officers of the company for

more than five years. Mr. March became an executive officer of the company in 2003. Ms. Lovett and Mr. Ritchie became executive officers of the company in 2004. Mr. Van Scoter became an executive officer of the company in 2005. Mr. George and Ms. Whitaker became executive officers of the company in 2006. Mr. Delagi became an executive officer of the company in January 2007.

Employees

At December 31, 2006, we had 30,986 employees.

Available Information

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

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

ITEM 1A. Risk Factors.

You should read the following Risk Factors in conjunction with the factors discussed elsewhere in this and other of our filings with the Securities and Exchange Commission (SEC) and in materials incorporated by reference in these filings. These Risk Factors are intended to highlight certain factors that may affect our financial condition and results of operations and are not meant to be an exhaustive discussion of risks that apply to companies like TI with broad international operations. Like other companies, we are susceptible to macroeconomic downturns in the United States or abroad that may affect the general economic climate and our performance and the performance of our customers. Similarly, the price of our securities is subject to volatility due to fluctuations in general market conditions, differences in our results of operations from estimates and projections generated by the investment community, and other factors beyond our control.

Cyclicality in the Semiconductor Market May Affect Our Performance.

Our semiconductor business is our largest business segment and the principal source of our revenue. The semiconductor market has historically been cyclical and subject to significant and often rapid increases and decreases in product demand. These changes could adversely affect our results of operations and have an adverse effect on the market price of our securities. In particular, our strategic focus in this business is on the development and marketing of analog integrated circuits and digital signal processors. The results of our operations may be adversely affected in the future if demand for analog integrated circuits or digital signal processors decreases or if these markets or key end-equipment markets such as communications, entertainment electronics and computing grow at a significantly slower pace than management expects.

Our Margins May Vary over Time.

Our profit margins may be adversely affected in the future by a number of factors, including decreases in our shipment volume, reductions in, or obsolescence of our inventory and shifts in our product mix. In addition, the highly competitive market environment in which we operate might adversely affect pricing for our products. Because we own most of our manufacturing capacity, a significant portion of our operating costs are fixed. In general, these costs do not decline with reductions in customer demand or our utilization of our manufacturing capacity, and can adversely affect profit margins as a result.

The Technology Industry Is Characterized by Rapid Technological Change That Requires Us to Develop New Technologies and Products.

Our results of operations depend in part upon our ability to successfully develop, manufacture and market innovative products in a rapidly changing technological environment. We require significant capital to develop new technologies and products to meet changing customer demands that, in turn, may result in shortened product life cycles. Moreover, expenditures for technology and product development are generally made before the commercial viability for such developments can be assured. As a result, there can be no assurance that we will successfully develop and market these new products, that the products we do develop and market will be well received by customers or that we will realize a return on the capital expended to develop such products.

We Face Substantial Competition That Requires Us to Respond Rapidly to Product Development and Pricing Pressures.

We face intense technological and pricing competition in the markets in which we operate. We expect that the level of this competition will increase in the future from large, established semiconductor and related product companies, as well as from emerging companies serving niche markets that we also serve. Certain of our competitors possess sufficient financial, technical and management resources to develop and market products that may compete favorably against those of our products that currently offer technological and/or price advantages over competitive products. Competition results in price and product development pressures, which may result in reduced profit margins and lost business opportunities in the event that we are unable to match price declines or technological, product, applications support, software or manufacturing advances of our competitors.

Our Performance Depends in Part upon Our Ability to Enforce Our Intellectual Property Rights and to Develop and License New Intellectual Property.

Access to worldwide markets depends in part on the continued strength of our intellectual property portfolio. There can be no assurance that, as our business expands into new areas, we will be able to independently develop the technology, software or know-how necessary to conduct our business or that we can do so without infringing the intellectual property rights of others. We may have to rely increasingly on licensed technology from others. To the extent that we rely on licenses from others, there can be no assurance that we will be able to obtain all of the licenses we desire in the future on terms we consider reasonable or at all. The lack of a necessary license could expose us to claims for damages and/or injunction from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify our customers against damages resulting from infringement claims. We actively enforce and protect our intellectual property rights, but there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of the protected technology.

We benefit from royalty revenue generated from various license agreements. Some agreements expired in 2005 and 2006 and either have been or are currently being renegotiated. Others expire at the end of 2007 and in future years. Although we will attempt to renegotiate license agreements that expire in 2007, there is no guarantee that such negotiations will be successful. Future royalty revenue depends on the strength of our portfolio and enforcement efforts, and on the sales and financial stability of our licensees. Additionally, the consolidation of our licensees may negatively affect our royalty revenue. Royalty revenue from licensees is not always uniform or predictable, in part due to the performance of our licensees and in part due to the timing of new license agreements or the expiration and renewal of existing agreements.

A Decline in Demand in Certain End-User Markets Could Have a Material Adverse Effect on the Demand for Our Products and Results of Operations.

Our customer base includes companies in a wide range of industries, but we generate a significant amount of revenue from sales to customers in the communications and computer-related industries. Within these industries, a large portion of our revenue is generated by the sale of analog integrated circuits and digital signal processors to customers in the cell-phone, personal computer and communications infrastructure markets. Decline in one or several of these end-user markets could have a material adverse effect on the demand for our products and our results of operations and financial condition.

Our Global Manufacturing, Design and Sales Activities Subject Us to Risks Associated with Legal, Political, Economic or Other Changes.

We have facilities in more than 25 countries worldwide, and in 2006 more than 80 percent of our revenue came from sales to locations outside the United States. Operating internationally exposes us to changes in export controls and other laws or policies, as well as the general political and economic conditions, security risks, health conditions and possible disruptions in transportation networks, of the various countries in which we operate, which could result in an adverse effect on our business operations in such countries and our results of operations. Also, as discussed in more detail on page 55 of our 2006 annual report to stockholders, we use forward currency exchange contracts to minimize the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Nevertheless, in periods when the U.S. dollar significantly fluctuates in relation to the non-U.S. currencies in which we transact business, the remeasurement of non-U.S. dollar transactions can have an adverse effect on our results of operations and financial condition.

Our Results of Operations Could be Affected by Natural Events in the Locations in which We, Our Customers or Suppliers Operate.

We have manufacturing and other operations in locations subject to natural events such as severe weather and earthquakes that could disrupt operations. In addition, our suppliers and customers also have operations in such locations. A natural disaster that results in a prolonged disruption to our operations, or our customers' or suppliers', may adversely affect our results of operations and financial condition.

The Loss of or Significant Curtailment of Purchases by Any of Our Largest Customers Could Adversely Affect Our Results of Operations.

While we generate revenue from thousands of customers worldwide, the loss of or significant curtailment of purchases by one or more of our top customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments, may adversely affect our results of operations and financial condition.

Incorrect Forecasts of Customer Demand Could Adversely Affect Our Results of Operations.

Our ability to match inventory and production mix with the product mix needed to fill current orders and orders to be delivered in the given quarter may affect our ability to meet that quarter's revenue forecast. In addition, when responding to customers' requests for shorter shipment lead times, we manufacture product based on forecasts of customers' demands. These forecasts are based on multiple assumptions. If we inaccurately forecast customer demand, we may hold inadequate, excess or obsolete inventory that would reduce our profit margins and adversely affect our results of operations and financial condition.

Our Performance Depends on the Availability and Cost of Raw Materials, Utilities, Critical Manufacturing Equipment, Manufacturing Processes and Third-Party Manufacturing Services.

Our manufacturing processes and critical manufacturing equipment require that certain key raw materials and utilities be available. Limited or delayed access to and high costs of these items could adversely affect our results of operations. Additionally, the inability to timely implement new manufacturing technologies or install manufacturing equipment could adversely affect our results of operations. We subcontract a portion of our wafer fabrication and assembly and testing of our integrated circuits. We are also in the process of transitioning future advanced digital process technology development to third parties. We depend on a limited number of third parties to perform these functions. We do not have long-term contracts with all of these third parties. Reliance on these third parties involves risks, including possible shortages of capacity in periods of high demand and their inability to develop and deliver advanced digital process technology in a timely and appropriate manner.

Our Results of Operations Could be Affected by Changes in Taxation.

We have facilities in more than 25 countries worldwide and as a result are subject to taxation and audit by a number of taxing authorities. Tax rates vary among the jurisdictions in which we operate. Our results of operations could be affected by market opportunities or decisions we make that cause us to increase or decrease operations in one or more countries, or by changes in applicable tax rates or audits by the taxing authorities in countries in which we operate.

In addition, we are subject to laws and regulations in various locations that govern the determination of which is the appropriate jurisdiction to decide when and how much profit has been earned and is subject to taxation in that jurisdiction. Changes in these laws and regulations could affect the locations where we are deemed to earn income, which could in turn affect our results of operations. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations could affect our ability to realize those deferred tax assets, which could also affect our results of operations. Each quarter we forecast our tax liability based on our forecast of our performance for the year. If that performance forecast changes, our forecasted tax liability will change.

Our Results of Operations Could be Affected by Warranty Claims, Product Recalls or Product Liability.

We could be subject to warranty or product liability claims that could lead to significant expenses as we defend such claims or pay damage awards. In the event of a warranty claim, we may also incur costs if we decide to compensate the affected customer or end consumer. We do maintain product liability insurance, but there is no guarantee that such insurance will be available or adequate to protect against all such claims. In addition, it is possible for one of our customers to recall a product containing a TI part. In such instances, we may incur costs and expenses relating to the recall. Costs or payments we may

make in connection with warranty claims or product recalls may adversely affect our results of operations and financial condition.

Our Continued Success Depends in Part on Our Ability to Retain and Recruit a Sufficient Number of Qualified Employees in a Competitive Environment.

Our continued success depends in part on the retention and recruitment of skilled personnel, including technical, marketing, management and staff personnel. Experienced personnel in the electronics industry are in high demand and competition for their skills is intense. There can be no assurance that we will be able to successfully retain and recruit the key personnel that we require.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

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

	Semiconductor	Education Technology
Dallas, Texas(1)	X	X
Sherman, Texas(1)(2)	X	
Houston, Texas	X	
Miho, Japan	X	
Kuala Lumpur, Malaysia(1) (3)	X	
Freising, Germany	X	X
Baguio, Philippines(4)	X	
Taipei, Taiwan(5)	X	
Aguascalientes, Mexico(2)	X	
Hiji, Japan	X	
Nice, France	X	
Tucson, Arizona	X	
Bangalore, India	X	
Tokyo, Japan(2)	X	
San Diego, California(2)	X	

(1) Certain facilities or portions thereof in Dallas and Sherman are leased to Raytheon Company or Raytheon-related entities in connection with the sale in 1997 of our defense systems and electronics business. Certain portions of our facilities in Kuala Lumpur, Malaysia are leased to Sensata Technologies, Inc. or Sensata-related entities in connection with the sale in 2006 of our Sensors & Controls business.

(2) Leased.

(3) All of the land and a portion of the facilities are leased; a portion of the facilities is owned.

(4) Owned facilities located on leased land.

(5) Portions of the facilities are leased and owned.

Our facilities in the United States contained approximately 14.2 million square feet at December 31, 2006, of which approximately 1.8 million square feet were leased. Our facilities outside the United States contained approximately 5.8 million square feet at December 31, 2006, of which approximately 1.4 million square feet were leased.

We believe that our existing properties are in good condition and suitable for their intended purpose. As discussed in Item 1, we outsource a portion of our product manufacturing. At the end of 2006, we occupied substantially all of the space in our facilities.

Leases covering our currently occupied leased facilities expire at varying dates generally within the next 10 years. We anticipate no difficulty in retaining occupancy through lease renewals, month-to-month occupancy or purchases of leased facilities, or replacing the leased facilities with equivalent facilities.

ITEM 3. Legal Proceedings.

In the fourth quarter of 2006, Italian government auditors completed a review, conducted in the ordinary course, of approximately $250 million of grants from the Italian government to TI's former memory operations in Italy. The Ministry of Industry, which is responsible for reviewing the auditors' findings, has published final decrees on all projects relating to the grants, resulting in a $28 million favorable settlement to TI in the fourth quarter of 2006. As of December 31, 2006, TI has no material obligations remaining on the grants.

We are involved in various proceedings conducted by the federal Environmental Protection Agency and certain other governmental environmental agencies regarding clean-up of contaminated sites. These proceedings are being coordinated with the agencies and, in certain cases, with other potentially responsible parties. Although the factual situations and the progress of each of these matters differ, we believe that the amount of our liability will not have a material adverse effect upon our financial condition, results of operations or liquidity.

The Internal Revenue Code requires that companies disclose in their Form 10-K whether they have been required to pay penalties to the Internal Revenue Service for certain transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose. We have not been required to pay any such penalties.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

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

The information contained under the caption "Common Stock Prices and Dividends" on page 57 of TI's 2006 annual report to stockholders, and the information concerning the number of stockholders of record at December 31, 2006, on page 42 of such annual report are incorporated herein by reference to such annual report.

The following table shows our repurchases of our common stock in the fourth quarter of 2006:

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	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 through October 31, 2006	8,775,000	$ 31.59	8,775,000	$6,337,607,356
November 1 through November 30, 2006	13,650,600	$ 29.58	13,650,600	$5,933,880,288
December 1 through December 31, 2006	14,965,000	$ 29.35	14,965,000	$5,494,636,909
Total	37,390,600	$ 29.96	37,390,600(2)(3)	$5,494,636,909(3)

(1) All purchases during the quarter were made under the authorization from our board of directors to purchase up to $5 billion of additional shares of TI common stock announced on January 23, 2006. An additional authorization from our board of directors to purchase up to $5 billion of additional shares of TI common stock was announced on September 21, 2006. No expiration date has been specified for either of these authorizations.

(2) All purchases during the quarter were made through open-market purchases except for 800,000 shares that were acquired in October through a privately negotiated forward purchase contract with a non-affiliated financial institution. The forward purchase contract was designed to minimize the impact on our earnings from the effect of stock market value fluctuations on the portion of our deferred compensation obligations denominated in TI stock.

(3) The total number of shares purchased includes the purchase of 2,250,000 shares for which trades were settled in the first three business days of January 2007 for $65 million. The table does not include the purchase of 2,250,000 shares pursuant to orders placed in the third quarter, for which trades were settled in the first three business days of the fourth quarter for $75 million. The purchase of these shares was reflected in Item 2 in the company's report on Form 10-Q for the quarter ended September 30, 2006.

ITEM 6. Selected Financial Data.

The "Summary of Selected Financial Data" for the years 2002 through 2006, which appears on page 42 of TI's 2006 annual report to stockholders, is incorporated herein by reference to such annual report.

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

The information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 43 through 55 of TI's 2006 annual report to stockholders is incorporated herein by reference to such annual report.

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

The information concerning market risk is contained on page 55 of TI's 2006 annual report to stockholders and is incorporated herein by reference to such annual report.

ITEM 8. Financial Statements and Supplementary Data.

The consolidated financial statements of the company at December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, and the report thereon of the independent registered public accounting firm, on pages 6 through 39 of TI's 2006 annual report to stockholders, are incorporated herein by reference to such annual report.

The "Quarterly Financial Data" on page 56 of TI's 2006 annual report to stockholders is also incorporated herein by reference to such annual report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

ITEM 9A. Controls and Procedures.

Disclosure 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 TI's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of TI's 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 providing reasonable assurance that information required to be disclosed by TI in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Internal Control over Financial Reporting

Management's assessment of our internal control over financial reporting is contained in the Report by Management on Internal Control over Financial Reporting on page 40 of our 2006 annual report to stockholders and is incorporated herein by reference to such annual report.

The Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting opining on management's assessment included in the Report by Management on Internal Control over Financial Reporting, and opining on the effectiveness of TI's internal control over financial reporting, is contained on page 41 of our 2006 annual report to stockholders and is incorporated herein by reference to such annual report.

ITEM 9B. Other Information.

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

The information with respect to directors' names, ages, positions, term of office and periods of service, which is contained under the caption "Election of Directors" in our proxy statement for the 2007 annual meeting of stockholders, is incorporated herein by reference to such proxy statement.

The information with respect to the company's audit committee financial expert contained under the caption "Board Organization" in our proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

The information with respect to Section 16(a) Beneficial Ownership Reporting Compliance contained under the caption of the same name in our proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

A list of our executive officers and their biographical information appear in Part I, Item 1 of this report.

Code of Ethics

We have adopted the Code of Ethics for TI Chief Executive Officer and Senior Financial Officers. A copy of the Code can be found on our web site at www.ti.com/ir. We intend to satisfy the disclosure requirements of the Securities and Exchange Commission regarding amendments to, or waivers from, the Code by posting such information on the same web site.

Audit Committee

We have a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The following directors are members of TI's Audit Committee: Pamela H. Patsley (Chair), Carrie S. Cox, Gerald W. Fronterhouse and Wayne R. Sanders.

ITEM 11. Executive Compensation.

The information contained under the captions “Director Compensation” and “Executive Compensation” in our proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The following table sets forth information about the company’s equity compensation plans as of December 31, 2006:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	153,529,804(1)	$ 30.13(2)	98,345,213(3)
Equity Compensation Plans Not Approved by Security Holders	67,922,390(4)	$ 26.13(2)	166,908,392(5)
Total	221,452,194	$ 28.90	265,253,605

(1) Includes shares of TI common stock to be issued under the Texas Instruments 2000 Long-Term Incentive Plan and predecessor plans, the Texas Instruments 2003 Director Compensation Plan and the TI Employees 2005 Stock Purchase Plan.

Excludes the following:

- 2,573,211 shares of TI common stock to be issued upon exercise of outstanding options originally granted under the Burr-Brown Corporation 1993 Stock Incentive Plan, a plan approved by the stockholders of Burr-Brown Corporation. The options were assumed by the company in connection with the acquisition of Burr-Brown Corporation; and
- 192,162 shares of TI common stock to be issued upon exercise of outstanding options originally granted under the Radia Communications, Inc. 2000 Stock Option/Stock Issuance Plan, a plan approved by the stockholders of Radia Communications, Inc. The options were assumed by the company in connection with the acquisition of Radia.

(2) Restricted stock units, and stock units credited to directors’ deferred compensation accounts, are settled for shares of TI common stock on a one-for-one basis. Accordingly, such units have been excluded for purposes of computing the weighted-average exercise price.

(3) Shares of TI common stock available for issuance under the Texas Instruments 2000 Long-Term Incentive Plan, the Texas Instruments 2003 Director Compensation Plan and the TI Employees 2005 Stock Purchase Plan.

(4) Includes shares to be issued under the Texas Instruments 2003 Long-Term Incentive Plan, a plan for non-management employees; executive officers and approximately 250 managers of the company are ineligible to receive awards under the plan. The plan authorizes the grant of: (1) stock options, (2) restricted stock and restricted stock units, (3) performance units and (4) other awards (including stock appreciation rights) valued in whole or in part by reference to or otherwise based on common stock of the company. The plan is administered by a board committee appointed by the board of directors consisting entirely of independent directors (the Committee). The Committee has the sole discretion to grant to eligible participants one or more equity awards and to determine the number or amount of any award. Except in the case of awards made through assumption of, or in substitution for, outstanding awards previously granted by an acquired company, and except as a result of an adjustment event such as a stock split, the exercise price under any stock option, the grant price of any stock appreciation right, and the purchase price of any security that may be purchased under any other stock-based award under the plan will not be less than 100% of the fair market value of the stock or other security on the date of the grant of the option, right or award.

Also includes shares to be issued under the Texas Instruments Directors Deferred Compensation Plan, the Texas Instruments Restricted Stock Unit Plan for Directors and the Texas Instruments Stock Option Plan for Non-Employee Directors. These plans were replaced by the Texas Instruments 2003 Director Compensation Plan, and no further grants can be made under them.

(5) Shares of TI common stock available for issuance under the Texas Instruments 2003 Long-Term Incentive Plan. Stockholders have approved all other active equity compensation plans of the company.

Security Ownership of Certain Beneficial Owners and Management

The information that is contained under the captions “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” in our proxy statement for the 2007 annual meeting of stockholders, is incorporated herein by reference to such proxy statement. The information concerning ownership of TI’s common stock by each of the directors, which is contained under the caption “Directors’ Ages, Service and Stock Ownership” in such proxy statement, is also incorporated herein by reference to such proxy statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

The information contained under the caption “Related Person Transactions” in the company’s proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

The information contained under the caption “Director Independence” in the company’s proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

ITEM 14. Principal Accountant Fees and Services.

The information with respect to principal accountant fees and services contained under the caption “Proposal to Ratify Appointment of Independent Registered Public Accounting Firm” of our proxy statement for the 2007 annual meeting of stockholders is incorporated herein by reference to such proxy statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) 1 and 2. Financial Statements and Financial Statement Schedules:

The financial statements are listed in the index on page 24 hereof.

3. Exhibits:

Designation of Exhibit in this Report	Description of Exhibit
3(a)	Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(a) to the Registrant’s Annual Report on Form 10-K for the year 1993).
3(b)	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(b) to the Registrant’s Annual Report on Form 10-K for the year 1993).
3(c)	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(c) to the Registrant’s Annual Report on Form 10-K for the year 1993).
3(d)	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
3(e)	Certificate of Ownership merging Texas Instruments Automation Controls, Inc. into the Registrant (incorporated by reference to Exhibit 3(e) to the Registrant’s Annual Report on Form 10-K for the year 1993).
3(f)	Certificate of Elimination of Designations of Preferred Stock of the Registrant (incorporated by reference to Exhibit 3(f) to the Registrant’s Annual Report on Form 10-K for the year 1993).
3(g)	Certificate of Ownership and Merger merging Tiburon Systems, Inc. into the Registrant (incorporated by reference to Exhibit 4(g) to the Registrant’s Registration Statement No. 333-41919 on Form S-8).

3(h)	Certificate of Ownership and Merger merging Tartan, Inc. into the Registrant (incorporated by reference to Exhibit 4(h) to the Registrant's Registration Statement No. 333-41919 on Form S-8).
3(i)	Certificate of Designation relating to the Registrant's Participating Cumulative Preferred Stock (incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3(j)	Certificate of Elimination of Designation of Preferred Stock of the Registrant (incorporated by reference to Exhibit 3(j) to the Registrant's Annual Report on Form 10-K for the year 1998).
3(k)	Certificate of Ownership and Merger merging Intersect Technologies, Inc. with and into the Registrant (incorporated by reference to Exhibit 3(k) to the Registrant's Annual Report on Form 10-K for the year 1999).
3(l)	Certificate of Ownership and Merger merging Soft Warehouse, Inc. with and into the Registrant (incorporated by reference to Exhibit 3(l) to the Registrant's Annual Report on Form 10-K for the year 1999).
3(m)	Certificate of Ownership and Merger merging Silicon Systems, Inc. with and into the Registrant (incorporated by reference to Exhibit 3(m) to the Registrant's Annual Report on Form 10-K for the year 1999).
3(n)	Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(n) to the Registrant's Registration Statement on Form S-4 No. 333-41030 filed on July 7, 2000).
3(o)	Certificate of Ownership and Merger merging Power Trends, Inc. with and into the Registrant (incorporated by reference to Exhibit 3(o) to the Registrant's Annual Report on Form 10-K for the year 2001).
3(p)	Certificate of Ownership and Merger merging Amati Communications Corporation with and into the Registrant (incorporated by reference to Exhibit 3(p) to the Registrant's Annual Report on Form 10-K for the year 2001).
3(q)	Certificate of Ownership and Merger merging Texas Instruments San Diego Incorporated with and into the Registrant (incorporated by reference to Exhibit 3(q) to the Registrant's Annual Report on Form 10-K for the year 2002).
3(r)	Certificate of Ownership and Merger merging Texas Instruments Burlington Incorporated with and into the Registrant (incorporated by reference to Exhibit 3(r) to the Registrant's Annual Report on Form 10-K for the year 2003).
3(s)	Certificate of Ownership and Merger merging Texas Instruments Automotive Sensors and Controls San Jose Inc. with and into the Registrant (incorporated by reference to Exhibit 3(i) to the Registrant's Current Report on Form 8-K dated October 31, 2004).
3(t)	By-Laws of the Registrant (incorporated by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K dated February 16, 2006).
4(a)(i)	Rights Agreement dated as of June 18, 1998, between the Registrant and Harris Trust and Savings Bank as Rights Agent, which includes as Exhibit B the form of Rights Certificate (incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A dated June 23, 1998).
4(a)(ii)	Amendment dated as of September 18, 1998, to the Rights Agreement (incorporated by reference to Exhibit 2 to the Registrant's Amendment No. 1 to Registration Statement on Form 8-A dated September 23, 1998).
4(b)	The Registrant agrees to provide the Commission, upon request, copies of instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries.
10(a)(i)	Amended and Restated TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(i) to the Registrant's Annual Report on Form 10-K for the year 1999).*
10(a)(ii)	First Amendment to Restated TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(ii) to the Registrant's Annual Report on Form 10-K for the year 1999).*

10(a)(iii)	Second Amendment to Restated TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(iii) to the Registrant's Annual Report on Form 10-K for the year 1999).*
10(a)(iv)	Third Amendment to Restated TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(iv) to the Registrant's Annual Report on Form 10-K for the year 2000).*
10(a)(v)	Fourth Amendment to Restated TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(v) to the Registrant's Annual Report on Form 10-K for the year 2001).*
10(a)(vi)	Fifth Amendment to Restated TI Deferred Compensation Plan (incorporated by reference to Exhibit 10(a)(vi) to the Registrant's Annual Report on Form 10-K for the year 2002).*
10(b)(i)	TI Employees Supplemental Pension Plan (incorporated by reference to Exhibit 10(b)(i) to the Registrant's Annual Report on Form 10-K for the year 1999).*
10(b)(ii)	First Amendment to TI Supplemental Pension Plan (incorporated by reference to Exhibit 10(b)(ii) to the Registrant's Annual Report on Form 10-K for the year 1999).*
10(b)(iii)	Second Amendment to TI Supplemental Pension Plan (incorporated by reference to Exhibit 10(b)(iii) to the Registrant's Annual Report on Form 10-K for the year 2002).*
10(b)(iv)	Third Amendment to TI Supplemental Pension Plan (incorporated by reference to Exhibit 10(b)(iv) to the Registrant's Annual Report on Form 10-K for the year 2002).*
10(b)(v)	Fourth Amendment to TI's Supplemental Pension Plan (incorporated by reference to Exhibit 10(b)(v) to the Registrant's Annual Report on Form 10-K for the year 2003).*
10(c)	Texas Instruments Long-Term Incentive Plan (incorporated by reference to Exhibit 10(a)(ii) to the Registrant's Annual Report on Form 10-K for the year 1993).*
10(d)	Texas Instruments 1996 Long-Term Incentive Plan (incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).*
10(e)	Texas Instruments 2000 Long-Term Incentive Plan (incorporated by reference to Exhibit 10(e) to the Registrant's Registration Statement on Form S-4 No. 333-41030 filed on July 7, 2000).*
10(f)	Texas Instruments 2003 Long-Term Incentive Plan (incorporated by reference to Exhibit 10(f) to the Registrant's Annual Report on Form 10-K for the year 2002).
10(g)	Texas Instruments Executive Officer Performance Plan (incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).*
10(h)	Texas Instruments Restricted Stock Unit Plan for Directors (incorporated by reference to Exhibit 10(e) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
10(i)	Texas Instruments Directors Deferred Compensation Plan (incorporated by reference to Exhibit 10(f) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
10(j)	Texas Instruments Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the year 2000).
10(k)	Texas Instruments 2003 Director Compensation Plan as amended November 30, 2006.
10(l)	Form of Stock Option Agreement for Executive Officers under the Texas Instruments 2000 Long-Term Incentive Plan.*
10(m)	Form of Restricted Stock Unit Agreement under the Texas Instruments 2000 Long-Term Incentive Plan.*
10(n)	Acquisition Agreement dated as of June 18, 1998, between Texas Instruments Incorporated and Micron Technology, Inc. (Exhibit C omitted) (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated June 18, 1998).
10(o)	Second Amendment to Acquisition Agreement dated as of September 30, 1998, between Texas Instruments Incorporated and Micron Technology, Inc. (incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated October 15, 1998).

10(p)	Asset and Stock Purchase Agreement dated as of January 8, 2006, between Texas Instruments Incorporated and S&C Purchase Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated January 8, 2006).
10(q)	Agreement between Texas Instruments Incorporated and Gilles Delfassy dated January 23, 2007.*
12	Computation of Ratio of Earnings to Fixed Charges
13	Portions of Registrant's 2006 Annual Report to Stockholders incorporated by reference herein.
21	List of Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31(a)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer.
31(b)	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer.
32(a)	Section 1350 Certification of Chief Executive Officer.
32(b)	Section 1350 Certification of Chief Financial Officer.

* Management Compensation Plans and Arrangements.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

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 or 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 for analog chips and digital signal processors in key markets such as communications, entertainment electronics and computing;
- 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;
- TI's ability to compete in products and prices in an intensely competitive industry;
- 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;
- 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 networks and fluctuations in foreign currency exchange rates;
- Natural events such as severe weather and earthquakes in the locations in which TI, its customers or suppliers operate;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;

- 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, the outcome of tax audits and the ability to realize deferred tax assets;
- 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 company forecasts;
- The financial impact of inadequate or excess TI inventories to meet demand that differs from projections;
- Product liability or warranty claims, or recalls by TI customers for a product containing a TI part;
- TI’s ability to recruit and retain skilled personnel; and
- Timely implementation of new manufacturing technologies, installation of manufacturing equipment and the ability to obtain needed third-party foundry and assembly/test subcontract services.

For a more detailed discussion of these factors see the Risk Factors discussion in Item 1A of this report. The forward-looking statements included in this report are made only as of the date of this report and TI undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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,
Chief Financial Officer
and Chief Accounting Officer

Date: February 28, 2007

Each person whose signature appears below constitutes and appoints each of Richard K. Templeton, Kevin P. March and Joseph F. Hubach, or any of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Texas Instruments Incorporated for the year ended December 31, 2006, to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 28th day of February 2007.

Signature	Title
/s/ James R. Adams **James R. Adams**	Director
/s/ David L. Boren **David L. Boren**	Director
/s/ Daniel A. Carp **Daniel A. Carp**	Director
/s/ Carrie S. Cox **Carrie S. Cox**	Director
/s/ Thomas J. Engibous **Thomas J. Engibous**	Chairman of the Board; Director
/s/ Gerald W. Fronterhouse **Gerald W. Fronterhouse**	Director
/s/ David R. Goode **David R. Goode**	Director
/s/ Pamela H. Patsley **Pamela H. Patsley**	Director

Signature	Title
/s/ Wayne R. Sanders **Wayne R. Sanders**	Director
/s/ Ruth J. Simmons **Ruth J. Simmons**	Director
/s/ Richard K. Templeton **Richard K. Templeton**	Director; President and Chief Executive Officer
/s/ Christine Todd Whitman **Christine Todd Whitman**	Director
/s/ Kevin P. March **Kevin P. March**	Senior Vice President; Chief Financial Officer; Chief Accounting Officer

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

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(Item 15(a))

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

Exhibit 10(k)

TEXAS INSTRUMENTS 2003 DIRECTOR COMPENSATION PLAN

As Amended November 30, 2006

SECTION 1. PURPOSE.

The Texas Instruments 2003 Director Compensation Plan is designed to attract and retain qualified individuals to serve as directors of the Company and to increase the proprietary and vested interest of such directors in the growth and performance of the Company.

SECTION 2. DEFINITIONS.

As used in the Plan, the following terms shall have the meanings set forth below:

(a) *"Account"* means a Cash Account or Stock Unit Account established under Section 8 of the Plan.

(b) *"Administrator"* means the Board or a committee of directors designated by the Board to administer the Plan.

(c) *"Award"* means any Option, Restricted Stock Unit or other stock-based award under the Plan.

(d) *"Award Agreement"* means any written agreement, contract or other instrument or document evidencing any Award granted under the Plan, which may, but need not, be executed or acknowledged by a Director.

(e) *"Board"* means the Board of Directors of the Company, as constituted from time to time.

(f) *"Cash Account"* means the bookkeeping account established pursuant to Section 8(c) on behalf of each Director who elects pursuant to Section 8(b) to have any of his or her Deferred Compensation credited to a cash account.

(g) *"Change in Control"* means an event when (i) any Person, alone or together with its Affiliates and Associates or otherwise, shall become an Acquiring Person otherwise than pursuant to a transaction or agreement approved by the Board prior to the time the Acquiring Person became such, or (ii) a majority of the Board shall change within any 24-month period unless the election or the nomination for election by the Company's stockholders of each new director has been approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period. For the purposes hereof, the terms Person, Affiliates, Associates and Acquiring Person shall have the meanings given to such terms in the Rights Agreement dated as of June 17, 1998 between the Company and Harris Trust and Savings Bank, as in effect on the date hereof; provided, however, that if the percentage employed in the definition of Acquiring Person is reduced hereafter from 20% in such Rights Agreement, then such reduction shall also be applicable for the purposes hereof. Notwithstanding the foregoing, if a Restricted Stock Unit granted under this Plan is or becomes subject to Section 409(A) of the Code, then with respect to such Restricted Stock Unit "Change in Control" shall mean a change in control event as to the Company, as defined in Section 409(A) of the Code and the regulations thereunder.

(h) *"Code"* means the Internal Revenue Code of 1986, as amended.

(i) *"Company"* means Texas Instruments Incorporated, together with any successor thereto.

(j) "*Deferred Cash Compensation*" means that portion of any Director's Eligible Compensation that is payable in cash and that he or she elects pursuant to Section 8(a) to be deferred in accordance with this Plan.

(k) *"Deferred Compensation"* means that portion of any Director's Eligible Compensation that he or she elects pursuant to Section 8(a) to be deferred in accordance with this Plan.

(l) *"Director"* means a member of the Board who is not an employee of the Company or any subsidiary thereof.

(m) *“Eligible Compensation”* means (i) the cash portion of any compensation payable by the Company to a Director for his or her services as a Director but shall not include any reimbursement by the Company of expenses incurred by a Director incidental to attendance at a meeting of the Company’s stockholders, the Board, or any committee of the Board, or of any other expense incurred on behalf of the Company and (ii) any Restricted Stock Units granted by the Company after November 30, 2006 to a Director for his or her services as a Director.

(n) *“Fair Market Value”* means the closing price of the Shares on the date specified (or, if there is no trading on the New York Stock Exchange on such date, then on the first previous date on which there is such trading) as reported in “New York Stock Exchange Composite Transactions” in “The Wall Street Journal” or by WSJ.com or Bloomberg L.P., or if unavailable, then by reference to any other source as may be deemed appropriate by the Administrator.

(o) *“G&SR Committee”* means the Governance and Stockholder Relations Committee of the Board or any successor committee.

(p) *“Option”* means an option granted under Section 6.

(q) *“Participant”* means an individual who has received an Award or established an Account under the Plan.

(r) *“Plan”* means this Texas Instruments 2003 Director Compensation Plan.

(s) *“Restricted Stock Unit”* means a contractual right granted under Section 7 that is denominated in Shares, each of which represents a right to receive a Share upon the terms and conditions set forth in the Plan and the applicable Award Agreement.

(t) *“Secretary”* means the Secretary of the Company.

(u) *“Shares”* shall mean shares of the common stock of the Company, $1.00 par value.

(v) *“Stock Unit Account”* means the bookkeeping account established, pursuant to Section 8(d), on behalf of each Director who elects, pursuant to Section 8(b), to have any of his or her Deferred Cash Compensation credited to a stock unit account.

(w) *“Year”* means a calendar year.

SECTION 3. ELIGIBILITY.

Each Director shall be eligible to defer compensation and to receive Awards under the Plan.

SECTION 4. ADMINISTRATION.

This Plan shall be administered by the Administrator. Subject to the terms of the Plan and applicable law, the Administrator shall have full power and authority to: (i) interpret, construe and administer the Plan and any instrument or agreement relating to, or Award granted or Accounts established under, the Plan; (ii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it deems appropriate for the proper administration of the Plan; and (iii) make any other determination and take any other action that it deems necessary or desirable for the administration of this Plan. All decisions of the Administrator shall be final, conclusive and binding upon all parties, including the Company, the stockholders and the directors.

SECTION 5. SHARES SUBJECT TO THE PLAN.

(a) Subject to adjustment as provided below, the number of Shares available for issuance under the Plan shall be 2,000,000 Shares.

(b) If, after the effective date of the Plan, any Shares covered by an Award or Stock Unit Account, or to which such an Award relates, are forfeited, or if such an Award or Account otherwise terminates without the delivery of Shares, then such Shares, to the extent of any such forfeiture or termination, shall again be, or shall become, available for issuance under the Plan.

(c) In the event that any Award granted hereunder is exercised through the delivery of Shares, or in the event that withholding tax liabilities arising from such Award are satisfied by the withholding of Shares by the Company, the number of Shares available for Awards under the Plan shall be increased by the number of Shares so surrendered or withheld.

(d) Any Shares delivered pursuant to an Award or Stock Unit Account may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(e) In the event that the Administrator shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Administrator to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Administrator shall, in such manner as it may deem equitable, adjust any or all of (i) the number of outstanding Restricted Stock Units, (ii) the number and type of Shares credited to Stock Unit Accounts, (iii) the number and type of Shares subject to Options, (iv) the exercise price with respect to any Option or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Option, and (v) the aggregate limit specified in Section 5(a); provided, however, that no fractional Restricted Stock Units or Shares shall be issued or outstanding hereunder.

SECTION 6. OPTIONS.

After the effective date of this Plan, each Director will be granted annually an Option to purchase 7,000 Shares. The Options granted will be nonstatutory stock options not intended to qualify under Section 422 of the Code and shall have the following terms and conditions:

(a) *Price and Term of Options*. The purchase price per share of Shares deliverable upon the exercise of each Option shall be 100% of the Fair Market Value per share of the Shares on the date the Option is granted. Each Option shall have a term not to exceed ten years from the date of grant.

(b) *Payment*. The Secretary shall determine the method or methods by which, and the form or forms, including, without limitation, cash, Shares, or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price, in which payment of the exercise price with respect to an Option may be made or deemed to have been made.

(c) *Exercisability.* Subject to Sections 6(d) and 6(e), Options shall become exercisable in four equal annual installments commencing on the first anniversary date of the grant.

(d) *Change in Control.* In the event of a Change in Control, the provisions of Sections 6(c) and 6(e) shall not apply (except for Section 6(e)(vi)(B), which shall apply) and Options outstanding under the Plan shall be immediately exercisable in full and continue to full term.

(e) *Termination of Service as a Director.* The effect of a Participant's termination of service as a director shall be as follows:

(i) *Termination for cause:* All outstanding Options held by the Participant shall be canceled immediately upon termination.

(ii) *Death:* All outstanding Options held by the Participant shall continue to full term, becoming exercisable in accordance with Section 6(c), and shall be exercisable by such Participant's heirs.

(iii) *Permanent disability:* All outstanding Options held by the Participant shall continue to full term, becoming exercisable in accordance with Section 6(c).

(iv) *Termination after 8 years of service:* All outstanding Options held by the Participant shall continue to full term, becoming exercisable in accordance with Section 6(c).

(v) *Termination by reason of ineligibility to stand for reelection under the Company's by-laws:* All outstanding Options held by the Participant shall continue to full term, becoming exercisable in accordance with Section 6(c).

(vi) *Other:* For any termination other than those specified above, all outstanding Options held by the Participant shall be exercisable for 30 days after the date of termination, only to the extent that such Options were exercisable on the date of termination, except as follows:

(A) If the Participant dies within 30 days after his or her termination, then such Participant's heirs may exercise the Options for a period of up to one year after the Participant's death, but only to the extent any unexercised portion was exercisable on the date of termination.

(B) If the Participant's termination occurs within 30 days before the effective date of a Change in Control, then the Change in Control will be deemed to have occurred first and the Options shall be exercisable in accordance with Section 6(d).

(f) *Option Agreement*. Each Option granted hereunder shall be evidenced by an Award Agreement with the Company, which shall contain the terms and provisions set forth herein and shall otherwise be consistent with the provisions of the Plan.

SECTION 7. RESTRICTED STOCK UNITS.

(a) *Grants of Restricted Stock Units*.

(i) Following the effective date of this Plan, each Director shall, effective as of the date of such individual's initial election or appointment to the Board, be granted 2,000 Restricted Stock Units.

(ii) Effective November 30, 2006, each Director shall also be granted annually 2,500 Restricted Stock Units.

(iii) Each Restricted Stock Unit granted pursuant to this Section 7(a) shall be paid or settled by the issuance of one Share.

(iv) Each Restricted Stock Unit grant made prior to November 30, 2006, shall be paid or settled upon the termination of such recipient's service as a director of the Company, provided that such termination of service shall have occurred (A) after the age at which a director is ineligible under the Company's by laws to stand for reelection to the board, (B) after the completion of at least eight years of service as a director of the Company, (C) as a result of the Director's death or disability, or (D) in connection with or as a result of a Change in Control. In the event such recipient's membership on the Board shall terminate prior to the attainment of the age of ineligibility for reelection and prior to the completion of eight years of service as a director for reasons other than death or disability, such Restricted Stock Units shall terminate and all of the rights, title and interest of the recipient thereunder shall be forfeited in their entirety.

(v) Each Restricted Stock Unit grant made on or after November 30, 2006, shall have the following additional terms and conditions:

(A) Vesting. Subject to Section 7(a)(v)(B) and subject to a Director's election to defer the settlement of Restricted Stock Units pursuant to Section 8, the shares covered by the Restricted Stock Units shall be issued as soon as practicable after the fourth anniversary of the date of grant.

(B) Change in Control. In the event of a Change in Control, the provisions of Section 7(a)(v)(A) shall not apply, any election by a Director to defer settlement of Restricted Stock Units pursuant to Section 8 shall be cancelled and Restricted Stock Units outstanding under this Plan shall vest immediately.

(C) Termination of Service as a Director. The effect of a Participant's termination of service as a director shall be as follows:

(I) *Death*. All outstanding Restricted Stock Units held by the Participant shall continue to full term subject to the other terms and conditions of this Plan, and shares shall be issued to such

Participant’s heirs at such times and in such manner as if the Participant were still a Director of the Company on the date of vesting.

(II) *Permanent disability*. All outstanding Restricted Stock Units held by the Participant shall continue to full term subject to the other terms and conditions of this Plan, and shares shall be issued to such Participant at such times and in such manner as if the Participant were still a Director of the Company on the date of vesting.

(III) *Termination after 8 years of service.* All outstanding Restricted Stock Units held by the Participant will continue to full term subject to the other terms and conditions of this Plan.

(IV) *Termination for reason of ineligibility to stand for reelection under the Company’s By-laws.* All outstanding Restricted Stock Units held by the Participant will continue to full term subject to the other terms and conditions of this Plan.

(V) *Other.* For any termination other than those specified above, all outstanding Restricted Stock Units held by the Participant shall terminate and become void without any shares being issued, except as provided in Section 7(a)(v)(c)(VI).

(VI) If a Participant’s termination of service (other than for cause) occurs within 30 days of a Change in Control, then the Change in Control shall be deemed to have occurred first and the provisions of Section 7(a)(v)(B) shall apply.

(D) Restricted Stock Unit Agreement. Each Restricted Stock Unit granted under this Section 7(b) shall be evidenced by an Award Agreement with the Company, which shall contain the terms and conditions set forth herein and shall otherwise be consistent with the provisions of this Plan.

(b) *Right to Dividend Equivalents*. Each recipient of Restricted Stock Units under this Plan shall have the right, during the period when such Restricted Stock Units are outstanding and prior to the termination, forfeiture or payment or settlement thereof, to receive dividend equivalents equal to the amount or value of any cash or other distributions or dividends payable on the same number of Shares. The Company shall accumulate dividend equivalents on each dividend payment date and pay such accumulated amounts without interest annually.

(c) *Issuance of Shares Upon Lapse of Restrictions*. A stock certificate or certificates shall be registered and issued in the name of the holder of Restricted Stock Units and delivered to such holder as soon as practicable after such Restricted Stock Units have become payable or settleable in accordance with the terms of the Plan.

SECTION 8. DEFERRED COMPENSATION.

(a) *Deferral Election*. Each eligible Director may elect, with respect to any Year, that all or any portion of his or her Eligible Compensation be deferred in accordance with the terms of this Plan.

(b) Cash Compensation *Investment Alternatives*. Each Director may elect that his or her Deferred Cash Compensation for any Year be credited to a Cash Account or a Stock Unit Account or to any combination thereof.

(i) *Cash Accounts*.

(A) The Company shall establish and maintain a separate unfunded Cash Account for each Director who has elected that any portion of his or her Deferred Cash Compensation be credited to a Cash Account.

(B) As of the date on which any amount of a Director’s Deferred Cash Compensation becomes payable, his or her Cash Account shall be credited with an amount equal to that portion of such Deferred Cash Compensation as such Director has elected be credited to his or her Cash Account.

(C) As of the last day of each month, interest on each Cash Account shall be credited on the average of the balances on the first and last day of such month. Interest shall be credited at a rate equivalent to the average yield on corporate bonds rated Aaa by Moody’s Investors Service on September 30 of the preceding Year (or if there is no such yield reported for such date, then on the next

preceding date for which such a yield is reported) as published in Federal Reserve Statistical Release H.15, or at such other rate as may be determined by the G&SR Committee for each Year.

(ii) *Stock Unit Accounts*.

(A) The Company shall establish and maintain a separate unfunded Stock Unit Account for each Director who has elected that any portion of his or her Deferred Cash Compensation be credited to a Stock Unit Account.

(B) As of each date on which any amount of a Director's Deferred Cash Compensation becomes payable, his or her Stock Unit Account shall be credited with that number of units as are equal to the number of full or fractional Shares as could be purchased at the Fair Market Value on the first trading day preceding such date with the portion of such Deferred Cash Compensation as such Director has elected be credited to his or her Stock Unit Account.

(C) As of the payment date for each dividend on Shares declared by the Board, there shall be credited to each Stock Unit Account that number of units as are equal to the number of full or fractional Shares as could be purchased at the Fair Market Value on the first trading day preceding the payment date for such dividend with an amount equal to the product of: (i) the dividend per share, and (ii) the number of units in such Stock Unit Account immediately prior to the record date for such dividend.

(c) *Restricted Stock Units*. Each Director may elect to defer all or a portion of any Restricted Stock Unit granted after November 30, 2006.

(d) *Form and Time of Election.* A Director's election to defer all or any portion of his or her Eligible Compensation for any Year shall be irrevocable. The election shall be made in writing in the form ("Election Form") prescribed by the Secretary. Except as hereinafter provided, to be effective, an Election Form for any Year shall be required to be received by the Secretary on or before December 31 of the preceding Year. In the case of a Director's initial election to the Board, the initial Election Form shall be received not more than 30 days following his or her election to the Board and, if not received within such 30-day period, the Election Form shall be effective only for Eligible Compensation earned after its receipt.

(e) *Form and Time of Distributions*. (i) Distributions of amounts credited to each Director's Cash Account shall be made in cash. (ii) Distributions of units credited to each Director's Stock Unit Account shall be made by issuing to such Director an equivalent number of Shares; provided, however, that no fractional shares will be issued and any fractional unit will be distributed by payment of cash in the amount represented by such fractional unit based on the Fair Market Value on the date preceding the date of payment. (iii) Distribution of Shares relating to vested Restricted Stock Units the Director has elected to defer shall be made by issuing to such Director the whole number of Shares attributable to such vested Restricted Stock Units; provided, however, that no fractional shares will be issued and any fractional unit will be distributed by payment of cash in the amount represented by such fractional unit based on the Fair Market Value on the date preceding the date of payment. Except as otherwise hereinafter provided, distributions of Deferred Compensation shall be made (y) on the first day of the month following such Director's termination of service on the Board for any reason other than death, or (z) at such later time as the Director has elected in accordance with the terms of this Plan. Notwithstanding the foregoing, (I) an earlier distribution may be made, at the discretion of the Administrator, upon a finding that a Director is suffering a significant financial hardship caused by a recent event or events not within such Director's control; provided, however, that in such event, the cash or shares distributed shall be limited to those amounts necessary to accommodate the financial hardship, as determined by the Administrator and (II) an earlier distribution of Restricted Stock Units shall be made upon a Change in Control as provided by Section 7(a)(v)(B).

(f) *Death of Director*. Notwithstanding the foregoing, in the event of the death of a Director prior to receipt by such Director of the full amount of cash and number of shares to be distributed to the

Director from the Cash Account and Stock Unit Account, all such cash and/or shares will be distributed to the beneficiary or beneficiaries designated by the Director, or if no beneficiary has been designated, to the Director's estate as soon as practicable following the month in which the death occurred. Shares to be distributed to the Director in connection with deferred Restricted Stock Units that are vested shall also be distributed as described in the preceding sentence; for unvested Restricted Stock Units, distribution shall occur as soon as practicable following their vesting date.

(g) *Certain Rights Reserved by the Company*. In the event that, pursuant to Section 10, the Company suspends, modifies or terminates this Plan, the Company shall have the right to distribute to each Director all amounts in such Director's Cash Account or Shares equivalent to units in such Director's Stock Unit Account, including, in the case of Stock Unit Accounts, the right to distribute cash equivalent to the units in such Accounts and all Shares attributable to vested Restricted Stock Units that a Director has elected to defer.

(h) *Certain Affiliations*. In the event that any Director terminates his or her membership on the Board and becomes affiliated with a government agency or with any private company or firm that the G&SR Committee believes to be in competition with the Company, the Board may, at its discretion, require a distribution of all amounts in any Director's Cash Account, shares equivalent to units in such Director's Stock Unit Account or Shares attributable to vested Restricted Stock Units that such Director has elected to defer.

(i) *Distribution of Shares Relating to Restricted Stock Units*. Notwithstanding anything to the contrary herein, no distribution of Shares relating to Restricted Stock Units shall occur until the Restricted Stock Units have vested.

SECTION 9. OTHER STOCK-BASED AWARDS.

The Administrator is hereby authorized to grant to Directors such other Awards (including, without limitation, stock appreciation rights and rights to dividends and dividend equivalents) that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares) as are deemed by the Administrator to be consistent with the purposes of the Plan. Subject to the terms of the Plan, the Administrator shall determine the terms and conditions of such Awards. Shares or other securities delivered pursuant to a purchase right granted under this Section 9 shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms, including, without limitation, cash, Shares, other securities, other Awards, or other property, or any combination thereof, as the Administrator shall determine, the value of which consideration, as established by the Administrator, shall not be less than the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

SECTION 10. AMENDMENT AND TERMINATION.

Except to the extent prohibited by applicable law:

(a) *Amendments to the Plan*. The Board may amend, alter, suspend, discontinue or terminate the Plan, including, without limitation, the number of shares subject to Awards granted pursuant to Sections 6 and 7, without the consent of any stockholder, Participant, other holder or beneficiary of any Award, or other person; *provided, however*, that no such amendment, alteration, suspension, discontinuation or termination shall be made without (i) stockholder approval if such approval is necessary to qualify for or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply or (ii) the consent of the affected Participant, if such action would adversely affect the rights of such Participant under any outstanding Award; and *provided further*, that no such amendment or alteration shall increase the aggregate number of shares that may be issued under the Plan except as provided in Section 5(e). Notwithstanding any other provision of the Plan or any Award Agreement, no such amendment, alteration, suspension, discontinuation or

termination shall be made that would (1) permit Options to be granted with a per Share exercise price of less than the Fair Market Value of a Share on the date of grant thereof or (2) except as provided in Section 5(e), (x) reduce the exercise price of any Option established at the time of grant thereof, (y) be treated as a repricing under U.S. generally accepted accounting principles ("GAAP") or (z) cancel an Option at a time when its exercise price is equal to or greater than the Fair Market Value of a Share, in exchange for another Option, restricted stock unit or other equity, unless such cancellation and exchange occurs in connection with a merger, acquisition, spin-off or other similar corporate transaction. A cancellation and exchange described in clause (z) of the immediately preceding sentence is prohibited regardless of whether the option, restricted stock unit or other equity is delivered simultaneously with the cancellation and regardless of whether the cancellation and exchange is treated as a repricing under GAAP or is voluntary on the part of the Participant.

(b) *Correction of Defects, Omissions and Inconsistencies*. The Administrator may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

SECTION 11. GENERAL PROVISIONS.

(a) *No Rights of Stockholders*. Neither a Participant nor a Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company in respect of any Shares issuable under the Plan in connection with any Award or Account, in whole or in part, unless and until certificates for such shares shall have been issued.

(b) *Limits of Transfer of Awards.* No Award and no right under any such Award, shall be assignable, alienable, saleable or transferable by a Participant otherwise than by will or by the laws of descent and distribution. During the Participant's lifetime, rights under an Award shall be exercisable only by the Participant, or if permissible under applicable law, by the Participant's guardian or legal representative.

(c) *No Limit on Other Compensation Arrangements*. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) *Governing Law*. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.

(e) *Severability*. If any provision of the Plan or any Award Agreement is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any person, Award or Account, or would disqualify the Plan or any Award under any law deemed applicable by the Administrator, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Administrator, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

(f) *No Trust or Fund Created*. Neither the Plan nor any Award or Account shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive an Award or Account, or Shares pursuant to an Award or Account, from the Company pursuant to this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

(g) *Accounts Unsecured*. Until distributed, all amounts credited to any Cash Accounts or represented by units credited to any Stock Unit Account or shall be property of the Company, available for the Company's use, and subject to the claims of general creditors of the Company. The rights of any Director or beneficiary to distributions under this Plan are not subject to anticipation, alienation, sale, transfer, assignment, or encumbrance, and shall not be subject to the debts or liabilities of any Director or beneficiary.

(h) *Withholding*. The Company shall be authorized to withhold from any Awards granted or any transfer made under any Award or under the Plan or from any dividend equivalents to be paid on Restricted Stock Units the amount (in cash, Shares, other securities, or other property) of any taxes required to be

withheld in respect of a grant, exercise, payment or settlement of an Award or any payment of dividend equivalents under Restricted Stock Units or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of any such taxes.

(i) *No Right to Continued Board Membership*. The grant of an Award or establishment of an Account shall not be construed as giving a Participant the right to be retained as a director of the Company. The Board may at any time fail or refuse to nominate a Participant for election to the Board, and the stockholders of the Company may at any election fail or refuse to elect any Participant to the Board free from any liability or claim under this Plan or any Award or Account.

(j) *Cancellation*. Any provision of the Plan or any Award Agreement to the contrary notwithstanding, the Administrator may cause any Award granted hereunder to be cancelled in consideration of a cash payment or alternative Award made to the holder of such cancelled Award equal in value to the Fair Market Value of such cancelled Award on the date of cancellation.

SECTION 12. EFFECTIVE DATE OF PLAN.

The Plan shall be effective as of the date of its approval by the stockholders of the Company.

SECTION 13. TERM OF THE PLAN.

No Award shall be granted or compensation deferred under the Plan after the seventh anniversary of the Effective Date of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted or Account established prior to the termination of the Plan may extend beyond such date, and the authority of the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or Account, or to waive any conditions or rights thereunder, and the authority of the Board to amend the Plan, shall extend beyond such date.

Texas Instruments Incorporated
Nonqualified Stock Option Agreement
(Executive Officers)

Form No. 2
2000 LTIP

Your option is subject to the following terms and conditions, your acceptance of which is required before you can exercise the option:

1. Exercisability. On or after the first anniversary of the Option Date (as defined in Section 9), during the balance of the option term, your option may be exercised and shares purchased at any time or times under the following conditions:

(a) Installment Table. Except as provided in Sections 1(b), 1(c) and 1(d), the option will be exercisable through the tenth anniversary of the Option Date based on the following table.

On or After	Percent Exercisable
1st anniversary of the Option Date	25%
2nd anniversary of the Option Date	50%
3rd anniversary of the Option Date	75%
4th anniversary of the Option Date	100%

(b) Change in Control. If there is a Change in Control (as defined in Section 9), then Section 1(c) (except Section 1(c)(vii)) and the table in Section 1(a) will not apply and, subject to the other terms and conditions of this agreement, the option will be exercisable in full through the tenth anniversary of the Option Date.

(c) Termination of Employment. The effect of termination of employment from TI (as defined in Section 9) is as follows:

(i) Termination for cause: The option will be canceled immediately upon termination.

(ii) Death: The option will continue to full term, becoming exercisable per the table in Section 1(a), and will be exercisable by your heirs.

(iii) Permanent disability: The option will continue to full term, becoming exercisable per the table in Section 1(a).

(iv) Termination (except for cause), at least six months after the Option Date and when you are retirement eligible (normal or early) either under the terms of the TI 401(k) or pension plan in your home country or the country in which you work, as applicable (regardless of whether you are a participant in such plan), or if there is no such plan, as may be set forth in the laws or

regulations in your home country or the country in which you work, as applicable: The option will continue to full term, becoming exercisable per the table in Section 1(a).

(v) Termination (except for cause) at least six months after the Option Date and after 20 years of service (credited or otherwise) as a TI employee, but you are not retirement eligible as described in Section 1(c)(iv): The option will continue to full term, but will be exercisable only to the extent it was exercisable on the date of termination.

(vi) Other: For any termination other than those specified above, the option will be exercisable for 30 days after the date of termination, only to the extent that it was exercisable on the date of termination per the table in Section 1(a), except as follows: If you die within 30 days after your termination, then your heirs may exercise the option for a period of up to one year after your death, but only to the extent any unexercised portion was exercisable on the date of termination.

(vii) If your termination under Section 1(c)(v) or (vi) occurs within 30 days before the effective date of a Change in Control, then the Change in Control will be deemed to have occurred first and the option will be exercisable in accordance with Section 1(b).

(d) Confidential Information and Competition. See Section 6, particularly Section 6(c), for the effect of disclosure of confidential information or of competition with TI.

2. Continuing Employment. Your option will not be affected by any change of employment so long as you continue to be employed by TI. The option will not constitute or be evidence of any agreement or understanding, expressed or implied, on the part of TI to employ you for any specific period.

3. Transferability. Your option is not transferable except by will or by the laws of descent and distribution, and during your lifetime may be exercised only by you.

4. Manner of Exercise. Your option may be exercised by delivery of a written notice of exercise to the Secretary of the Company or the Secretary’s designee, specifying the number of shares for which you wish to exercise the option, and delivery of the full purchase price thereof, in a form approved by the Compensation Committee of the Board of Directors of the Company, to the Secretary or the Secretary’s designee, or in such other manner as the Committee may otherwise from time to time permit.

5. Long-Term Incentive Plan. Your option is subject to all of the terms and conditions of the Texas Instruments 2000 Long-Term Incentive Plan (hereinafter “the Plan”). In the event of any conflict between such terms and conditions and those set forth herein, the terms of the Plan shall govern and be determinative. It is expressly

intended that the definition of Change in Control contained in Section 9 shall supersede any definition of such term or similar term that may be contained in the Plan.

6. **<u>Confidential Information and Competition</u>**. By accepting your option, and in consideration for the option and for the Company's obligations set forth herein, you agree with the Company as follows:

(a) You recognize and acknowledge that in the course of your employment with TI, you have obtained private or confidential information and proprietary data relating to TI, including but not limited to TI's trade secrets (hereinafter "Confidential Information"). TI agrees that it will continue to provide you with access to its Confidential Information to the extent necessary for you to carry out the duties of your employment with TI.

(b) You agree not to use or disclose to third parties, either directly or indirectly, Confidential Information at any time, except with the prior written consent of TI. Without intending to limit the remedies available to TI, you acknowledge that damages at law will be an insufficient remedy to TI if you violate the terms of this Section 6(b) and agree that TI may apply for and have injunctive relief in any court of competent jurisdiction specifically to enforce the terms of this paragraph upon the breach or threatened breach of any such terms or otherwise specifically to enforce such terms.

(c) You agree that, if, during your employment and for a period of two years thereafter you engage in Competition (as defined in Section 9), either directly or indirectly, for your own benefit or on behalf of any other person or entity, or if, at any time, you use or disclose to third parties any Confidential Information without the written consent of the Company, then (i) the option will not be thereafter exercisable at any time, and (ii) you shall repay immediately to the Company any profit (spread between Option Price and market price of the Company's common stock on the date of exercise) made on the option within three years prior to termination of your employment or any time after termination of your employment. Any amount payable to the Company pursuant to this provision may be reduced or waived as the Company, in its sole judgment, deems warranted by the circumstances.

(d) You recognize and acknowledge that the provisions of this Section 6 relating to nondisclosure and noncompetition during and after employment are entered into by you in consideration of, and as a material inducement to, the agreements by the Company herein as well as an inducement for the Company to enter into this Option Agreement, and that, but for your agreement to the provisions of this Section 6, the Company would not have entered into this Agreement.

7. <u>Responsibility for Taxes</u>. You acknowledge that the ultimate liability for income tax, social insurance or other tax-related withholding (hereinafter "Tax-Related Items") in connection with this grant, its exercise or the subsequent sale of shares received

thereunder is your responsibility, and that TI (a) makes no representations or undertakings with respect to the treatment for tax purposes of the grant or exercise of this option or sale of shares received thereunder, or any dividends on issued shares, and (b) does not commit to structure the grant to reduce your liability for Tax-Related Items. You authorize TI to withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by TI or from proceeds of the sale of the shares. If permissible under local law, TI may (a) sell or arrange for the sale of shares that you acquire to meet the withholding obligation for Tax-Related Items, and/or (b) withhold shares, provided that TI only withholds the number of shares necessary to satisfy the minimum withholding amount. Finally, you shall pay to TI any amount of Tax-Related Items that TI may be required to withhold that cannot be satisfied by the means described above.

8. Nature of Grant. In accepting this grant, you acknowledge that: (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan; (b) all decisions with respect to future grants, if any, will be at the sole discretion of the Company; (c) the grant of your option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (d) you are voluntarily participating in the Plan; (e) your option is an extraordinary item that does not constitute compensation for services rendered to TI; (f) your option is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, termination, pension or retirement benefits or similar payments; (g) the option grant will not be interpreted to form an employment contract or relationship with TI; (h) the future value of the underlying shares is unknown and cannot be predicted with certainty; and (i) the value of any shares acquired upon exercise may increase or decrease in value.

9. Certain Definitions.

(a) The term “*Change in Control*” means an event when (i) any Person, alone or together with its Affiliates and Associates or otherwise, shall become an Acquiring Person otherwise than pursuant to a transaction or agreement approved by the Board of Directors of the Company prior to the time the Acquiring Person became such, or (ii) a majority of the Board of Directors of the Company shall change within any 24-month period unless the election or the nomination for election by the Company’s stockholders of each new director has been approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period. For the purposes hereof, the terms Person, Affiliates, Associates and Acquiring Person shall have the meanings given to such terms in the Rights Agreement dated as of June 18, 1998, between the Company and Harris Trust and Savings Bank, as in effect on the Option Date; provided, however, that if the percentage employed in the definition of Acquiring Person is reduced hereafter from 20% in such Rights

Agreement or any successor Rights Agreement, then such reduction shall also be applicable for the purposes hereof.

(b) The term "*Company*" means Texas Instruments Incorporated and the term "*TI*" means and includes Texas Instruments Incorporated and its subsidiaries.

(c) **The term "*Competition*" means:**

(i) engaging in any business activity similar to that in which you engaged during your last three years of employment with TI for any person or entity selling, marketing, designing or manufacturing products the same as, similar to, or that compete with products that TI sells or markets in any area that TI sells or markets such products;

(ii) engaging in the selling or marketing of any products that are the same as, similar to, or that compete with any products that you sold or marketed, or attempted to sell or market, during the last three years of your employment with TI in any area in which you sold or marketed, or attempted to sell or market, such products;

(iii) engaging in the manufacture or design of any products that are the same as, similar to or that compete with any products that you sold or marketed, or attempted to sell or market, or participated in the design or manufacture of, during the last three years of your employment with TI; or

(iv) engaging in the selling or marketing of any products that are the same as, similar to, or that compete with any products that you participated in the design or manufacture of during the last three years of your employment with TI in any area in which TI has sold or marketed, or attempted to sell or market, such products.

(d) The term "*Option Date*" means the date of grant of this option.

10. Texas Law. This agreement and specifically the provisions of Section 6 hereof shall be construed both as to validity and performance and enforced in accordance with the laws of the State of Texas without giving effect to the principles of conflict of laws thereof.

11. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

END

By accepting this option agreement, I acknowledge I have read and I agree to be bound by all of the terms and conditions set forth above, including Section 6 relating to Confidential Information and Competition.

Texas Instruments Incorporated
Restricted Stock Unit Award Agreement
(Executive Officers)

RSU Form No. 2
2000 LTIP

Your award of Restricted Stock Units (the "Award") is subject to the following terms and conditions, your acceptance of which is required within 120 days of the Grant Date (as defined in Section 9 below). **Failure to accept this Agreement by such date will result in termination of the Award without any shares being issued.**

1. Share Issuance. Each Restricted Stock Unit represents the right to receive one share of common stock of Texas Instruments Incorporated ("the Company"). The shares covered by this Award will be issued in your name as soon as practicable after the date of vesting stated on your Employee Stock Grant Communication ("Vesting Date"), except as provided below in this Section 1:

(a) Change in Control. In the event of a Change in Control (as defined in Section 9) on or before the Vesting Date, the Vesting Date will be deemed to be the effective date of the Change in Control.

(b) Change in Employment Status. The effect of changes in your employment status with TI (as defined in Section 9) before the Vesting Date will be as follows:

(i) Termination due to death or permanent disability: The Award will continue to full term subject to the other terms and conditions of this Agreement, and shares will be issued to you or to your personal representatives, heirs, legatees or distributes, as applicable, at such times and in such number and manner as if you were still an employee of TI on the Vesting Date.

(ii) Termination (except for cause) when you are retirement eligible (normal or early) either under the terms of the TI 401(k) or pension plan in your home country or the country in which you work, as applicable (regardless of whether you are a participant in such plan), or if there is no such plan, as may be set forth in the laws or regulations in your home country or the country in which you work, as applicable: The Award will continue to full term subject to the other terms and conditions of this Agreement, except that the number of shares issuable to you on the Vesting Date will be reduced pro rata as follows:

The number of shares will be the number specified for the Vesting Date on the Employee Stock Grant Communication, times a fraction equal to your Pre-Retirement Period (as defined in Section 9(e)) divided by the

Vesting Period (as defined in Section 9(f)). If the number of shares calculated pursuant to the previous sentence includes a fraction of a share, the number will be rounded up to the next whole share. If your Award provides for more than one Vesting Date, this calculation will be done to determine the number of shares issuable on each Vesting Date.

(iii) Termination under other circumstances: For any termination other than those specified in (i) or (ii) above, the Award will terminate and become void without any shares being issued, except as provided in (iv).

(iv) If your termination of employment (other than for cause) occurs within 30 days before the effective date of a Change in Control, then the Change in Control will be deemed to have occurred first and the provisions of Section 1(a) will apply.

(v) Commencement of a Bridge to Retirement (as defined in Section 9(g)) even if you subsequently return to full- or part-time employment with TI: The Award will continue to full term subject to the other terms and conditions of this Agreement, except that the number of shares issuable to you on the Vesting Date will be reduced pro rata as follows:

The number of shares will be the number specified for the Vesting Date on the Employee Stock Grant Communication, times a fraction equal to your Pre-Bridge Period (as defined in Section 9(h)) divided by the Vesting Period (as defined in Section 9(f)). If the number of shares calculated pursuant to the previous sentence includes a fraction of a share, the number will be rounded up to the next whole share. If your Award provides for more than one Vesting Date, this calculation will be done to determine the number of shares to be issuable on each Vesting Date.

If you go on a Bridge to Retirement and subsequently terminate under the circumstances described in (i) or (ii) above, there is no further adjustment to the number of shares issuable under your Award, even if you have returned to full- or part-time employment before terminating.

(vi) Other changes in employment status: No changes in employment status other than those described above will affect the Award.

(c) Confidential Information and Competition. See Section 6, particularly Section 6(c), for the effect of disclosure of confidential information or of competition with TI.

(d) Employee Stock Grant Communication. This Award was granted by the Compensation Committee of the Company’s Board of Directors (the

"Committee"). In the event of a conflict between the Employee Stock Grant Communication and the records of the Committee, the latter shall govern and be determinative.

2. Dividend Equivalents. Each year in which this Award is in effect, you will receive a payment equivalent to the cash dividends you would have received if the shares to which you are entitled under this Award, but not yet issued in your name, had already been issued to you ("Dividend Equivalents"); provided, however, that no payment will be made if your Award has terminated before the last dividend record date of the year for any reason other than vesting. The payment to which you are entitled under this paragraph will be made once each year on or as soon as practicable after the date of the last cash dividend payment in the year. The Dividend Equivalents will be calculated for the record dates on which this Award was in effect during the year. If the number of shares to which you are entitled under this Award is reduced pursuant to Section 1(b)(ii) or (v), then your right to dividend equivalents will be correspondingly reduced with effect from the date of your retirement or commencement of a Bridge to Retirement, as applicable.

3. Continuing Employment. This Award will not constitute or be evidence of any agreement or understanding, expressed or implied, on the part of TI to employ you for any specific period.

4. Transferability. Your Award is not transferable except by will or by the laws of descent and distribution. During your lifetime, the shares issuable hereunder may be issued only to you.

5. Long-Term Incentive Plan. Your Award is subject to all of the terms and conditions of the Texas Instruments 2000 Long-Term Incentive Plan ("the Plan"). In the event of any conflict between such terms and conditions and those set forth herein, the terms of the Plan shall govern and be determinative. It is expressly intended that the definition of Change in Control contained in Section 9(a) shall supersede any definition of such term or similar term that may be contained in the Plan**.**

6. **Confidential Information and Competition**. By accepting your Award, and in consideration for the Award and for the Company's obligations set forth in this Agreement, you agree with the Company as follows:

   (a) You recognize and acknowledge that in the course of your employment with TI, you have obtained private or confidential information and proprietary data relating to TI, including but not limited to TI's trade secrets ("Confidential Information"). TI agrees that it will continue to provide you with access to its Confidential Information to the extent necessary for you to carry out the duties of your employment with TI.

   (b) You agree not to use or disclose to third parties, either directly or indirectly, Confidential Information at any time, except with the prior written consent of TI.

Without intending to limit the remedies available to TI, you acknowledge that damages at law will be an insufficient remedy to TI if you violate the terms of this Section 6(b) and agree that TI may apply for and have injunctive relief in any court of competent jurisdiction specifically to enforce the terms of this paragraph upon the breach or threatened breach of any such terms or otherwise specifically to enforce such terms.

(c) You agree that, if, during your employment and for a period of two years thereafter you engage in Competition (as defined in Section 9(c)), either directly or indirectly, for your own benefit or on behalf of any other person or entity, or, if at any time, you use or disclose to third parties any Confidential Information without the written consent of TI, then (i) the Company's obligation to issue shares under this Award will terminate and become void, and (ii) you shall repay immediately to TI the Fair Market Value (as defined in Section 9(j) below) of any shares of stock issued to you (or immediately surrender to the Company the same number of shares of stock as were issued to you) under this Award within three years prior to termination of your employment or any time after termination of your employment. If your Award provides for more than one Vesting Date, then payment shall be made, or shares surrendered, with respect to each such Vesting Date. Any amount payable (or number of shares subject to surrender) to the Company pursuant to this provision may be reduced or waived as the Company, in its sole judgment, deems warranted by the circumstances.

(d) You recognize and acknowledge that the provisions of this Section 6 are entered into by you in consideration of, and as a material inducement to, the agreements by the Company herein as well as an inducement for the Company to enter into this Agreement, and that, but for your agreement to the provisions of this Section 6, the Company would not have entered into this agreement.

7. Responsibility for Taxes. You acknowledge that the ultimate liability for income tax, social insurance or other tax-related withholding ("Tax-Related Items") in connection with this Award, the payment of Dividend Equivalents or the issuance of shares hereunder, or the subsequent sale of such shares is your responsibility, and that TI makes (a) no representations or undertakings with respect to the treatment for tax purposes of this Award, any shares or Dividend Equivalents received hereunder, the sale of such shares or any dividends paid on issued shares and (b) does not commit to structure the grant to reduce your liability for Tax-Related Items. You authorize TI to withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by TI, from Dividend Equivalents or from proceeds of the sale of the shares. If permissible under local law, TI may (a) sell or arrange for the sale of shares that you acquire to meet the withholding obligation for Tax-Related Items, and/or (b) withhold shares, provided that TI only withholds the number of shares necessary to satisfy the minimum

withholding amount. Finally, you shall pay to TI any amount of Tax-Related Items that TI may be required to withhold that cannot be satisfied by the means described above.

8. <u>Nature of Grant</u>. In accepting this Award, you acknowledge that: (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, as provided in the Plan; (b) all decisions with respect to future awards, if any, will be at the sole discretion of the Company; (c) the Award is voluntary and occasional and does not create any contractual or other right to receive future Awards, or benefits in lieu of Awards; (d) you are voluntarily participating in the Plan; (e) your Award is an extraordinary item that does not constitute compensation for services rendered to TI; (f) your Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, termination, pension or retirement benefits or similar payments; (g) the Award will not be interpreted to form an employment contract or relationship with TI; (h) the future value of the underlying shares is unknown and cannot be predicted with certainty; and (i) if you receive shares, the value of such shares may increase or decrease in value.

9. <u>Certain Definitions</u>.

(a) The term "*Change in Control*" means an event when (i) any Person, alone or together with its Affiliates and Associates or otherwise, shall become an Acquiring Person otherwise than pursuant to a transaction or agreement approved by the Board of Directors of the Company prior to the time the Acquiring Person became such, or (ii) a majority of the Board of Directors of the Company shall change within any 24-month period unless the election or the nomination for election by the Company's stockholders of each new director has been approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period. For the purposes hereof, the terms Person, Affiliates, Associates and Acquiring Person shall have the meanings given to such terms in the Rights Agreement dated as of June 18, 1998, between the Company and Harris Trust and Savings Bank, as in effect on the Grant Date; provided, however, that if the percentage employed in the definition of Acquiring Person is reduced hereafter from 20% in such Rights Agreement or any successor Rights Agreement, then such reduction shall also be applicable for the purposes hereof. Notwithstanding the foregoing, if your Award is or becomes subject to Section 409A of the Internal Revenue Code, then "Change in Control" shall mean a change in control event as to the Company, as defined in Section 409A of the Internal Revenue Code and the regulations thereunder.

(b) The term "*Company*" means Texas Instruments Incorporated and the term "*TI*" means and includes Texas Instruments Incorporated and its subsidiaries.

(c) **The term “*Competition*” means:**

(i) engaging in any business activity similar to that in which you engaged during your last three years of employment with TI for any person or entity selling, marketing, designing or manufacturing products the same as, similar to, or that compete with products that TI sells or markets in any area that TI sells or markets such products;

(ii) engaging in the selling or marketing of any products that are the same as, similar to, or that compete with any products that you sold or marketed, or attempted to sell or market, during the last three years of your employment with TI in any area in which you sold or marketed, or attempted to sell or market, such products;

(iii) engaging in the manufacture or design of any products that are the same as, similar to or that compete with any products that you sold or marketed, or attempted to sell or market, or participated in the design or manufacture of, during the last three years of your employment with TI; or

(iv) engaging in the selling or marketing of any products that are the same as, similar to, or that compete with any products that you participated in the design or manufacture of during the last three years of your employment with TI in any area in which TI has sold or marketed, or attempted to sell or market, such products.

(d) The term “*Grant Date*” means the date of grant of this Award.

(e) The term “*Pre-Retirement Period*” means the number of whole 365-day periods from (and including) the Grant Date through the earlier of (i) the day before your termination is effective or (ii) the day before the beginning of any Bridge to Retirement you have commenced after the Grant Date.

(f) The term “*Vesting Period*” means the number of whole 365-day periods from (and including) the Grant Date of the Award through the Vesting Date.

(g) The term *“Bridge to Retirement”* means an unpaid leave of absence that TI has granted you solely to enable you to qualify for retirement as described in Section 1(b)(ii).

(h) The term “*Pre-Bridge Period*” means the number of whole 365-day periods from (and including) the Grant Date of this Award through the day before you began your Bridge to Retirement.

(i) The term “*Employee Stock Grant Communication*” means the written communication from the Company to you stating the date(s) of vesting and number of shares under the Award.

(j) The term “*Fair Market Value*” means the closing price of TI common stock on the New York Stock Exchange on the day before the Vesting Date.

10. Rights as Stockholder: You will not have any rights as a stockholder of the Company in respect of any shares of common stock of the Company issuable under this Award unless and until such shares are issued in your name and delivered to you in accordance with the provisions hereof.

11. Texas Law. This agreement and specifically the provisions of Section 6 hereof shall be construed both as to validity and performance and enforced in accordance with the laws of the State of Texas without giving effect to the principles of conflict of laws thereof.

12. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

END

By accepting this Restricted Stock Unit Award Agreement, I acknowledge I have read and I agree to be bound by all of the terms and conditions set forth above, including Section 6 relating to Confidential Information and Competition.

Separation Agreement and General Release

This Separation Agreement and General Release ("Agreement") is entered into and effective as of January 23, 2007 (the "Effective Date"), between Texas Instruments Incorporated ("TI") and Gilles Delfassy ("Executive"), sometimes referred to collectively herein as the "parties."

This Agreement is made in consideration of the parties' mutual desire to amicably terminate their employment relationship and the parties' recognition of TI's need to protect its legitimate business interests including its confidential information and trade secrets, business strategy, public image, market share, business relationships, customer information and goodwill. In consideration of the mutual promises set out in this Agreement and for other good and valuable consideration, TI and Executive agree as follows:

1. TI Promises

In exchange for the promises contained in this Agreement and release of claims as set forth below, TI will provide Executive the following:

a. Paid Leave of Absence ("LOA") status for one year beginning August 1, 2007. The paid LOA period will begin August 1, 2007 and continue through July 31, 2008. Executive will then be placed on an unpaid LOA period beginning August 1, 2008 and continuing until July 22, 2010 when Executive reaches age 55 ("Bridge to Retirement") with sufficient service to TI to be retired. Executive will retire from TI on that date. Executive's status as an employee of TI is continued through the LOA period.

b. Continued payment during the paid LOA of the base salary applicable to him as of the Effective Date, which is thirty seven thousand five hundred U.S. dollars ($37,500.00) per month, less applicable withholdings. This pay is not "eligible earnings" for pension, profit sharing, 401(k) Savings Plans, or deferred compensation. Executive shall receive this pay in his regular paycheck cycles according to his pay schedule. Direct deposit shall continue, online check stub shall be cancelled, and check stubs shall be mailed to the home address on file with TI. Executive will receive the full one-year base salary; however Section 409A of the Internal Revenue Code may require payment to be made differently than indicated above (see Section 4(b) below).

c. Certain benefits during the paid and unpaid LOA, including: Medical (including EAP—employee assistance program), Dental, Vision, Life, and AD&D (accidental death & dismemberment) coverage and deductions continue under the active plan and premium rate structure. Health Care and Dependent Care

Spending Account deductions and 401(k) loan deductions also continue during the paid LOA period, but stop during the unpaid Bridge LOA period. Time Bank accruals, deductions for 401(k) Savings Plans, and coverage and deductions for DPC (disability pay continuance) and LTD (long-term disability) end at the beginning of the paid LOA period. TI employment and associated benefits are automatically terminated at the end of the unpaid LOA. Upon termination of the unpaid LOA, Executive will be eligible for extended health benefits or COBRA.

d. Profit sharing, if any, based on eligible earnings and distributed during the paid LOA, less applicable withholdings. Executive's eligible earnings shall be the eligible earnings received from TI for active employment between January 1, 2007 and July 31, 2007.

e. Continuation of outstanding stock options and restricted stock unit awards according to the terms and conditions cited in the controlling agreement(s) as such terms and conditions may be interpreted by the Compensation Committee of TI's Board of Directors. For the purposes of such agreements, Executive shall remain an employee during the paid and unpaid LOA. With specific reference to Executive's award of restricted stock units ("RSUs") granted on January 19, 2006, (the "Award") TI confirms that the terms and conditions of the Award provide that the number of RSUs under the Award will be reduced by 50 percent, and that Executive will receive as soon as practicable after the vesting date specified in the Award one share of TI common stock for each of the remaining RSUs, provided that (a) the LOA (paid and unpaid) periods contemplated by this Agreement occur, and (b) Executive complies with the terms and conditions of this Agreement and of the Award.

f. Consulting services from Challenger Gray and Christmas for a period of one year from the Effective Date.

g. Reimbursement for educational expenses of up to $25,000 incurred by executive during the paid and unpaid LOA.

After the Effective Date, TI will not provide Executive performance bonuses, grants of stock options or stock grants or other contingent or discretionary benefits or income that TI might have provided to him if he were an active employee.

2. Executive's Promises

In consideration of the promises contained in this Agreement, Executive agrees as follows.

a. On behalf of himself, his heirs, successors and assigns, and anyone claiming through him, irrevocably and unconditionally to release, acquit and forever discharge TI and/or its subsidiaries, divisions, predecessors, successors and

assigns, as well as their past and present officers, directors, executives, shareholders, trustees, joint venturers, partners, and anyone claiming through them (hereinafter "Releases" collectively), in their individual and/or corporate capacities, from any and all claims, liabilities, promises, actions, damages and the like, known or unknown, asserted or unasserted, arising prior to or existing at the time of the execution of this Agreement which Executive had, now has or may have against any of the Releases that arise out of or relate to Executive's employment with TI and/or the termination of Executive' employment with TI. Said claims include, but are not limited to: (1) claims for employment discrimination, harassment or retaliation arising under Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, 42 U.S.C. sections 1981 and 1983, the Equal Pay Act, the Texas Commission on Human Rights Act, Texas Labor Code section 451 *et seq.*, and/or any other relevant federal or state statute, local law or municipal ordinance; (2) claims arising under other federal or state employment statutes such as the Family Medical Leave Act, the Occupational Safety and Health Act, and section 510 of the Employee Retirement Income Security Act; (3) claims for disputed wages, whether arising under statutory or common-law, including those arising under the Texas Labor Code; (4) claims for wrongful discharge and/or breach of any alleged employment contract; (5) claims based on any tort, such as invasion of privacy, defamation, fraud, infliction of emotional distress, tortious interference with contract or business relations, or negligence; and (6) any other statutory or common-law cause of action providing rights for individuals or employees against their employers, provided, however, that he is not waiving any right to enforce TI's promises under this Agreement. The releases given by Executive under this section constitute a general release.

b. Paragraph 2a specifically waives and releases any and all rights or claims he might have under the Age Discrimination in Employment Act of 1967, as amended, except for any claims that might arise after he signs this Agreement.

c. He will not bring any legal action against any of the Releases for any claim waived and released under this Agreement, and Executive represents and warrants that no such claim has been filed to date. Executive further agrees that should he bring any type of administrative or legal action arising out of claims waived under this Agreement, he will bear all legal fees and costs, including those of the Releases.

d. He will not accept any recoveries or benefits that might be obtained in his behalf by another person or organization or in any class action against Releases arising out of or related to his employment at TI or termination thereof.

e. He agrees that prior to his retirement from TI in July 2010, he will not accept a position on the board of directors or as an executive officer of any company other than a non-profit one without the approval of the Chief Executive Officer or General Counsel of TI. The decision on whether to approve will not be

unreasonably withheld and will be based on consideration of the potential competitive impact to TI and/or the relationship with a TI supplier or customer.

f. He agrees that prior to his retirement from TI in July 2010 he will not accept employment by, serve on the board of directors of, or otherwise provide consulting, advising, or other services, directly or indirectly, to any TI competitor unless such employment or service is approved by the Chief Executive Officer or General Counsel of TI.

g. He agrees that prior to his retirement from TI in July 2010, unless he receives prior written approval from the Chief Executive Officer of TI, he will not directly or indirectly hire, employ, solicit for employment, attempt to solicit for employment or advise about changing employment any person who was an executive, engineer or other professional for TI or any of its divisions or subsidiaries at any time during the six months preceding such solicitation, advising or employment.

h. Executive agrees not to remove any of TI's property from TI premises and, within ten days of the start of the paid LOA to return all tangible and intangible property belonging to TI and relating to his employment with TI, including, but not limited to, customer lists, mailing lists, business strategies, account information, samples, prototypes, product development information, price lists and pricing information. Executive further represents and warrants that he has not retained any copies, electronic or otherwise, of such property.

i. He will cease to provide ongoing services to TI on August 1, 2007 and will not be reinstated or seek to be reinstated.

j. He will resign the office of senior vice president on August 1, 2007. After August 1, 2007, Executive shall no longer be subject to the pre-trade clearance procedures outlined in TI's SP&P 11-4-2 relating to transactions in TI stock. However, Executive still should not trade in TI stock if he is in possession of material, non-public information regarding TI; and for the duration of the paid and unpaid LOA, Executive still should not engage in short sales of TI stock or trade in "puts," "calls," or other options or hedging techniques on TI stock.

k. At the conclusion of the unpaid LOA, he must refer to the Employment Termination Handbook to initiate his termination and retirement process.

l. To continue to comply with the provisions of his stock option and restricted stock unit agreements including without limitation provisions about noncompetition and non-disclosure of confidential TI and TI customer information, recognizing and understanding that the obligations and remedies contained in those agreements survive execution of this Agreement.

m. If he breaches in any material respect his promises or obligations set forth in this Agreement, his LOA will immediately terminate, any outstanding obligations of TI under this Agreement will immediately terminate, and he will return to TI any and all monetary payments and benefits that he received pursuant to this Agreement.

3. Mutual Agreements

Executive and TI mutually agree:

a. to disclose the facts or terms of this Agreement only on the basis of a strict need to know, which would allow, without limitation, disclosures to the parties' attorneys, and personal and financial advisors, as required for accounting, tax or SEC reporting purposes or as otherwise required by law or by direction of a court; however, notwithstanding the foregoing, Executive may disclose the contents of Section 2(g) to any person who was an executive, engineer or other professional for TI or any of its divisions or subsidiaries at any time during the six months preceding such solicitation, should such person contact Executive about employment issues;

b. that neither party will make any comments relating to Executive, TI or TI's employees that are critical, derogatory or may tend to damage the reputation of either party or otherwise injure Executive or the business of TI;

c. that the compensation that Executive receives pursuant to Paragraph 1 does not constitute back wages; and

d. in the event Executive is named as a party in any lawsuit or other legal claim or action arising from his actions as an employee of TI, TI will indemnify Executive so long as his actions have been consistent with his employment by TI and have not been outside the scope of his employment. Such indemnity shall include, but not be limited to, reasonable attorneys' fees. Executive will receive the full benefit of any D&O insurance coverage to which he is entitled as a result of his employment by TI.

The parties agree that the prevailing party in any legal action between the parties concerning this Agreement shall be entitled to recover his or its reasonable attorneys' fees and court costs associated with such action.

4. General Provisions

a. The provisions of this Agreement are severable. If any provision is held to be invalid or unenforceable, it will not affect the validity or enforceability of any other provision.

b. This Agreement may be changed or modified by written amendment, without Executive's consent or signature, if the Company determines, in its sole

discretion, that such change or modification is necessary for purposes of compliance with or exemption from the requirements of Section 409A of the Internal Revenue Code and any regulations or other guidance issued thereunder, or otherwise to comply with any law.

c. This Agreement sets forth the entire agreement between Executive and TI and, except as specifically set forth herein, supersedes any and all prior oral or written agreements or understandings between Executive and TI concerning the subject matter of this Agreement. This Agreement may not be altered, amended, waived or modified, except by a further written document signed by the party against whom the same is sought to be enforced.

d. This Agreement is made within the State of Texas and will in all respects be interpreted, enforced and governed by the laws of the State of Texas.

5. Executive's Process Acknowledgements

Executive acknowledges that he has carefully read and understands all the provisions of this Agreement and that he is knowingly and voluntarily entering into it. Executive also acknowledges specifically that:

a. TI recommended that he consult an attorney for the purpose of receiving information regarding the effect of signing this Agreement and the release contained herein;

b. he understands that he may revoke this Agreement within seven days of signing it by delivering a written notice of revocation to Darla Whitaker, and that if he revokes this Agreement, it will not be effective or enforceable, and he will not receive the benefits described above;

c. he understands that he has been given at least twenty one (21) days to review and consider this Agreement before signing it and that he may use as much of the twenty one (21) day period as he wishes prior to signing and he recognizes that the decision period ends January 26, 2007.

6. Notice Provisions

Any and all notices and other information to be given by one party to the other under this agreement shall be deemed sufficiently given when: (i) sent by prepaid, registered or certified U.S. first class air mail; (ii) by nationally recognized overnight courier; (iii) transmission by facsimile; (iv) hand delivery to the other party; or (v) by email, so long as receipt of email is confirmed either by an email response from the recipient or verbally on a telephone call initiated by the sender, in each case addressed to the parties as follows:

If to TI:

Joseph F. Hubach
Senior Vice President and General Counsel
Texas Instruments Incorporated
Mail Station 8658
Post Office Box 660199
Dallas, Texas 75266-0199
(214) 480-6030
j-hubach@ti.com

If to Executive:

Gilles Delfassy
[Address omitted]

Notices shall be deemed to have been received five (5) business days after mailing if forwarded by U.S. mail, and the following business day if forwarded by courier, facsimile or hand delivery. The aforementioned address of either party may be changed at any time by giving five (5) days prior notice to the other party in accordance with the foregoing.

EXECUTED this 23rd day of January 2007.

Executive: /s/ Gilles Delfassy
Gilles Delfassy

Texas Instruments Incorporated

By: /s/ Darla Whitaker

Exhibit 12

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Millions of dollars)

	2006	2005	2004	2003	2002
EARNINGS:					
Income (loss) from continuing operations	$2,638	$2,173	$1,691	$1,065	($475)
Add: Provision (benefit) for income taxes	987	582	481	(15)	(58)
Amortization of capitalized interest	5	9	10	12	15
Fixed charges from below	34	35	40	61	80
Total earnings (loss)	$3,664	$2,799	$2,222	$1,123	($438)
FIXED CHARGES:					
Total interest on loans (expensed)	$ 7	$ 9	$ 21	$ 39	$ 57
Interest attributable to rental and lease expense	27	26	19	22	23
Fixed charges deducted from earnings	34	35	40	61	80
Capitalized interest	5	5	3	2	3
Total fixed charges	$ 39	$ 40	$ 43	$ 63	$ 83
Ratio of earnings to fixed charges	93.9	70.0	51.7	17.8	*

* The ratio is not meaningful. The coverage deficiency was $521 million in year 2002.

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CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars, except share and per-share amounts)

	FOR THE YEARS ENDED DECEMBER 31,		
	2006	2005	2004
Net revenue	**$ 14,255**	$ 12,335	$ 11,552
Operating costs and expenses:			
Cost of revenue	**6,996**	6,319	6,295
Research and development (R&D)	**2,195**	1,986	1,946
Selling, general and administrative (SG&A)	**1,697**	1,471	1,351
Total	**10,888**	9,776	9,592
Profit from operations	**3,367**	2,559	1,960
Other income (expense) net	**265**	205	233
Interest expense on loans	**7**	9	21
Income from continuing operations before income taxes	**3,625**	2,755	2,172
Provision for income taxes	**987**	582	481
Income from continuing operations	**2,638**	2,173	1,691
Income from discontinued operations, net of income taxes	**1,703**	151	170
Net income	**$ 4,341**	$ 2,324	$ 1,861
Basic earnings per common share:			
Income from continuing operations	**$ 1.73**	$ 1.33	$ 0.98
Net income	**$ 2.84**	$ 1.42	$ 1.08
Diluted earnings per common share:			
Income from continuing operations	**$ 1.69**	$ 1.30	$ 0.96
Net income	**$ 2.78**	$ 1.39	$ 1.05
Average shares outstanding (millions):			
Basic	**1,528**	1,640	1,730
Diluted	**1,560**	1,671	1,768
Cash dividends declared per share of common stock	**$ 0.130**	$ 0.105	$ 0.089

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Millions of dollars)

	FOR THE YEARS ENDED DECEMBER 31,		
	2006	**2005**	**2004**
Income from continuing operations	**$ 2,638**	$ 2,173	$ 1,691
Other comprehensive income (loss):			
Change in minimum pension liability adjustment:			
Annual adjustment, net of tax benefit (expense) of ($33), ($79) and $7	**48**	103	(8)
Changes in available-for-sale investments:			
Annual adjustment, net of tax benefit (expense) of ($2), $2 and $11	**5**	(3)	(21)
Reclassification of recognized transactions, net of tax benefit (expense) of $0, ($1) and ($3)	**(1)**	2	5
Total	**52**	102	(24)
Total comprehensive income from continuing operations	**2,690**	2,275	1,667
Income from discontinued operations, net of income taxes	**1,703**	151	170
Total comprehensive income	**$ 4,393**	$ 2,426	$ 1,837

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

(Millions of dollars, except share amounts)

	DECEMBER 31,	
	2006	**2005**
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,183**	$ 1,214
Short-term investments	**2,534**	4,116
Accounts receivable, net of allowances	**1,774**	1,648
Inventories	**1,437**	1,185
Deferred income taxes	**741**	619
Prepaid expenses and other current assets	**181**	135
Assets of discontinued operations	**4**	495
Total current assets	**7,854**	9,412
Property, plant and equipment at cost	**7,751**	8,374
Less accumulated depreciation	**(3,801)**	(4,644)
Property, plant and equipment, net	**3,950**	3,730
Equity and other long-term investments	**287**	236
Goodwill	**792**	677
Acquisition-related intangibles	**118**	60
Deferred income taxes	**601**	393
Capitalized software licenses, net	**188**	243
Overfunded retirement plans	**58**	—
Prepaid retirement costs	**—**	199
Other assets	**82**	113
Total assets	**$ 13,930**	$ 15,063
Liabilities and Stockholders' Equity		
Current liabilities:		
Loans payable and current portion of long-term debt	**$ 43**	$ 301
Accounts payable	**560**	702
Accrued expenses and other liabilities	**1,029**	948
Income taxes payable	**284**	154
Accrued profit sharing and retirement	**162**	121
Liabilities of discontinued operations	**—**	151
Total current liabilities	**2,078**	2,377
Long-term debt	**—**	329
Underfunded retirement plans	**208**	—
Accrued retirement costs	**—**	136
Deferred income taxes	**23**	23
Deferred credits and other liabilities	**261**	261
Total liabilities	**2,570**	3,126
Stockholders' equity:		
Preferred stock, $25 par value. Authorized – 10,000,000 shares. Participating cumulative preferred. None issued	**—**	—
Common stock, $1 par value. Authorized – 2,400,000,000 shares. Shares issued: 2006 – 1,739,108,694; 2005 – 1,738,780,512	**1,739**	1,739
Paid-in capital	**885**	742
Retained earnings	**17,529**	13,394
Less treasury common stock at cost. Shares: 2006 – 289,078,450; 2005 – 142,190,707	**(8,430)**	(3,856)
Accumulated other comprehensive income (loss), net of tax:		
Postretirement benefit plans	**(351)**	(65)
Unrealized gain (loss) on available-for-sale investments	**(12)**	(16)
Unearned compensation	**—**	(1)
Total stockholders' equity	**11,360**	11,937
Total liabilities and stockholders' equity	**$ 13,930**	$ 15,063

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of dollars)

	For the years ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	**$ 4,341**	$ 2,324	$ 1,861
Adjustments to reconcile net income to cash provided by operating activities of continuing operations:			
Income from discontinued operations	**(1,703)**	(151)	(170)
Depreciation	**1,052**	1,346	1,449
Stock-based compensation	**332**	175	18
Amortization of capitalized software	**110**	126	119
Amortization of acquisition-related intangibles	**59**	55	69
Deferred income taxes	**(200)**	(194)	70
Increase (decrease) from changes in:			
Accounts receivable	**(116)**	(127)	(214)
Inventories	**(248)**	(23)	(257)
Prepaid expenses and other current assets	**(96)**	111	155
Accounts payable and accrued expenses	**(104)**	254	(68)
Income taxes payable	**(716)**	35	54
Accrued profit sharing and retirement	**28**	(140)	227
Funding of retirement plans and accrued retirement costs	**(210)**	(154)	(202)
Other	**(76)**	(29)	(138)
Net cash provided by operating activities of continuing operations	**2,453**	3,608	2,973
Cash flows from investing activities:			
Additions to property, plant and equipment	**(1,272)**	(1,288)	(1,260)
Proceeds from sales of assets	**3,000**	42	—
Purchases of cash investments	**(6,821)**	(5,851)	(3,674)
Sales and maturities of cash investments	**8,418**	5,430	3,809
Purchases of equity investments	**(40)**	(17)	(22)
Sales of equity and other long-term investments	**11**	53	32
Acquisition of businesses, net of cash acquired	**(205)**	—	—
Net cash provided by (used in) investing activities of continuing operations	**3,091**	(1,631)	(1,115)
Cash flows from financing activities:			
Proceeds from loans and long-term debt	**—**	275	—
Payments on loans and long-term debt	**(586)**	(11)	(435)
Dividends paid on common stock	**(199)**	(173)	(154)
Sales and other common stock transactions	**419**	461	192
Excess tax benefit from stock option exercises	**100**	59	—
Stock repurchases	**(5,302)**	(4,151)	(753)
Net cash used in financing activities of continuing operations	**(5,568)**	(3,540)	(1,150)
Cash flows from discontinued operations:			
Operating activities	**7**	164	173
Investing activities	**(16)**	(56)	(46)
Net cash (used in) provided by discontinued operations	**(9)**	108	127
Effect of exchange rate changes on cash	**2**	6	15
Net (decrease) increase in cash and cash equivalents	**(31)**	(1,449)	850
Cash and cash equivalents at beginning of year	**1,214**	2,663	1,813
Cash and cash equivalents at end of year	**$ 1,183**	$ 1,214	$ 2,663

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Millions of dollars, except per-share amounts)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation
Balance, December 31, 2003	$ 1,738	$ 901	$ 9,535	$ (135)	$ (159)	$ (16)
Net income	—	—	1,861	—	—	—
Dividends declared on common stock ($.089 per share)	—	—	(154)	—	—	—
Common stock issued on exercise of stock options	—	(209)	—	403	—	—
Stock repurchases	—	—	—	(748)	—	—
Tax benefit from exercise of options	—	58	—	—	—	—
Other comprehensive loss, net of tax	—	—	—	—	(24)	—
Unearned compensation amortization	—	—	—	—	—	12
Balance, December 31, 2004	1,738	750	11,242	(480)	(183)	(4)
Net income	—	—	2,324	—	—	—
Dividends declared on common stock ($.105 per share)	—	—	(173)	—	—	—
Common stock issued on exercise of stock options	1	(338)	—	815	—	—
Stock repurchases	—	—	—	(4,191)	—	—
Stock-based compensation transactions	—	198	—	—	—	—
Tax benefit from exercise of options	—	132	—	—	—	—
Other comprehensive income, net of tax	—	—	—	—	102	—
Unearned compensation amortization	—	—	—	—	—	3
Other	—	—	1	—	—	—
Balance, December 31, 2005	1,739	742	13,394	(3,856)	(81)	(1)
Net income	**—**	**—**	**4,341**	**—**	**—**	**—**
Dividends declared on common stock ($.130 per share)	**—**	**—**	**(199)**	**—**	**—**	**—**
Common stock issued on exercise of stock options	**—**	**(329)**	**—**	**754**	**—**	**—**
Stock repurchases	**—**	**—**	**—**	**(5,328)**	**—**	**—**
Stock-based compensation transactions	**—**	**332**	**—**	**—**	**—**	**—**
Tax benefit from exercise of options	**—**	**146**	**—**	**—**	**—**	**—**
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**52**	**—**
Adjustment for implementation of SFAS 158 (a)	**—**	**—**	**(6)**	**—**	**(334)**	**—**
Unearned compensation amortization	**—**	**—**	**—**	**—**	**—**	**1**
Other	**—**	**(6)**	**(1)**	**—**	**—**	**—**
Balance, December 31, 2006	**$ 1,739**	**$ 885**	**$17,529**	**$(8,430)**	**$ (363)**	**$ —**

(a) Reflects the impact of recording the funded status of pension and other postretirement plans and the change in measurement date of non-U.S. pension plans (see Note 10).

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

1. Description of Business and Significant Accounting Policies and Practices

Business: Texas Instruments (TI) makes, markets and sells high-technology components; more than 50,000 customers all over the world buy TI products. We have two reportable operating segments: Semiconductor, which accounted for 96 percent of our revenue in 2006, and Education Technology, formerly called Educational & Productivity Solutions (see Note 12 for a discussion of this name change). Over time, Semiconductor averages a higher growth rate than Education Technology, although the semiconductor market is characterized by wide swings in growth rates from year to year. The former Sensors & Controls business has been reflected as discontinued operations (see below and Note 2). Additionally, the radio frequency identification (RFID) systems operations that had been part of the Sensors & Controls segment are included in the Semiconductor segment.

In January 2006, we acquired 100 percent of the equity of Chipcon Group ASA (Chipcon), a leading company in the design of short-range, low-power wireless radio frequency semiconductors, based in Oslo, Norway, for $183 million in cash. The acquisition will enhance our ability to offer customers complete short-range wireless solutions for consumer, home and building automation applications.

The acquisition was accounted for as a purchase business combination and the results of operations of this business have been included in the Semiconductor segment from the date of acquisition. Pro forma information has not been presented as it would not be materially different from amounts reported. As a result of the acquisition, we recorded a $5 million charge for in-process R&D in Corporate. We also recognized $115 million of goodwill and $86 million of other acquisition-related intangible assets, acquired $6 million of cash and assumed $29 million of other net liabilities (see Note 5 for a summary of the other intangible assets acquired).

In the second quarter of 2006, we made another acquisition primarily to obtain a patent portfolio. This acquisition was not material and was also integrated into the Semiconductor segment.

In January 2006, we entered into a definitive agreement to sell substantially all of our Sensors & Controls segment, excluding the RFID systems operations, to an affiliate of Bain Capital, LLC, a leading global private equity investment firm, for $3 billion in cash. The sale was completed on April 27, 2006. The operations and cash flows of the former Sensors & Controls business have been eliminated from the ongoing operations of TI and as we have no significant continuing involvement in the operations of the sold business, the former Sensors & Controls business is presented as discontinued operations. Prior period financial statements, including segment information, have been reclassified to reflect these changes for all periods presented (see Note 2 for detailed information on discontinued operations and Note 12 for segment information).

Basis of Presentation: The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). They were prepared on the same basis as the audited financial statements included in the 2005 annual report, as revised for reporting discontinued operations in our current report on Form 8-K dated November 3, 2006, with three exceptions. The exceptions are:

- the inclusion of compensation expense for stock options beginning July 1, 2005 (see Effects of Stock-based Compensation below and the discussion in Note 9),
- a change in depreciation method beginning January 1, 2006, (see Change in Depreciation Method below) and
- the adoption of a new accounting standard on pensions and other postretirement benefits as of December 31, 2006 (see Changes in Accounting Standards below and the discussion in Note 10).

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 the notes, except per-share amounts, are stated in millions of U.S. dollars unless otherwise indicated. All amounts in the notes reference continuing operations unless otherwise indicated. Certain amounts in the prior periods' financial statements have been reclassified to conform to the 2006 presentation.

The preparation of financial statements requires the use of estimates from which final results may vary.

Foreign Currency: For financial reporting purposes, the functional currency for non-U.S. subsidiaries is the U.S. dollar. Accounts recorded in currencies other than U.S. dollars are remeasured into the functional currency. Current assets (except inventories), deferred income taxes, other assets, current liabilities and long-term liabilities are remeasured at exchange rates in effect at the end of each reporting period. Inventories and property, plant and equipment and depreciation thereon are remeasured at historic exchange rates. Revenue and expense accounts other than depreciation for each month are

remeasured at the appropriate daily rate of exchange. Net currency exchange gains and losses from remeasurement are charged or credited on a current basis to other income (expense) net.

Derivatives: We use derivative financial instruments to manage exposure to foreign currency and interest rate risk. We enter into certain foreign currency derivative instruments that do not meet hedge accounting criteria. These instruments are primarily forward currency exchange contracts that are intended as economic hedges to minimize the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. Gains and losses from these forward currency exchange contracts are credited or charged on a current basis to other income (expense) net.

With respect to long-term debt and its associated interest expense, we may utilize interest rate swaps designated as fair value hedges to change the characteristics of the interest rate stream on the debt from fixed rates to short-term variable rates. The net effects of interest rate swaps are included on an accrual basis in interest expense. There is no hedge ineffectiveness related to these swaps.

We do not use derivatives for speculative or trading purposes.

Revenue Recognition: Revenue from sales of our products, including shipping fees, is recognized when title to the products is transferred to the customer, which usually occurs upon shipment or delivery, depending upon the terms of the sales order. Estimates of returns for product quality reasons and of price allowances (calculated based upon historical experience, analysis of product shipments and contractual arrangements with customers), are recorded when revenue is recognized. Allowances include discounts for prompt payment, as well as volume-based incentives and special pricing arrangements. In addition, allowances for doubtful accounts are recorded for estimated amounts of accounts receivable that may not be collected.

Revenue from sales of our products to distributors is recognized, net of allowances, based upon delivery of the products to the distributors. At the time of delivery, title transfers to the distributors and payment from the distributors is due on our standard commercial terms; payment terms are not contingent upon resale of the products. Credit allowances for the distributors are calculated based on historical data, current economic conditions and contractual terms. For instance, we sell our products to distributors at standard published prices, but we may grant price adjustment credits to distributors in response to individual competitive opportunities they may have. To estimate allowances for this type of credit, we use statistical percentages of revenue, determined quarterly based upon recent historical adjustment trends.

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

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

Our contractual agreements with our intellectual property licensees determine the amount and timing of royalty revenue. Royalty revenue is recognized when earned according to the terms of the agreements and when realization of payment is considered probable by management. Where royalties are based upon licensee sales, we recognize royalty revenue upon the sale by the licensee of royalty-bearing products, as estimated by us based on historical experience and analysis of annual sales results of licensees. Where warranted, revenue from licensees may be recognized on a cash basis.

Shipping and handling costs are included in cost of revenue.

Advertising Costs: Advertising and other promotional costs are expensed as incurred. This expense was $190 million in 2006, $126 million in 2005 and $92 million in 2004.

Impairments of Long-lived Assets: Reviews are regularly performed to determine whether facts or circumstances exist that indicate the carrying values of fixed assets, intangible assets or capitalized software licenses are impaired. We assess the recoverability of assets by comparing the projected undiscounted net cash flows associated with those assets to their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is determined by available market valuations, if applicable, or by discounted cash flows.

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

Earnings per Share (EPS): Computation and reconciliation of earnings per common share from continuing operations, on a basic and diluted basis, are as follows (shares in millions):

	2006			2005			2004		
	Income from Continuing Operations	Shares	EPS	Income from Continuing Operations	Shares	EPS	Income from Continuing Operations	Shares	EPS
Basic EPS	**$ 2,638**	**1,528**	**$ 1.73**	$ 2,173	1,640	$ 1.33	$ 1,691	1,730	$ 0.98
Dilutives:									
Stock-based compensation plans	**—**	**32**		—	31		—	38	
Diluted EPS	**$ 2,638**	**1,560**	**$ 1.69**	$ 2,173	1,671	$ 1.30	$ 1,691	1,768	$ 0.96

Options to purchase 93 million, 82 million and 113 million shares of common stock were outstanding during 2006, 2005 and 2004 that were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

Effects of Stock-based Compensation: We have several stock-based employee compensation plans that are more fully described in Note 9. Prior to July 1, 2005, we accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "*Accounting for Stock Issued to Employees,*" and related interpretations. No compensation cost was reflected in net income for stock options, as all options granted under the plans have an exercise price equal to the market value of the underlying common stock on the date of the grant (except options granted under employee stock purchase plans and acquisition-related stock option awards). Compensation cost has previously been recognized for restricted stock units (RSUs).

Effective July 1, 2005, we adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), "*Share-Based Payments,*" using the modified prospective application method. Under this transition method, compensation cost recognized for the years ended December 31, 2006 and 2005, includes the applicable amounts of:
(a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, July 1, 2005 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 and previously presented in pro forma footnote disclosures), and
(b) compensation cost for all stock-based payments granted subsequent to July 1, 2005 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123(R)). Results for prior periods have not been restated.

The amounts of stock-based compensation expense recognized in the periods presented are as follows:

	2006	2005	2004
Stock-based compensation expense recognized:			
Cost of revenue	**$ 64**	$ 32	$ —
Research & development (R&D)	**101**	53	—
Selling, general & administrative (SG&A)	**167**	90	18
Total	**$ 332**	$ 175	$ 18

The amounts above include the impact of recognizing compensation expense related to RSUs, nonqualified stock options and stock options offered under the employee stock purchase plans. For the periods before our implementation of SFAS 123(R) on July 1, 2005, only compensation expense related to RSUs was recognized and included in SG&A.

Stock-based compensation expense has not been allocated between segments, but is reflected in Corporate.

Prior Period Pro Forma Presentations:

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS 123(R). The following pro forma information, as required by SFAS No. 148, "*Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123,*" is presented for comparative purposes and illustrates the pro forma effect on income from continuing operations and related per share amounts as if we had applied the original fair value recognition provisions of SFAS 123 to stock-based employee compensation for periods prior to implementation of SFAS 123(R).

	2005	2004
Income from continuing operations, as reported	$ 2,173	$ 1,691
Add: Stock-based compensation expense included in reported income from continuing operations, net of ($58) and ($6) tax (including actual SFAS 123(R) total stock-based compensation expense recognized since July 1, 2005)	117	12
Deduct: Total stock-based compensation expense determined under fair value-based method for all awards, net of $122 and $184 tax	(250)	(367)
Deduct: Adjustment for retirement-eligible employees, net of $49 tax	(93)	—
Adjusted income from continuing operations	$ 1,947	$ 1,336
Earnings per common share from continuing operations:		
Basic – as reported	$ 1.33	$ 0.98
Basic – as adjusted for stock-based compensation expense	$ 1.19	$ 0.77
Diluted – as reported	$ 1.30	$ 0.96
Diluted – as adjusted for stock-based compensation expense	$ 1.17	$ 0.76

In our first-quarter 2005 pro forma footnote disclosures, we included a $93 million ($0.05 per share) inception-to-date adjustment of fair value-based compensation expense to reduce the attribution period for both retirement-eligible employees and employees who would become retirement eligible prior to vesting of certain grants of nonqualified stock options. Effective January 1, 2005, stock-based compensation expense for retirement-eligible employees is recognized over a six-month required service period, and for non-retirement-eligible employees, over the shorter of the period from the grant date to the date they become retirement eligible (but not less than the six-month required service period) or the normal four-year vesting period.

Assumptions:

The fair values for the nonqualified stock options and stock options offered under the TI Employees 2002 Stock Purchase Plan (both actual and pro forma) were estimated using the Black-Scholes option-pricing model with the weighted-average assumptions listed below.

	2006	2005	2004
Long-term Plans (a)			
Weighted average grant date fair value, per share	**$ 11.82**	$ 10.07	$ 15.61
Weighted average assumptions used:			
Expected volatility	**34%**	50%	56%
Expected lives	**5 yrs**	5 yrs	5 yrs
Risk-free interest rates	**4.50%**	3.77%	3.16%
Expected dividend yields	**0.37%**	0.48%	0.33%
Stock Purchase Plans (b)			
Weighted average fair value, per share	**$ 4.68**	$ 4.56	$ 4.66
Weighted average assumptions used:			
Expected volatility	—	36%	35%
Expected lives	—	.58 yrs	.58 yrs
Risk-free interest rates	—	2.44%	1.61%
Expected dividend yields	—	0.45%	0.42%

(a) Includes stock options under the long-term incentive plans and the director plans.
(b) Includes assumptions for the TI Employees 2002 Stock Purchase Plan. The TI Employees 2005 Stock Purchase Plan, which began October 1, 2005, is a discount-purchase plan. Consequently, the Black-Scholes option pricing model is not used to determine the fair value per share of these awards. The fair value per share under this plan is equal to the amount of the discount.

Effective July 1, 2005, we changed our method of determining expected volatility on all options granted after that date to rely solely on available implied volatility rates rather than an analysis of historical volatility. After giving consideration to available regulatory guidance, we believe that market-based measures of implied volatility are currently the best available indicators of the expected volatility used in these estimates.

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

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

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

Inventories: Inventories are stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates costs on a first-in, first-out basis. Prior to January 1, 2006, standard costs were based on the optimal utilization of installed factory capacity. With the adoption of SFAS No. 151, "*Inventory Costs, an amendment of ARB No. 43, Chapter 4,*" effective January 1, 2006, standard costs are based on the normal utilization of installed factory capacity, which is not materially different from the optimal rates previously used. The primary impact to our inventory valuation methodology was to change how the fixed production overhead costs included in inventory are calculated. The effect of this change for the year ended December 31, 2006, on inventory and net income was not material. Costs associated with underutilization of capacity are expensed as incurred.

We conduct quarterly inventory reviews for salability and obsolescence. A specific allowance is provided for inventory considered unlikely to be sold. Remaining inventory has a salability and obsolescence allowance based upon the historical disposal percentage. Inventory is written off in the period in which disposal occurs.

Property, Plant and Equipment and Other Capitalized Costs: Property, plant and equipment are stated at cost and depreciated over their estimated useful lives. In 2006, these assets were depreciated using the straight-line method. Prior to 2006, these assets were depreciated primarily using the 150 percent declining-balance method (see Change in Depreciation Method below). Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Acquisition-related costs are amortized on a straight-line basis over the estimated economic life of the assets. Capitalized software licenses generally are amortized on a straight-line basis over the term of the license. Fully depreciated or amortized assets are written off against accumulated depreciation or amortization.

Change in Depreciation Method: Effective January 1, 2006, as a result of a study made of the pattern of usage of our long-lived depreciable assets, we adopted the straight-line method of depreciation for all property, plant and equipment. Under the provisions of SFAS No. 154, "*Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3,*" which became effective as of January 1, 2006, a change in depreciation method is treated on a prospective basis as a change in estimate. Prior period results have not been restated. We believe that the change from the 150 percent declining-balance method to the straight-line method better reflects the pattern of consumption of the future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets' estimated useful lives. The effect of the change in depreciation method for the year ended December 31, 2006, was to reduce depreciation expense by $156 million and increase both income from continuing operations and net income by $77 million ($ 0.05 per share).

Equity and Other Long-term Investments: All investments in equity and debt securities are classified as available for sale except for investments in certain mutual funds (described below) that are held to offset deferred compensation liabilities. Equity investments held at December 31, 2006 and 2005, include publicly traded marketable securities and private investments, which are generally non-marketable. Investments in marketable equity and debt securities are stated at fair value, which is based on market quotes. Adjustments to fair value of these investments are recorded as an increase or decrease in the accumulated other comprehensive income section of stockholders' equity except where losses are considered to be other than temporary, in which case the losses are recorded as expenses in other income (expense) net. Marketable equity securities and other long-term investments are considered other-than-temporarily impaired if they have traded below their cost basis for more than six months.

Investments in non-marketable equity securities, primarily comprised of investments in early stage development companies and various venture capital funds, are stated at historical cost and are subject to a periodic impairment review. Any

impairment considered other than temporary is recorded in other income (expense) net. Cost or amortized cost, as appropriate, is determined on a specific identification basis.

Investments in certain mutual funds are classified as trading and are stated at fair value. These mutual funds hold a variety of debt and equity investments and are intended to generate returns that offset changes in certain liabilities related to deferred compensation arrangements, thus they are classified as long-term investments. Adjustments to fair value of both the mutual funds and the related deferred compensation liabilities are recorded in SG&A expense (see Note 10 for a discussion of Deferred Compensation Arrangements).

Goodwill and Intangible Assets: Goodwill is not amortized but is reviewed for impairment annually, or more frequently if certain indicators arise. We complete our annual goodwill impairment tests as of October 1 of each year for our operating segments, which have been designated as reporting units based on an analysis of economic characteristics and how we operate the business. This annual test is performed by comparing the fair value for each reporting unit to its associated book value including goodwill. For each of the periods presented, the fair value exceeded the carrying value including goodwill, therefore no impairment was indicated.

Intangible assets are amortized on a straight-line basis over their estimated lives. Fully amortized intangible assets are written off against accumulated amortization.

Changes in Accounting Standards: In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).*" Part of this Statement is effective as of December 31, 2006, and requires companies that have defined benefit pension plans and other postretirement benefit plans to recognize the funded status of those plans on the balance sheet on a prospective basis from the effective date. In addition, SFAS 158 requires that companies using a measurement date for their defined benefit pension plans and other postretirement benefit plans other than their fiscal year end, change to a fiscal year end measurement date effective for years ending after December 15, 2008. Our balance sheet as of December 31, 2006, has been adjusted to reflect the required recognition of the funded status for our defined benefit pension plans and other postretirement benefit plans as of that date, as well as the effect of early adopting the change in the measurement dates for all of our non-U.S. defined benefit pension plans from a September 30 to a December 31 date (see Note 10 for a discussion of the effects of adopting this new standard and of the change in measurement dates).

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, "*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109.*" This Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. FIN 48 requires companies to determine that it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 will also require significant additional disclosures. This Interpretation will be effective for fiscal years beginning after December 15, 2006. We will implement this Interpretation in the first quarter of 2007 on a prospective basis. We are currently evaluating the potential impact this Interpretation will have on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements,*" which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another U.S. GAAP standard requires or permits assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value to any new circumstances. This standard will also require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by us beginning in the first quarter of 2008. We are currently evaluating the potential impact this standard will have on our financial position and results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.*" SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years' financial statements. We have adopted the provisions of SAB 108 for the year ending December 31, 2006, and have determined it does not have an impact on our financial position and results of operations for the period then ended.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-3, "*How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation).*" This standard allows companies to present in their statements of income any taxes assessed by a

governmental authority that are directly imposed on revenue-producing transactions between a seller and a customer, such as sales, use, value-added and some excise taxes, on either a gross (included in revenue and costs) or a net (excluded from revenue) basis. This standard will be effective for us in interim periods and fiscal years beginning after December 15, 2006. We present these transactions on a net basis and, therefore, the adoption of this standard will have no impact on our financial position and results of operations.

2. Discontinued Operations

In January 2006, we entered into an agreement to sell substantially all of the Sensors & Controls segment, excluding the RFID systems operations, to an affiliate of Bain Capital, LLC, for $3 billion in cash. The sale was completed on April 27, 2006. The former Sensors & Controls business acquired by Bain Capital, LLC was renamed Sensata Technologies (Sensata).

The results of operations of the former Sensors & Controls business are being presented as discontinued operations. The following summarizes results of the discontinued operations for the years ended December 31, 2006, 2005 and 2004, included in the consolidated statements of income:

	2006	2005	2004
Net revenue	**$ 375**	$ 1,057	$ 1,028
Operating costs and expenses	**327**	825	779
Income from discontinued operations before income taxes	**48**	232	249
Provision for income taxes	**19**	81	79
Income from discontinued operations, net of income taxes	**29**	151	170
Gain on sale of discontinued operations	**2,554**	—	—
Provision for income taxes	**880**	—	—
Gain on sale of discontinued operations, net of income taxes	**1,674**	—	—
Total income from discontinued operations	**$1,703**	$ 151	$ 170
Income from discontinued operations per common share: (a)			
Basic	**$ 1.11**	$ 0.09	$ 0.10
Diluted	**$ 1.09**	$ 0.09	$ 0.10

(a) Earnings per share amounts from continuing and discontinued operations may not add to net income per share due to rounding.

As of December 31, 2006, the remaining assets of the former Sensors & Controls business, included in assets of discontinued operations, are attributable to pension plans in our Japan subsidiary that are expected to be settled in 2007.

Continuing Involvement: Upon closing of the sales transaction, we entered into a Transition Services Agreement (TSA) with Sensata to provide various temporary support services that are reasonably necessary to facilitate the continuation of the normal conduct of business of the former Sensors & Controls business such as finance and accounting, human resources, information technology, warehousing and logistics, and records retention and storage. Such services are expected to be provided for up to twelve months from the closing date, although certain information technology-related services may be provided for up to two years. The fees for these services are generally equivalent to our cost. In addition, we entered into certain cross-license agreements to allow each party to continue to use the associated technology and intellectual property in the conduct of their respective business. However, these cross-license agreements generally do not involve the receipt or payment of any royalties and, therefore, are not considered to be a component of continuing involvement.

Although the services provided under the TSA generate continuing cash flows between us and Sensata, the amounts are not considered to be significant to the ongoing operations of either entity. In addition, we have no contractual ability through the TSA or any other agreement to significantly influence the operating or financial policies of Sensata. Under the provisions of EITF Issue No. 03-13, "*Applying the Conditions of Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations,*" we therefore have no significant continuing involvement in the operations of the former Sensors & Controls business and have classified the historical results of that business as discontinued operations.

3. Cash Equivalents and Short-term Investments

We generally invest cash in highly liquid debt securities that are classified as available for sale and are reflected in the balance sheet based on their maturity dates. Investments with serial maturities are allocated to their asset classification based on their individual expected average lives. Investments in debt securities with original maturities of three months or less are considered to be cash equivalents. We consider investments in debt securities with maturities or average lives beyond three months from the date of our investment as being available for use in current operations as needed and, as a result, include those investments in short-term investments. These investments in debt securities are stated at fair value. Adjustments to fair value are recorded as an increase or decrease in the accumulated other comprehensive income section of stockholders' equity. We also invest in auction-rate securities. These securities have long-term underlying maturities; however, the market is highly liquid and the securities are re-auctioned periodically, generally every seven, 28 or 35 days. Our intent is not to hold these securities to maturity, but rather to use the frequent auction feature to provide liquidity as needed. Our practice is to invest in these securities for higher after-tax yields compared with those available on cash equivalents.

	DECEMBER 31, 2006		DECEMBER 31, 2005	
Cash Investments	Cash & Cash Equivalents	Short-term Investments	Cash & Cash Equivalents	Short-term Investments
Corporate securities	**$ 41**	**$ —**	$ 61	$ 107
Asset-backed fixed income securities	**543**	**729**	252	1,121
Investment funds with constant net asset values	**395**	**—**	468	—
U.S. government agency securities	**—**	**30**	—	84
Tax-exempt/municipal securities:				
Auction-rate securities	**—**	**1,680**	—	2,191
Variable-rate demand notes	**—**	**30**	—	595
Tax-exempt bonds	**—**	**65**	—	—
Tax-exempt commercial paper	**—**	**—**	202	18
Cash on hand	**204**	**—**	231	—
Total	**$ 1,183**	**$ 2,534**	$ 1,214	$ 4,116

The following table presents the aggregate maturities or average lives of cash equivalents and short-term investments at year-end 2006:

Due	Market Value
One year or less	$ 1,155
Two to three years	360
Three to ten years	393
Thereafter (a)	1,605

(a) Maturities over 10 years are primarily auction-rate securities.

Unrealized holding gains for these securities were zero at the end of both 2006 and 2005, and $1 million at the end of 2004. Unrealized holding losses for these securities were $23 million, $25 million and $27 million at the end of 2006, 2005 and 2004. Proceeds from sales of these securities before their maturity were $5.34 billion, $4.18 billion and $1.95 billion in 2006, 2005 and 2004. Gross realized gains and losses from the sales of these securities were immaterial for all periods presented.

4. Equity and Other Long-term Investments

Following is information on the investments at December 31, 2006 and 2005:

	Cost	Unrealized Gains	Unrealized (Losses)	Net	Fair Value
December 31, 2006					
Equity investments:					
Marketable	**$ 2**	**$ 3**	**$ —**	**$ 3**	**$ 5**
Non-marketable	**110**	**—**	**—**	**—**	**110**
Mutual funds and other	**172**	**—**	**—**	**—**	**172**
Total	**$284**	**$ 3**	**$ —**	**$ 3**	**$287**
December 31, 2005					
Equity investments:					
Marketable	$ 4	$ 1	$ —	$ 1	$ 5
Non-marketable	82	—	—	—	82
Mutual funds and other	149	—	—	—	149
Total	$235	$ 1	$ —	$ 1	$236

There were $6 million, $13 million and $12 million of gross realized gains and zero, $3 million and zero of gross realized losses from sales of these investments in 2006, 2005 and 2004. Other-than-temporary declines and impairments in the values of available-for-sale investments recognized in the income statement were $8 million, $8 million and $13 million in 2006, 2005 and 2004.

5. Goodwill and Other Acquisition-related Intangibles

	Amortization Period	December 31, 2006	December 31, 2005
Goodwill – net	Not amortized	**$792**	$677
Acquisition-related intangibles – net:			
Developed technology	3–10 years	**$ 72**	$ 48
Other intangibles	2–10 years	**46**	12
Total		**$118**	$ 60

All of our goodwill is attributable to our Semiconductor segment. Goodwill is reviewed for impairment annually, or more frequently if certain impairment indicators arise. There was no impairment of goodwill indicated during 2006, 2005 or 2004. The goodwill balances shown are net of total accumulated amortization of $221 million at year-end 2006 and 2005.

In January 2006, we recognized $115 million of goodwill and $86 million of other acquisition-related intangible assets due to the acquisition of Chipcon. The following table contains a summary of the other intangible assets acquired:

Acquired Intangible Assets	Amount	Amortization Period
Developed technology	**$ 65**	**5 years**
Customer relationships	**13**	**5 years**
Non-compete agreements	**6**	**2 years**
Trademark/trade name	**2**	**3 years**
Total	**$ 86**	

The following table reflects the components of acquisition-related intangible assets, excluding goodwill, that are subject to amortization:

	DECEMBER 31, 2006		DECEMBER 31, 2005	
Amortized Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed and core technology	**$ 209**	**$ 137**	$ 202	$ 156
Customer relationships	**45**	**30**	32	24
Patents and trademarks	**32**	**4**	2	1
Non-compete agreements	**6**	**3**	57	53
Other	**1**	**1**	2	1
Total	**$ 293**	**$ 175**	$ 295	$ 235

Amortization of acquisition-related intangibles was $59 million, $55 million and $69 million for 2006, 2005 and 2004, primarily related to developed technology. Fully amortized assets are written off against accumulated amortization.

The following table sets forth the estimated amortization of acquisition-related intangibles for the years ended December 31:

2007	$42
2008	25
2009	20
2010	20
2011	5
Thereafter	6

6. Debt and Lines of Credit

	DECEMBER 31,	
Long-term Debt	2006	2005
8.75% notes due 2007	**$ 43**	$ 43
6.125% notes due 2006	**—**	300
Variable-rate bank notes due 2008/2010	**—**	275
Other	**—**	12
	43	630
Less current portion long-term debt	**43**	301
Total	**$ —**	$ 329

In 1996, the coupon rates for the notes due 2006 were swapped for LIBOR-based variable rates through 2006, for an effective interest rate of approximately 3.61% as of December 31, 2005. This swap expired in 2006 at the maturity of the related notes. In 2001, the coupon rates for the notes due 2007 were swapped for LIBOR-based variable rates through 2007, for an effective interest rate of approximately 9.10% and 8.27% as of December 31, 2006 and 2005. The effect of these interest rate swaps was to reduce interest expense by zero, $11 million and $19 million in 2006, 2005 and 2004.

In November 2005, in connection with the repatriation of non-U.S. earnings under provisions of the American Jobs Creation Act of 2004 (AJCA), our Japan subsidiary entered into a five-year syndicated credit agreement with a consortium of banks to borrow $275 million at a LIBOR-based variable rate. During the second quarter of 2006, the $275 million was prepaid. The agreement continues to provide a revolving credit facility for an additional $175 million that would carry a variable rate of interest, if drawn.

We also maintain lines of credit to support commercial paper borrowings and to provide additional liquidity through short-term bank loans. In August 2006, we replaced our 364-day $500 million revolving credit facility with a five-year $1 billion facility. These lines of credit were not used in 2006 or 2005. The new facility would carry a variable rate, if drawn.

At December 31, 2006, both revolving credit facilities remained undrawn and no commercial paper was outstanding.

Interest incurred on loans in 2006, 2005 and 2004 was $12 million, $14 million and $24 million. Of these amounts, $5 million in 2006, $5 million in 2005 and $3 million in 2004 were capitalized as a component of capital asset construction costs.

Our remaining long-term debt as of December 31, 2006, of $43 million matures April 1, 2007.

7. Financial Instruments and Risk Concentration

Financial Instruments: The carrying amounts and related estimated fair values at December 31 of our long-term debt were $43 million and $44 million for 2006 and $630 million and $634 million for 2005. The fair value of long-term debt was based primarily on the net present value of the expected cash flows using current market interest rates.

We have derivative financial instruments such as interest rate swaps, forward purchase contracts, investment warrants and forward currency exchange contracts, the carrying value and fair values of which were not significant as of December 31, 2006 or 2005. Our forward currency exchange contracts outstanding at December 31, 2006, had a face value of $268 million to hedge net balance sheet exposures (including $85 million to sell euros, $82 million to sell British pounds and $48 million to sell Japanese yen). Our forward currency exchange contracts outstanding at December 31, 2005, had a face value of $191 million to hedge net balance sheet exposures (including $67 million to sell euros, $41 million to sell Japanese yen and $17 million to buy Korean won).

Short-term investments 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.

Risk Concentration: Financial instruments that potentially subject us to concentrations of credit risk are primarily cash investments, accounts receivable and equity investments. In order to manage our exposure to credit risk, we place cash investments in investment-grade debt securities and limit the amount of credit exposure to any one issuer. We also limit counterparties on forward currency exchange contracts and interest rate swaps to investment-grade-rated financial institutions.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers in our customer base and their dispersion across different industries and geographic areas. We maintain an allowance for losses based upon the expected collectibility of accounts receivable. These allowances are deducted from accounts receivable in the balance sheets. Details of these allowances are as follows:

Accounts Receivable Allowances	Balance at Beginning of Year	Additions Charged to Operating Results	Recoveries and Write-offs, Net	Balance at End of Year
2006	**$ 34**	**$ 2**	**$ (10)**	**$ 26**
2005	$ 36	$ 1	$ (3)	$ 34
2004	$ 42	$ —	$ (6)	$ 36

8. Stockholders' Equity

We are authorized to issue 10,000,000 shares of preferred stock; however, no preferred stock is currently outstanding.

Each outstanding share of TI common stock carries one-fourth of a stock purchase right. Under certain circumstances, each right may be exercised to purchase one one-thousandth of a share of TI participating cumulative preferred stock for $200. Under certain circumstances following the acquisition of 20 percent or more of outstanding TI common stock by an acquiring person (as defined in the rights agreement), each right (other than rights held by an acquiring person) may be exercised to purchase the common stock of TI or a successor company with a market value of twice the $200 exercise price. The rights, which are redeemable by us at one cent per right, expire in June 2008.

In 2004, the TI board of directors approved the repurchases of up to 21 million shares and an additional $1 billion of TI common stock under our stock repurchase program. In 2005, the board of directors authorized the repurchase of $4 billion of TI common stock in addition to previous authorizations. In January 2006, the board of directors authorized additional repurchases of up to $5 billion of TI common stock and in September 2006, the board of directors added a new authorization to repurchase up to $5 billion of TI common stock. These authorizations were in addition to previously announced stock repurchase authorizations.

No expiration date has been specified for these authorizations. As of December 31, 2006, $5.49 billion of these authorizations remain.

Treasury shares acquired in connection with the board-authorized stock repurchase program in 2006, 2005 and 2004 were 173,580,794 shares; 154,143,706 shares; and 30,102,546 shares.

In the third quarter of 2005, the board of directors approved an increase in our quarterly cash dividend (to $0.03 per share from $0.025 per share). In the third quarter of 2006, the board of directors increased our quarterly cash dividend (to $0.04 per share), and, on October 19, 2006, declared a dividend at the new quarterly rate.

9. Stock-based Compensation

Information in this note is inclusive of both continuing and discontinued operations, except as noted.

Long-term Incentive and Director Compensation Plans

We have stock options outstanding to participants under the Texas Instruments 2000 Long-Term Incentive Plan and the Texas Instruments 2003 Long-Term Incentive Plan. Options are also outstanding under the 1996 Long-Term Incentive Plan, but no further options may be granted under this plan. We also assumed stock options granted under the Burr-Brown 1993 Stock Incentive Plan and the Radia Communications, Inc. 2000 Stock Option/Stock Issuance Plan. Unless the options are acquisition-related replacement options, the option price per share may not be less than 100 percent of the fair market value on the date of the grant. Substantially all the options have a 10-year term. Except for options granted as part of a special retention grant in February 2003 (which vest beginning in the second year after grant at a rate of 50%/25%/25% per year), options granted subsequent to 1996 generally vest ratably over four years. Options generally provide for the continuation of vesting after the option recipient retires.

We have RSUs outstanding under the 2000 Long-Term Incentive Plan and the 2003 Long-Term Incentive Plan. Each RSU represents the right to receive one share of TI common stock on the vesting date, which is generally four years after the date of grant. Upon vesting, the shares are subject to issuance without payment by the grantee.

Under the 2000 Long-Term Incentive Plan, we may grant stock options, including incentive stock options, restricted stock and RSUs, performance units and other stock-based awards. The plan provides for the issuance of 120,000,000 shares of TI common stock. In addition, if any stock-based award under the 1996 Long-Term Incentive Plan terminates, then any unissued shares subject to the terminated award become available for granting awards under the 2000 Long-Term Incentive Plan. No more than 13,400,000 shares of common stock may be awarded as restricted stock, RSUs or other stock-based awards under the plan.

Under the 2003 Long-Term Incentive Plan, we may grant stock options (other than incentive stock options), restricted stock and RSUs, performance units and other stock-based awards to non-management employees. The plan provides for the issuance of 240,000,000 shares of TI common stock. Executive officers and approximately 250 managers are ineligible to receive awards under this plan.

Under the Texas Instruments Stock Option Plan for Non-Employee Directors adopted in April 1998, we granted stock options to each non-employee director once per year, in the period beginning January 1999 and extending through January 2003. Each grant under the plan was an option to purchase 5,000 shares (10,000 shares beginning January 2001) with an option price equal to fair market value on the date of grant. In April 2003, the plan, together with the Texas Instruments Restricted Stock Unit Plan for Directors and the Texas Instruments Directors Deferred Compensation Plan, was replaced by the Texas Instruments 2003 Director Compensation Plan. Under this plan, we may grant stock options, RSUs and other stock-based awards to non-employee directors, as well as issue TI common stock upon the distribution of stock units credited to deferred-compensation accounts established for such directors. The plan provides for the grant of a stock option to each non-employee director once per year in the period from January 2004 through 2010. Each grant is an option to purchase 15,000 shares with an option price equal to fair market value on the date of grant. Under the plan, we also make a one-time grant of 2,000 RSUs to each new non-employee director of TI. The plan provides for the issuance of 2,000,000 shares of TI common stock. Effective in 2007, the plan reduces to 7,000 shares the annual stock option grant and includes an annual grant of 2,500 RSUs to each non-employee director.

Stock option and RSU transactions under the above mentioned long-term incentive and director compensation plans during 2006 were as follows:

	STOCK OPTIONS		RESTRICTED STOCK UNITS	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Grant-Date Fair Value per Share
Outstanding grants, December 31, 2005	228,279,712	$ 27.15	3,517,768	$ 23.13
Granted	**19,804,037**	**32.43**	**1,889,300**	**31.36**
Vested (RSUs)	**—**	**—**	**(555,600)**	**20.38**
Forfeited	**(4,824,263)**	**33.75**	**(111,100)**	**26.91**
Exercised	**(24,487,538)**	**15.04**	**—**	**—**
Outstanding grants, December 31, 2006	**218,771,948**	**$ 28.81**	**4,740,368**	**$ 26.37**

As of July 1, 2005, we adopted SFAS 123(R) and began recording compensation expense related to stock options measured at their fair value as of the grant date (see Note 1 for a discussion of Effects of Stock-based Compensation). Prior to that date, we recorded no compensation expense for non-acquisition-related stock option awards but did recognize compensation expense related to awards of RSUs. The fair values of RSUs are determined based on the price of TI common stock on the date of grant. Compensation expense associated with RSUs, which was all in continuing operations, totaled $29 million, $18 million and $18 million in 2006, 2005 and 2004.

The weighted average grant-date fair value of stock options granted during the years 2006, 2005 and 2004 was $11.82, $10.07 and $15.61 per share. The weighted average grant-date fair value of RSUs granted during the years 2006, 2005 and 2004 was $31.36, $24.42 and $31.20 per share.

Summarized information about stock options outstanding under the various long-term plans mentioned above at December 31, 2006, is as follows:

	STOCK OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Range of Exercise Share Prices	Number Outstanding (shares)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price per Share	Number Exercisable (shares)	Weighted Average Exercise Price per Share
$ .24 to 10.00	**4,481,510**	**0.6**	**$ 7.78**	**4,466,429**	**$ 7.79**
10.01 to 20.00	**51,840,635**	**4.7**	**15.06**	**40,007,883**	**14.71**
20.01 to 30.00	**67,863,425**	**5.2**	**24.61**	**50,544,424**	**25.48**
30.01 to 40.00	**61,509,414**	**6.8**	**33.11**	**30,799,600**	**33.80**
40.01 to 50.00	**998,544**	**3.2**	**43.65**	**998,544**	**43.65**
50.01 to 84.32	**32,078,420**	**3.5**	**54.11**	**32,076,420**	**54.11**
$ .24 to 84.32	**218,771,948**	**5.2**	**$ 28.81**	**158,893,300**	**$ 29.78**

As of December 31, 2006, the aggregate intrinsic value (i.e., the difference in the year-end closing market price of $28.80 and the exercise price to be paid by the optionee) of stock options outstanding, excluding the effects of expected forfeitures, was $1.09 billion. The aggregate intrinsic value of exercisable stock options at that date was $0.83 billion.

During the years ended December 31, 2006 and 2005, the total intrinsic value of options exercised (i.e., the difference in the market price at the exercise date and the price paid by the employee to exercise the option) under these plans was $419 million and $394 million.

For the years ended December 31, 2006 and 2005, the total fair value of shares vested from RSU grants was $13 million and $24 million.

Summarized information as of December 31, 2006, about outstanding stock options that are vested and expected to vest, as well as stock options that are currently exercisable, are as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest)(a)	Options Exercisable
Number of outstanding (shares)	**217,155,947**	**158,893,300**
Weighted average remaining contractual life	**5.2 years**	**4.2 years**
Weighted average exercise price per share	**$ 28.77**	**$ 29.78**
Intrinsic value	**$ 1,088**	**$ 827**

(a) Includes effects of expected forfeitures.

As of December 31, 2006, the total future compensation cost related to non-vested stock options and RSUs not yet recognized in the statement of income was $371 million and $68 million, with weighted-average periods over which these awards are expected to be recognized of 1.1 years and 1.4 years. Of that total, $231 million, $128 million, $73 million and $7 million will be recognized in 2007, 2008, 2009 and 2010.

Employee Stock Purchase Plans

Under the TI Employees 2005 Stock Purchase Plan (the 2005 Plan), which replaced the TI Employees 2002 Stock Purchase Plan, options are offered to all eligible employees in amounts based on a percentage of the employee's compensation. Under the 2005 Plan, the option price per share is 85 percent of the fair market value on the exercise date. Options under the 2005 Plan have a three-month term.

The stock options outstanding under the 2005 Plan at December 31, 2006, had an exercise price of $24.48 per share (85 percent of the fair market value of TI common stock on January 3, 2007, the date of automatic exercise). Of the total outstanding options, none were exercisable at year-end 2006.

Employee stock purchase plan transactions during 2006 were as follows:

	Employee Stock Purchase Plan (shares)(a)	Weighted Average Exercise Price
Outstanding grants, December 31, 2005	537,979	$ 27.82
Granted	**2,247,127**	**26.54**
Exercised	**(2,163,868)**	**27.45**
Outstanding grants, December 31, 2006	**621,238**	**$ 24.48**

(a) Excludes options offered but not granted.

During the year ended December 31, 2006 and 2005, the total intrinsic value of options exercised under these plans was $10 million and $59 million.

Effect on Shares Outstanding and Treasury Shares

Stock option plan exercises were settled using previously unissued shares of 49,100 shares, 53,855 shares and 416,961 shares for 2006, 2005 and 2004. They also were settled using treasury shares of 26,602,306 shares, 31,997,416 shares and 15,488,357 shares for 2006, 2005 and 2004.

Previously unissued common shares issued for RSUs in 2006, 2005 and 2004 were 279,082 shares, 570,042 shares and 402,009 shares. Treasury shares issued upon vesting of RSUs were 128,578 shares in 2006. No treasury shares were issued upon vesting of RSUs in 2005 and 2004.

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

	AS OF DECEMBER 31, 2006	
Shares	Long-term Incentive and Director Compensation Plans	TI Employees 2005 Stock Purchase Plan
Available for future grant	**225,115,613**	**40,137,992**
Reserved for issuance	**448,711,945**	**40,759,230**

Effect on Cash Flows

The total amount of cash received from exercise of options was $419 million in 2006 and $461 million in 2005. The related net tax benefit realized from the exercise of those stock options was $146 million in 2006 and $132 million in 2005 (which includes excess tax benefits realized of $100 million in 2006 and $59 million in 2005 from the adoption date of SFAS 123(R) on July 1, 2005).

Related Policies

We issue awards of stock options generally with graded vesting provisions (e.g., 25 percent per year for four years). In such cases, we recognize the related compensation cost on a straight-line basis over the minimum service period required for vesting of the award.
For awards to employees who are retirement eligible or nearing retirement eligibility, we recognize compensation cost on a straight-line basis over the service period required to be performed by the employee in order to earn the award.

It has been our practice to issue shares of common stock upon exercise of stock options generally from treasury shares and, on a limited basis, from previously unissued shares.

10. Postretirement Benefit Plans

On December 31, 2006, we adopted the recognition and disclosure provisions of SFAS 158. This Statement requires us to recognize the funded status (i.e., the difference between the fair value of plan assets, and the benefit obligations) of our defined benefit pension and other postretirement benefit plans in our December 31, 2006, balance sheet, with a corresponding adjustment to accumulated other comprehensive income (AOCI), net of tax. The adjustment to AOCI at adoption represents the net actuarial losses, and prior service costs, all of which were previously netted against the plans' funded status in our balance sheet pursuant to the provisions of SFAS No. 87, "*Employers' Accounting for Pensions"* and SFAS 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions*." These amounts will continue to be recognized as a component of future net periodic benefit cost consistent with our past practice. Further, actuarial gains and losses and prior service costs that arise in future periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will also be recognized as a component of future net periodic benefit cost consistent with our past practice.

In addition, SFAS 158 requires that companies using a measurement date for their defined benefit pension plans and other postretirement benefit plans other than their fiscal year end, change to a fiscal-year-end measurement date effective for years ending after December 15, 2008. We have chosen to adopt the measurement date changes as of the year ended December 31, 2006. Our non-U.S. plans previously used a September 30 measurement date.

The incremental effects of adopting the provisions of SFAS 158 on our balance sheet at December 31, 2006, are presented in the following table. The adoption of SFAS 158 had no effect on our consolidated statement of income or our consolidated statement of comprehensive income for the year ended December 31, 2006, or for any prior period presented, and it will not effect our operating results in future periods. Had we not been required to adopt SFAS 158 at December 31, 2006, we would have recognized an additional minimum liability pursuant to the provisions of SFAS 87. The effect of recognizing the additional minimum liability is included in the table below in the column labeled "Before Application of SFAS 158."

Effects of Adoption of SFAS 158 on December 31, 2006 Balance Sheet	Before Application of SFAS 158	Recognition of Funded Status	Effect of Change in Measurement Date	As Reported at December 31, 2006
Prepaid retirement costs	**$ 440**	**$ (440)**	**$ —**	**$ —**
Overfunded retirement plans (a)	**—**	**62**	**(4)**	**58**
Deferred income taxes – current and non-current (b)	**1,137**	**203**	**2**	**1,342**
Accrued retirement costs	**(59)**	**59**	**—**	**—**
Accrued profit sharing and retirement (c)	**(148)**	**(14)**	**—**	**(162)**
Underfunded retirement plans – non-current (d)	**—**	**(207)**	**(1)**	**(208)**
Retained earnings	**(17,535)**	**—**	**6**	**(17,529)**
Accumulated other comprehensive loss, net of tax:				
Postretirement benefit plans	**17**	**337**	**(3)**	**351**

(a) The balance after application of SFAS 158 represents plans with an excess fair value of plan assets over benefit obligations (i.e., an overfunded status).
(b) Adjustments made to deferred taxes are based on the amounts of prior service costs and net actuarial loss reclassified to AOCI upon implementation of SFAS 158, at applicable tax rates, as well as the adjustment to retained earnings for the effect of changing the measurement date.
(c) Includes the $14 million liability after application of SFAS 158 that represents plans with an excess of expected benefit payments due within the next 12 months over the fair value of plan assets.
(d) The balance after application of SFAS 158 represents plans with an excess of benefit obligations over the fair value of plan assets (i.e., an underfunded liability status), less the current portion.

The amounts recorded in AOCI for the year ended December 31, 2006, are further detailed by the type of plan to which they are attributable:

	AMOUNTS INCLUDED IN AOCI			
	Minimum Pension Liability	Prior Service Cost	Net Actuarial Loss	Total
Balance, December 31, 2005	$ 65	$ —	$ —	$ 65
2006 change in AOCI by plan type:				
U.S. defined benefit	**(5)**	**1**	**161**	**157**
Non-U.S. defined benefit	**(100)**	**(37)**	**280**	**143**
Retiree health care	**—**	**21**	**119**	**140**
Amounts in AOCI (before tax)	**(105)**	**(15)**	**560**	**440**
Less tax (benefit) expense	**40**	**9**	**(203)**	**(154)**
Total changes in AOCI by plan type in 2006	**(65)**	**(6)**	**357**	**286**
Balance, December 31, 2006 (net of tax)	**$ —**	**$ (6)**	**$ 357**	**$ 351**

The estimated amounts of prior service cost and actuarial net loss included in AOCI as of December 31, 2006, that are expected to be amortized into net periodic benefit cost over the next fiscal year are $(3) million and $33 million for the defined benefit pension plans and $2 million and $7 million for the other defined benefit postretirement plans.

As of December 31, 2006, we do not expect to return any of the assets of the plans to TI during the next 12 months.

Plan Descriptions: We provide various retirement plans for employees including defined benefit, defined contribution and retiree health care benefit plans, as well as deferred compensation arrangements for qualifying employees.

U.S. Retirement Plans:

The principal retirement plans in the U.S include a qualified defined benefit pension plan (which is closed to new participants hired after November 1997), a defined contribution plan and an enhanced defined contribution plan. Both defined contribution plans offer an employer-matching savings option that allows employees to make pre-tax contributions to various investment choices, including a TI common stock fund. Employees who remain in the qualified defined benefit pension plan may also participate in the defined contribution plan, where employer-matching contributions are provided for up to 2 percent of the employee’s annual eligible earnings. Employees who elected not to remain in the defined benefit pension plan, and new employees hired after November 1997 and through December 31, 2003, may participate in the enhanced defined contribution plan. This plan provides for a fixed employer contribution of 2 percent of the employee’s annual eligible earnings, plus an employer-matching contribution of up to 4 percent of the employee’s annual eligible earnings. Employees hired after December 31, 2003, may participate in the enhanced defined contribution plan, where employer-matching contributions are provided for up to 4 percent of the employee’s annual eligible earnings.

At December 31, 2006 and 2005, in accordance with the election of employees, TI’s U.S. defined contribution plans held shares of TI common stock totaling 43 million shares and 53 million shares valued at $1.23 billion and $1.70 billion. Dividends paid on these shares for 2006 and 2005 totaled $6 million in 2006 and $6 million in 2005.

Our aggregate expense for U.S. employees under the defined contribution plans was $56 million in 2006 and $53 million in both 2005 and 2004.

The benefits under the qualified defined benefit pension plan are determined using a formula based upon years of service and the highest five consecutive years of compensation. We intend to contribute amounts to this plan to meet the minimum funding requirements of federal laws and regulations plus such additional amounts as we deem appropriate. During 2006, we contributed $125 million to our defined benefit pension plans of which $114 million were cash contributions to the qualified pension trust and $11 million were benefit payments related to our nonqualified defined benefit pension plans. The nonqualified plans are unfunded and closed to new participants.

During 2006, the U.S. defined benefit plans made $124 million in total benefits payments, primarily for the qualified pension plan. Of that amount, $119 million was accounted for as settlements and $5 million as benefits paid. For comparison purposes, in 2005 the U.S. defined benefit plans made $62 million in benefit payments of which $12 million was accounted for as settlements and $50 million as benefits paid.

U.S. Retiree Health Care Benefit Plan:

We offer access to group medical coverage during retirement to most of our U.S. employees. We make a contribution toward the cost of those retiree medical benefits for certain retirees and their dependents. The contribution rates are based upon various factors, the most important of which are an employee’s date of hire, date of retirement, years of service and eligibility for Medicare benefits. The balance of the cost is borne by the participants in the plan. Employees hired after January 1, 2001, are responsible for the full cost of their medical benefits during retirement. During 2006, we contributed $91 million to the retiree health care plan.

Non-U.S. Retirement Plans:

Retirement coverage for non-U.S. employees is provided, to the extent deemed appropriate, through separate defined benefit and defined contribution plans. Retirement benefits are generally based on an employee’s years of service and compensation. Funding requirements are determined on an individual country and plan basis and subject to local country practices and market circumstances. During 2006, we contributed $143 million to our non-U.S. retirement plans.

As of December 31, 2006 and 2005, in accordance with the election of employees, TI’s non-U.S. defined contribution plans held shares of TI common stock totaling 0.7 million shares valued at $19 million in 2006 and $22 million in 2005. Dividends paid on these shares for 2006 and 2005 totaled $88 thousand and $70 thousand.

Effect on the Statements of Income and Balance Sheets

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

	U.S. DEFINED BENEFIT			U.S. RETIREE HEALTH CARE			NON-U.S. DEFINED BENEFIT		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Service cost	**$ 26**	$ 27	$ 25	**$ 4**	$ 4	$ 2	**$ 44**	$ 44	$ 50
Interest cost	**45**	40	40	**25**	22	21	**46**	46	44
Expected return on plan assets	**(45)**	(44)	(44)	**(21)**	(20)	(15)	**(66)**	(45)	(43)
Amortization of prior service cost	**—**	—	—	**2**	3	(4)	**(3)**	(2)	1
Amortization of transition obligation	**—**	—	—	**—**	—	—	**—**	—	1
Recognized net actuarial loss	**21**	23	20	**6**	8	10	**13**	22	20
Net periodic benefit cost	**47**	46	41	**16**	17	14	**34**	65	73
Settlement, curtailment and special termination benefit charges	**26**	1	2	**—**	—	—	**—**	—	—
Total including charges	**$ 73**	$ 47	$ 43	**$ 16**	$ 17	$ 14	**$ 34**	$ 65	$ 73

The increase in settlement costs in 2006 is primarily due to an increase in lump-sum distributions elected by retirees in 2006 as compared with previous years.

For the U.S. plans, the expected return on plan assets component of net periodic benefit cost is based upon the market-related value of assets. In accordance with U.S. GAAP, the market-related value of assets utilizes a smoothing technique whereby investment gains and losses that differ from plan assumptions are phased into the value over a period of three years.

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

	U.S. DEFINED BENEFIT		U.S. RETIREE HEALTH CARE		NON-U.S. DEFINED BENEFIT	
	2006	2005	2006	2005	2006	2005
Obligation and funded status of plans:						
Benefit obligation at beginning of year	**$ 798**	$ 740	**$ 442**	$ 420	**$ 1,603**	$ 1,571
Service cost	**26**	27	**4**	4	**44**	44
Interest cost	**45**	40	**25**	22	**46**	46
Change in measurement date	**—**	—	**—**	—	**22**	—
Participant contributions	**—**	—	**15**	16	**4**	3
Benefits paid	**(5)**	(50)	**(45)**	(44)	**(55)**	(43)
Medicare subsidy	**—**	—	**4**	—	**—**	—
Plan amendments	**—**	—	**—**	(4)	**—**	(62)
Actuarial (gain) loss	**44**	48	**(1)**	26	**31**	44
Settlements	**(119)**	(12)	**—**	—	**—**	—
Curtailments	**(1)**	4	**—**	2	**—**	—
Special termination benefits	**—**	1	**—**	—	**—**	—
Benefit obligation at end of year (BO)	**$ 788**	$ 798	**$ 444**	$ 442	**$ 1,695**	$ 1,603
Change in plan assets:						
Fair value of plan assets at beginning of year	**$ 724**	$ 736	**$ 303**	$ 315	**$ 1,054**	$ 827
Actual return on plan assets	**71**	47	**37**	15	**171**	177
Change in measurement date	**—**	—	**—**	—	**16**	—
Employer contributions	**125**	3	**91**	1	**379(a)**	108
Participant contributions	**—**	—	**15**	16	**4**	3
Benefits paid	**(5)**	(50)	**(45)**	(44)	**(55)**	(43)
Settlements	**(119)**	(12)	**—**	—	**—**	—
Actuarial gain	**—**	—	**—**	—	**(3)**	(18)
Fair value of plan assets at end of year (FVPA)	**$ 796**	$ 724	**$ 401**	$ 303	**$ 1,566**	$ 1,054
Funded status (FVPA–BO) at end of year	**$ 8**	$ (74)	**$ (43)**	$ (139)	**$ (129)**	$ (549)

(a) Includes $236 million contributed to non-U.S. plans in 2005 after the September 30 measurement date for those plans.

Amounts recognized on the balance sheet as of December 31, 2006, under SFAS 158:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
Overfunded retirement plans	**$ 42**	**$ —**	**$ 16**	**$ 58**
Accrued profit sharing and retirement	**(4)**	**(1)**	**(9)**	**(14)**
Underfunded retirement plans	**(30)**	**(42)**	**(136)**	**(208)**
Funded status (FVPA – BO) at end of year	**$ 8**	**$ (43)**	**$ (129)**	**$ (164)**

Amounts recognized on the balance sheet as of December 31, 2005, prior to adoption of SFAS 158:

	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit	Total
Funded status (FVPA-BO) at end of year	$ (74)	$ (139)	$ (549)	$ (762)
Unrecognized net actuarial loss	196	143	381	720
Unrecognized net prior service cost (benefit)	1	24	(46)	(21)
Adjustments for funding from Sept. 30 to Dec. 31	—	—	223	223
Accrued retirement costs at end of year	$ 123	$ 28	$ 9	$ 160
Amounts recognized on the balance sheet as of December 31, 2005:				
Accrued profit sharing and retirement	$ —	$ —	$ (10)	$ (10)
Accrued retirement costs	(23)	(3)	(110)	(136)
Prepaid retirement costs	139	31	29	199
Other assets	2	—	—	2
Accumulated other comprehensive income before income taxes	5	—	100	105
Total	$ 123	$ 28	$ 9	$ 160

The preceding tables present aggregate information for all plans reported. The following table presents the obligation and asset information for only those plans that have projected benefit obligations in excess of plan assets or plans that have accumulated benefit obligations in excess of plan assets.

	U.S. DEFINED BENEFIT		NON-U.S. DEFINED BENEFIT	
	2006	2005	2006	2005
Plans with projected benefit obligations greater than assets:				
Projected benefit obligations	**$ 34**	$ 798	**$ 1,145**	$ 1,603
Plan assets	**—**	724	**1,001**	1,054
Plans with accumulated benefit obligations greater than assets:				
Accumulated benefit obligations	**$ 28**	$ 23	**$ 83**	$ 1,169
Plan assets	**—**	—	**40**	832

Accumulated benefit obligations were $711 million and $698 million at year-end 2006 and 2005 for the U.S. defined benefit plans, and were $1.47 billion and $1.38 billion at year-end 2006 and 2005 for the non-U.S. defined benefit plans.

Assumptions and Investment Policies

In order to select a discount rate for purposes of valuing the plan obligations and for fiscal-year-end disclosure, an analysis is performed in which the projected cash flows from significant defined benefit and retiree health care plans are matched with a yield curve based on an appropriate universe of high-quality corporate bonds that are available in each country. Additionally, we also consider a bond matching analysis on the projected payment streams of the U.S. defined benefit and retiree health care plans. We use the results of the yield curve and bond matching analysis to select the discount rate that matches the payment stream of the benefits in each plan. Each rate is rounded to the nearest quarter of a percent.

The ranges of assumptions used for the non-U.S. defined benefit plans reflect the different economic environments within the various countries.

	DEFINED BENEFIT		RETIREE HEALTH CARE	
	2006	2005	2006	2005
Weighted average assumptions used to determine benefit obligations:				
U.S. assumed discount rate	**5.75%**	5.50%	**5.75%**	5.50%
Non-U.S. assumed discount rate:				
High	**5.00%**	5.00%		
Low	**2.25%**	2.25%		
U.S. average long-term pay progression	**3.50%**	4.00%		
Non-U.S. average long-term pay progression:				
High	**5.00%**	4.00%		
Low	**3.00%**	3.00%		
Weighted average assumptions used to determine net periodic benefit cost:				
U.S. assumed discount rate	**5.94%**	5.38%	**6.00%**	5.25%
Non-U.S. assumed discount rate:				
High	**5.00%**	5.50%		
Low	**2.25%**	2.25%		
U.S. assumed long-term rate of return on plan assets	**7.00%**	7.00%	**7.00%**	7.00%
Non-U.S. assumed long-term rate of return on plan assets:				
High	**6.60%**	6.00%		
Low	**2.00%**	3.00%		
U.S. average long-term pay progression	**4.00%**	4.00%		
Non-U.S. average long-term pay progression:				
High	**4.00%**	4.50%		
Low	**3.00%**	3.00%		

Assumptions for expected long-term rate of return on plan assets are based upon actual historical returns, future expectations for returns for each asset class and the effect of periodic target asset allocation rebalancing. The results are adjusted for the payment of reasonable expenses of the plan from plan assets. The historical long-term return on the plans' assets has exceeded the selected rates and we believe these assumptions are appropriate based upon the mix of the investments and the long-term nature of the plans' investments.

Our rate of return assumption for the U.S. defined benefit plan reflects a decision to move gradually over several years to an asset allocation policy with less emphasis on equity investments. This allocation move is designed to better match the plan's assets with the liability structure as the plan matures.

The table below shows target allocation ranges for the plans that hold a substantial majority of the defined benefit assets. The asset allocations for the retiree health care benefit plan are intended to represent the long-term targeted mix rather than a current mix.

Asset Category	U.S. Defined Benefit	U.S. Retiree Health Care	Non-U.S. Defined Benefit
Equity securities	50% - 75%	75%	30% - 60%
Fixed income securities and cash	25% - 50%	25%	40% - 70%

For the defined benefit plans, it is intended that the investments will be rebalanced when the allocation is not within the target range. Additional contributions are invested consistent with the target ranges and may be used to rebalance the portfolio. The investment allocations and individual investments are chosen with regard to the duration of the obligations of the plan. A small portion of the retiree health care benefit plan assets are invested in an account within the pension trust and are invested in a like manner as the other pension assets. The majority of the assets in the retiree health care benefit plan are invested in a series of Voluntary Employee Benefit Association (VEBA) trusts. For tax efficiency, the investments in the VEBA trusts are not rebalanced but additional contributions to the trusts may be used to reallocate the portfolio.

Weighted average asset allocations at December 31, are as follows:

Asset Category	U.S. Defined Benefit 2006	U.S. Defined Benefit 2005	U.S. Retiree Health Care 2006	U.S. Retiree Health Care 2005	Non-U.S. Defined Benefit 2006	Non-U.S. Defined Benefit 2005
Equity securities	**62%**	64%	**69%**	64%	**52%**	79%
Fixed income securities and cash	**38%**	36%	**31%**	36%	**48%**	21%

There are no significant restrictions on the amount or nature of the investments that may be acquired or held by the plans. None of the plan assets related to the defined benefit pension plans and retiree health care benefit plan are directly invested in TI common stock.

Contributions to the plans meet or exceed all minimum funding requirements. We expect to contribute approximately $40 million to U.S. retirement plans and approximately $70 million to non-U.S. retirement plans in 2007.

The following table projects the benefits expected to be paid to participants from the plans in each of the following years. The majority of the payments will be paid from plan assets and not company assets.

	U.S. Defined Benefit	U.S. Retiree Health Care	Medicare Subsidy	Non-U.S. Defined Benefit
2007	$ 119	$ 36	$ (4)	$ 40
2008	104	39	(5)	44
2009	100	41	(5)	47
2010	82	43	(5)	52
2011	76	44	(6)	56
2012–2016	336	218	(20)	339

Assumed health care cost trend rates for the U.S. retiree health care plan at December 31:

	U.S. RETIREE HEALTH CARE 2006	U.S. RETIREE HEALTH CARE 2005
Assumed health care trend rate for next year:		
Attributed to less than age 65	**9.0%**	10.0%
Attributed to age 65 or greater	**10.0%**	11.0%
Ultimate trend rate	**5.0%**	5.0%
Year in which ultimate trend rate is reached:		
Attributed to less than age 65	**2011**	2011
Attributed to age 65 or greater	**2012**	2012

Increasing or decreasing health care cost trend rates by one percentage point would have increased or decreased the accumulated postretirement benefit obligation at December 31, 2006, by $18 million and the service cost and interest cost components of 2006 plan expense by $1 million.

Deferred Compensation Arrangements

We have a nonqualified deferred compensation plan, which allows certain highly compensated employees the option to defer the receipt of a portion of their salary, bonus and profit sharing. Employees who participate in the deferred compensation plan can select one of eight distribution options offered by the plan. Payments are made after the employee terminates, based on their distribution election and plan balance. Participants can earn a return on their deferred compensation that is based on hypothetical investments in the same investment funds and TI common stock offered in our defined contribution plans. Changes in the market value of these participant investments are reflected as an adjustment to the liability for deferred compensation with an offset to compensation expense.

In December 2004, the existing deferred compensation plan was closed to deferral elections for compensation earned after 2004. For compensation earned after 2004, we have allowed deferral elections in accordance with the provisions of the AJCA.

As of December 31, 2006, the liability to the participants of the deferred compensation plan was $194 million and is recorded in noncurrent liabilities. This amount reflects the accumulated participant deferrals and earnings thereon as of that date. We make no contributions to the deferred compensation plan and so remain contingently liable to the participants. However, to serve as an economic hedge of the financial impact of changes in market values of these hypothetical investments, we invest in similar mutual funds and have entered into a forward purchase contract (explained below). Changes in the fair value of these mutual fund investments are recognized as an offset to compensation expense (see Note 4 for a discussion of investments).

As no shares of TI common stock are actually held for the account of participants, as of December 31, 2006, we have a forward purchase contract with a commercial bank to acquire 765,000 shares of TI common stock at a fixed price of $30.29 per share at the end of the contract term or, at our option, to settle in cash with the bank. We are also able, at our discretion, to unwind all or part of this contract prior to the end of the contract term. The contract is intended to be an economic hedge to minimize the earnings impact from the effect of fluctuations in stock market prices on the portion of the deferred compensation plan obligations that are denominated in TI stock. The forward contract is marked-to-market with any changes reflected in compensation expense. Since December 31, 2005, participants have been prohibited from directing any further transfers to the TI common stock portion of the hypothetical investments, so this hedge will remain at or below 765,000 shares of TI common stock in the future.

11. Profit Sharing and Savings Plans

We sponsor various profit sharing plans, the largest of which is the TI Employee Profit Sharing Plan (the current plan). Profit sharing benefits are generally formulaic and determined by one or more business or company-wide financial metrics. Beginning in 2005, profit sharing expense is determined based on a different formula than was used in 2004. The current plan provides for profit sharing to be paid based solely upon TI’s operating margin for the full calendar year. Under this plan, a minimum threshold of 10 percent operating margin must be achieved before any profit sharing is paid. Profit sharing at 10 percent operating margin will be 2 percent of eligible payroll. The maximum amount of profit sharing available under the plan is 20 percent of eligible payroll, and would only be paid when TI’s operating margin meets or exceeds 35 percent for a full calendar year.

We recognized $149 million, $115 million and $243 million of profit sharing expense under the TI Employee Profit Sharing Plan in 2006, 2005 and 2004.

12. Segment and Geographic Area Data

As a result of the sale of the former Sensors & Controls segment, excluding the RFID operations, we now have two reportable operating segments: Semiconductor and Education Technology. The Education Technology segment, formerly named Educational & Productivity Solutions, has been renamed to reflect that the nature of this segment’s business has gradually changed to emphasize education. There is no financial statement impact from this name change.

The former Sensors & Controls business has been reflected as discontinued operations (see Notes 1 and 2). Segment results for prior periods reflect the addition of the RFID operations to the Semiconductor segment.

Our Semiconductor segment designs, manufactures and sells integrated circuits. Our core products include analog integrated circuits and digital signal processors, which are used in a broad range of electronic systems. These systems include cellular telephones, personal computers, servers, communications infrastructure equipment, motor controls, automotive equipment and digital imaging systems such as front projectors and high-definition digital televisions. Semiconductor products are sold to original-equipment manufacturers (OEMs), original-design manufacturers (ODMs), contract manufacturers and distributors. An OEM designs and sells products under its own brand that it manufactures in-house or has contracted to other manufacturers. An ODM designs and manufactures products for other companies to sell under their respective brands. Distributors sell TI products directly to a wide range of customers. The semiconductor market is intensely competitive and is subject to rapid technological change, pricing pressures, and the requirement of high rates of investment for R&D and for the manufacturing factories and equipment needed to produce semiconductors. This segment represented 96 percent of revenue in 2006.

Our Education Technology segment is a leading supplier of graphing handheld calculators. This segment also provides customers with business and scientific calculators and a wide range of advanced classroom tools and professional development resources to help students and teachers interactively explore math and science. Education Technology relies on third-party manufacturers to build its products. Our principal competitors in this business are U.S.- and Japan-based companies. The principal competitive factors are an understanding of the education market, technology expertise and price. Education Technology sells products primarily through retailers and instructional dealers. This segment represented 4 percent of our 2006 revenue.

Operating profits of these businesses exclude the effects of stock-based compensation expense, special charges and gains, and acquisition-related amortization, which are included in Corporate. The results for Semiconductor include the effects of all royalty revenue from semiconductor-related license agreements. Business assets are the owned or allocated assets used by each business.

Also included in Corporate are general corporate expenses and elimination of intersegment transactions (which are generally intended to approximate market prices). Assets of Corporate include unallocated cash, short-term investments, noncurrent investments and deferred income taxes.

Segment Information

	Semiconductor	Education Technology	Corporate	Total
Net revenue				
2006	**$ 13,730**	**$ 525**	**$ —**	**$ 14,255**
2005	11,829	506	—	12,335
2004	11,034	518	—	11,552
Profit (loss) from operations				
2006	**3,831**	**200**	**(664)**	**3,367**
2005	2,808	188	(437)	2,559
2004	2,068	176	(284)	1,960
Assets of continuing operations				
2006	**7,115**	**103**	**6,708**	**13,926**
2005	6,518	90	7,960	14,568
2004	6,481	91	9,297	15,869
Property, plant and equipment additions				
2006	**1,221**	**—**	**51**	**1,272**
2005	1,250	1	37	1,288
2004	1,220	1	39	1,260
Depreciation				
2006	**1,011**	**1**	**40**	**1,052**
2005	1,294	1	51	1,346
2004	1,393	1	55	1,449

There was no significant intersegment revenue.

The following geographic area data includes net revenue, based on product shipment destination and royalty payor location, and property, plant and equipment based on physical location:

Geographic Area Information

	U.S.	Asia	Europe	Japan	Rest of World	Total
Net revenue						
2006	**$ 1,868**	**$ 7,568**	**$ 2,286**	**$ 2,008**	**$ 525**	**$ 14,255**
2005	1,679	6,277	2,060	1,821	498	12,335
2004	1,601	5,584	1,991	1,934	442	11,552
Property, plant and equipment, net						
2006	**$ 2,517**	**$ 944**	**$ 205**	**$ 271**	**$ 13**	**$ 3,950**
2005	2,544	705	208	259	14	3,730
2004	2,561	656	262	297	18	3,794

Major Customer

Direct sales to the Nokia group of companies were 11 percent of our revenue in 2006, 2005 and 2004, although if indirect sales such as to contract manufacturers are included, Nokia accounted for 15 percent, 16 percent and 13 percent of our 2006, 2005 and 2004 revenue.

13. Income Taxes

Income from Continuing Operations before Income Taxes

	U.S.	Non-U.S.	Total
2006	**$ 2,582**	**$ 1,043**	**$ 3,625**
2005	1,770	985	2,755
2004	1,373	799	2,172

Provision for Income Taxes

	U.S. Federal	Non-U.S.	U.S. State	Total
2006				
Current	**$ 885**	**$ 280**	**$ 22**	**$ 1,187**
Deferred	**(218)**	**31**	**(13)**	**(200)**
Total	**$ 667**	**$ 311**	**$ 9**	**$ 987**
2005				
Current	$ 481	$ 293	$ 2	$ 776
Deferred	(176)	(12)	(6)	(194)
Total	$ 305	$ 281	$ (4)	$ 582
2004				
Current	$ 194	$ 211	$ 6	$ 411
Deferred	120	(48)	(2)	70
Total	$ 314	$ 163	$ 4	$ 481

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

	2006	2005	2004
Computed tax at statutory rate	**$ 1,269**	$ 965	$ 760
Effect of non-U.S. rates	**(80)**	(144)	(138)
AJCA repatriation tax	**—**	55	—
Research and experimentation tax credits	**(78)**	(62)	(58)
Favorable proposed audit adjustments communicated by tax authorities	**—**	(147)	—
U.S. tax benefits for manufacturing and foreign sales	**(106)**	(82)	(79)
Other	**(18)**	(3)	(4)
Total provision for income taxes	**$ 987**	$ 582	$ 481

The primary components of deferred income tax assets and liabilities at December 31 were as follows:

	DECEMBER 31,	
	2006	2005
Deferred income tax assets:		
Accrued retirement costs (defined benefit and retiree health care)	**$ 194**	$ 45
Inventories and related reserves	**392**	315
Stock-based compensation	**156**	61
Accrued expenses	**295**	260
Deferred loss and tax credits	**387**	372
Investments	**48**	56
Other	**121**	108
	1,593	1,217
Less valuation allowance	**(14)**	(36)
	1,579	1,181
Deferred income tax liabilities:		
Property, plant and equipment	**(145)**	(172)
Intangibles	**(29)**	(11)
Non-U.S. earnings	**(26)**	(6)
Other	**(60)**	(3)
	(260)	(192)
Net deferred income tax asset	**$1,319**	$ 989

As of December 31, 2006 and 2005, the net deferred income tax assets of $1.32 billion and $989 million were presented in the balance sheets, based on tax jurisdiction, as deferred income tax assets of $1.34 billion and $1.01 billion and deferred income tax liabilities of $23 million and $23 million. We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. While these assets are not assured of realization, our assessment is that a valuation allowance is not required for the remaining balance of the deferred tax assets. This assessment is based on our evaluation of relevant criteria including the existence of: (a) deferred tax liabilities that can be used to absorb deferred tax assets, (b) taxable income in prior carryback years, and (c) future taxable income.

We have aggregate U.S. and non-U.S. tax loss carryforwards of approximately $85 million of which $11 million expire through the year 2024.

During 2005, we repatriated approximately $1.29 billion of non-U.S. subsidiary earnings that qualified under the AJCA and recognized a related tax expense of $55 million.

Provision has previously been made for deferred taxes on undistributed earnings of non-U.S. subsidiaries to the extent that dividend payments from such companies are expected to result in additional tax liability. The remaining undistributed earnings (approximately $1.29 billion at December 31, 2006) have been indefinitely reinvested; therefore, no provision has been made for taxes due upon remittance of these earnings. Determination of the amount of unrecognized deferred tax liability on these unremitted earnings is not feasible.

We operate in a number of tax jurisdictions and are subject to examination of our income tax returns by tax authorities in those jurisdictions. Those tax authorities may challenge any item on these tax returns. The tax matters challenged can be complex in nature and uncertain as to their ultimate outcome. We assess the ultimate resolution of these tax matters as they arise and establish reserves for tax contingencies when we believe an unfavorable outcome is likely and the liability can be reasonably estimated. These reserves involve considerable judgment and estimation and are based on the best information available including tax regulations, the outcome of court cases, and other information relevant to the issues raised. Although we believe our reserves for tax contingencies are reasonable, adjustments could be required in the future based on changes in facts and circumstances surrounding these contingencies.

14. Commitments and Contingencies

Italian Grants: Italian government auditors have completed a review, conducted in the ordinary course, of approximately $250 million of grants from the Italian government to TI's former memory operations in Italy. The Ministry of Industry, which is responsible for reviewing the auditors' findings, has published final decrees on all projects relating to the grants, resulting in a $28 million favorable settlement in the fourth quarter of 2006. As of December 31, 2006, we have no material obligations remaining on the grants.

Venture Capital Commitments: We have investments in certain venture capital funds and have committed to provide additional capital to those funds. As appropriate investments are entered into, the venture capital general partners may draw upon those committed additional funds. As of December 31, 2006, we may be required to provide an additional $32 million when the committed funds are called by the venture capital funds' general partners.

Leases: We conduct certain operations in leased facilities and also lease a portion of our data processing and other equipment. In addition, certain long-term supply agreements to purchase industrial gases are also accounted for as operating leases. Lease agreements frequently include purchase and renewal provisions and require us to pay taxes, insurance and maintenance costs. Rental and lease expense incurred was $125 million in 2006, $126 million in 2005 and $124 million in 2004.

Software Licenses: We have licenses for certain electronic design automation software that are accounted for in accordance with Statement of Position 98-1. The related liabilities are apportioned between current liabilities (accounts payable) and long-term liabilities (other liabilities) on the balance sheet.

Purchase Commitments: We have certain purchase commitments that are for normal usage, some of which contain provisions for minimum payments.

Summary: At December 31, 2006, we were committed to make the following minimum payments under operating leases, capitalized software licenses and purchase commitments:

	Operating Leases	Capitalized Software Licenses	Purchase Commitments
2007	$ 85	$ 33	$ 117
2008	57	21	93
2009	44	15	37
2010	38	8	5
2011	33	—	5
Thereafter	162	—	61

Letters of Credit: At December 31, 2006, we had $63 million of unused documentary letters of credit to enable manufacturers of certain products for the Education Technology segment to receive payment upon shipment to us.

Indemnification Guarantees: We routinely sell products with a limited intellectual property indemnification included in the terms of sale. Historically, we have had only minimal and infrequent losses associated with these indemnities. Consequently, any future liabilities resulting from the intellectual property indemnities cannot reasonably be estimated or accrued.

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, and historically we have experienced a low rate of payments on product claims. Consistent with general industry practice, we enter formal contracts with certain customers in which the parties define warranty remedies. Typically, our warranty for semiconductor products covers three years, an obligation to repair, replace or refund, and a maximum payment obligation tied to the price paid for our products. In some cases, product claims may be disproportionate to 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 upon our financial condition, results of operations or liquidity.

Discontinued Operations Indemnity: In connection with the sale of the former Sensors & Controls business, we have agreed to indemnify Sensata for certain specified litigation matters, as well as other liabilities, including environmental liabilities. Our indemnification obligations with respect to breaches of representations and warranties and the specified litigation matters are, generally, subject to a total deductible of $30 million and our maximum potential exposure is limited to $300 million. There were no significant liabilities recorded under these indemnification obligations.

15. Supplemental Financial Information

Other Income (Expense) Net:

	2006	2005	2004
Interest income	**$ 196**	$ 165	$ 136
Settlement of Italian grants (a)	**28**	11	54
Sales tax refund benefits (b)	**20**	—	19
Other (c)	**21**	29	24
Total	**$ 265**	$ 205	$ 233

(a) Reflects benefits recognized due to the resolution of matters relating to grants from the government of Italy to our former memory business operations in Italy (see Note 14 for details).
(b) Reflects refunds of overpayments attributable to previously divested businesses and interest on refunds relating to settlements of audits of sales and use taxes paid to the State of Texas.
(c) Includes lease income of approximately $20 million per year, primarily from the purchaser of our former defense electronics business divested in 1997. As of December 31, 2006, the aggregate amount of non-cancellable future lease payments to be received from these leases is $108 million. These leases contain renewal options. Other also includes miscellaneous non-operational items such as gains and losses related to previously divested businesses, interest income and expense related to non-investment items such as taxes, and gains and losses from currency exchange rate changes.

Inventories:

	DECEMBER 31,	
	2006	2005
Raw materials and purchased parts	**$ 105**	$ 83
Work in process	**930**	813
Finished goods	**402**	289
Total	**$1,437**	$1,185

Property, Plant and Equipment at Cost:

		DECEMBER 31,	
	Depreciable Lives	2006	2005
Land	—	**$ 82**	$ 79
Buildings and improvements	5-40 years	**2,890**	2,930
Machinery and equipment	3-10 years	**4,779**	5,365
Total		**$ 7,751**	$ 8,374

Authorizations for property, plant and equipment expenditures in future years were $341 million at December 31, 2006.

Accrued Expenses and Other Liabilities:

	December 31, 2006	December 31, 2005
Accrued salaries, wages and vacation pay	**$ 368**	$ 340
Customer incentive programs and allowances	**188**	152
Property and other non-income taxes	**126**	134
Other	**347**	322
Total	**$ 1,029**	$ 948

Accumulated Other Comprehensive Income:

	December 31, 2006	December 31, 2005
Unrealized losses on available-for-sale investments	**$ (12)**	$(16)
Postretirement benefit plans:		
Minimum pension liability	**—**	(65)
Prior service cost	**6**	—
Net actuarial loss	**(357)**	—
Total	**$(363)**	$(81)

Cash Payments:

	2006	2005	2004
Income taxes (net of refunds)	$ 1,830	$ 591	$ 261
Interest (net of amounts capitalized)	7	9	21

16. Subsequent Event

On January 22, 2007, we announced a plan to change the way we develop advanced digital manufacturing process technology. Instead of separately creating our own core process technology, we will work collaboratively with our foundry partners to specify and drive the next generations of digital process technology. Additionally, we will stop production at an older digital factory and move its manufacturing equipment into several of our analog factories to support greater analog output. These changes will be made throughout 2007, and when complete are expected to reduce annualized costs by about $200 million. About 500 jobs are expected to be reduced by year end. In total, we will take restructuring charges of approximately $55 million, about evenly distributed across the four quarters of 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Texas Instruments Incorporated

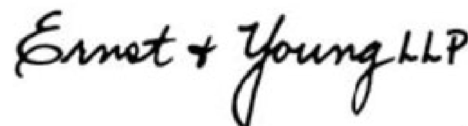
We have audited the accompanying consolidated balance sheets of Texas Instruments Incorporated and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Instruments Incorporated and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation, depreciation, and postretirement benefits effective July 1, 2005, January 1, 2006, and December 31, 2006, respectively.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007, expressed an unqualified opinion thereon.



Dallas, Texas
February 23, 2007

REPORT BY MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of TI is responsible for establishing and maintaining adequate internal control over financial reporting. TI's internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial reporting reliability and financial statement preparation and presentation.

TI management assessed the effectiveness of internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) in *Internal Control – Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2006, our internal control over financial reporting is effective based on the COSO criteria.

TI's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our assessment of internal control over financial reporting, which immediately follows this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors
Texas Instruments Incorporated

We have audited management's assessment, included in the accompanying Report by Management on Internal Control over Financial Reporting, that Texas Instruments Incorporated and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Texas Instruments Incorporated's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

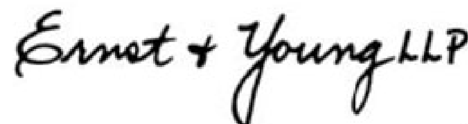
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Texas Instruments Incorporated maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Texas Instruments Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Texas Instruments Incorporated and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, of Texas Instruments Incorporated and our report dated February 23, 2007, expressed an unqualified opinion thereon.



Dallas, Texas
February 23, 2007

SUMMARY OF SELECTED FINANCIAL DATA

(Millions of dollars, except share and per-share amounts)

Years Ended December 31,	2006	2005	2004	2003	2002
Net revenue	**$ 14,255**	$ 12,335	$ 11,552	$ 8,911	$ 7,509
Operating costs and expenses	**10,888**	9,776	9,592	8,146	7,409
Profit from operations	**3,367**	2,559	1,960	765	100
Other income (expense) net	**265**	205	233	324	(576)
Interest expense on loans	**7**	9	21	39	57
Income (loss) from continuing operations before income taxes	**3,625**	2,755	2,172	1,050	(533)
Provision (benefit) for income taxes	**987**	582	481	(15)	(58)
Income (loss) from continuing operations	**2,638**	2,173	1,691	1,065	(475)
Income from discontinued operations, net of income taxes	**1,703**	151	170	133	131
Net income (loss)	**$ 4,341**	$ 2,324	$ 1,861	$ 1,198	$ (344)
Basic income (loss) from continuing operations per common share	**$ 1.73**	$ 1.33	$ 0.98	$ 0.62	$ (0.27)
Diluted income (loss) from continuing operations per common share	**$ 1.69**	$ 1.30	$ 0.96	$ 0.60	$ (0.27)
Dividends declared per common share	**$ 0.130**	$ 0.105	$ 0.089	$ 0.085	$ 0.085
Average common and dilutive potential common shares outstanding, in thousands (a)	**1,559,772**	1,670,916	1,768,073	1,766,400	1,733,343

(a) For the year ended December 31, 2002, dilutive potential common shares outstanding have been excluded due to the net loss for this period.

December 31,	2006	2005	2004	2003	2002
Working capital	**$ 5,776**	$ 7,035	$ 8,373	$ 5,626	$ 4,344
Property, plant and equipment, net	**3,950**	3,730	3,794	3,998	4,663
Total assets	**13,930**	15,063	16,299	15,510	14,679
Long-term debt	**—**	329	368	395	833
Stockholders' equity	**11,360**	11,937	13,063	11,864	10,734
Employees	**30,986**	30,068	30,446	29,083	29,243
Stockholders of record	**27,976**	29,848	27,496	28,058	26,884

See Notes to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the Financial Statements and the related Notes that appear elsewhere in this document. All dollar amounts in the tables in this discussion are stated in millions of U.S. dollars, except per-share amounts.

The former Sensors & Controls business has been reflected as discontinued operations (see Note 2 to the Financial Statements for additional information). The radio frequency identification (RFID) systems operations that had been part of the Sensors & Controls segment are included in the Semiconductor segment. All amounts in this discussion reference continuing operations unless otherwise noted.

The Educational & Productivity Solutions segment has been renamed Education Technology to more accurately reflect the strategic focus of this business (see Note 12 to the Financial Statements for additional information).

Overview

Texas Instruments makes, markets and sells high-technology components; more than 50,000 customers all over the world buy our products. We have two separate segments: Semiconductor and Education Technology. Semiconductor is by far the larger of these segments. It accounted for 96 percent of our revenue in 2006, and historically it averages a higher growth rate than Education Technology, although the semiconductor market is characterized by wide swings in growth rates from year to year. We were the world's third-largest semiconductor company in 2006 as measured by revenue, according to preliminary estimates from iSuppli Corporation, an industry analyst.

In our Semiconductor segment, we focus primarily on technologies that make it possible for a variety of consumer and industrial electronic equipment to process both analog and digital signals in real time. These technologies are known as analog semiconductors and digital signal processors, or DSPs, and together they account for about three-fourths of our Semiconductor revenue. Almost all of today's digital electronic equipment requires some form of analog or digital signal processing.

Analog semiconductors process "real world" inputs, such as sound, temperature, pressure and visual images, conditioning them, amplifying them and converting them into digital signals. They also assist in the management of power distribution and consumption, aspects critical to today's portable electronic devices. Generally, analog products require less capital-intensive factories to manufacture than digital products.

Our analog semiconductors consist of custom products and standard products. Custom products are designed for specific applications for specific customers. Standard products include application-specific standard products (designed for a specific application and usable by multiple customers) and high-performance standard catalog products (usable in multiple applications by multiple customers). These standard products are characterized by differentiated features and specifications, as well as relatively high gross margins. Standard analog products tend to have long life spans. Many custom and standard products are proprietary and difficult for competitors to imitate. Analog products also include commodity products, which are sold in high volume and into a broad range of applications, and generally are differentiated by price and availability. We are the world's largest supplier of analog semiconductors.

DSPs use complex algorithms and compression techniques to alter and improve a data stream. These products are ideal for applications that require precise, real-time processing of real-world signals that have been converted into digital form. Their power efficiency is important for battery-powered devices.

Our DSP portfolio includes custom, application-specific and standard products. Custom products are designed for specific customers with very high volumes in established markets. Application-specific products are implementations crafted for specific applications like wireless infrastructure, VoIP (Voice over Internet Protocol) gateways, digital still cameras and residential gateways, to name a few. Our standard DSP products are sold into a broad range of applications and seed the next generation of signal-processing innovation. We are the world's largest supplier of DSPs.

We expect that our inventory levels generally will increase from historical levels in order to meet the requirements of our customers. For example, the analog market consists of a very broad base of customers that order relatively small quantities of many different analog products. These customers typically expect very short order lead times, requiring us to maintain more on-hand inventory. Also, analog suppliers typically hold a broader range of inventory in order to serve their customers, while manufacturing in efficient quantities. Analog products will be a growing portion of our inventory as our analog business

continues to grow and broaden its product portfolio. Additionally, our large customers are moving increasingly toward a business model that requires us to maintain inventory on a consignment basis on their behalf. We own and operate semiconductor manufacturing sites in the Americas, Japan, Europe and Asia. Our facilities require substantial investment to construct and are largely fixed-cost assets once in operation. Because we own most of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these costs do not decline with reductions in customer demand or our utilization of our manufacturing capacity, and can adversely affect profit margins as a result. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which should improve profit margins.

As part of our manufacturing strategy, we outsource a portion of our product manufacturing to outside suppliers (foundries and assembly/test subcontractors), which reduces both the amount of capital expenditures and subsequent depreciation required to meet customer demands and fluctuations in profit margins. Outside foundries provided about 25 percent of our total wafers produced in 2006. (A wafer is a thin slice of silicon on which an array of semiconductor devices has been fabricated.)

The semiconductor market is characterized by constant and typically incremental innovation in product design and manufacturing technologies. We make significant investments in research and development (R&D). Typically, products resulting from our R&D investments in the current period do not contribute materially to revenue in that period, but should benefit us in future years. In general, new semiconductor products are shipped in limited quantities initially and will then ramp into high volumes over time. Prices and manufacturing costs tend to decline over time.

We strive to keep improving performance. One way will be by changing how we develop advanced digital manufacturing process technology. Instead of separately creating our own process technology, we will work collaboratively with our foundry suppliers to specify and drive the next generations of digital process technology, and we will continue making products on these processes in our world-class factories. We expect that our 32-nanometer manufacturing process will be the first process technology developed entirely through this new collaboration. This is a natural extension of our existing relationships with foundries that will increase our R&D efficiency and our capital efficiency while maintaining our responsiveness to customers. Additionally, we will stop production at an older digital factory and move its manufacturing equipment into several of our analog factories to support greater analog output.

These changes will be made throughout 2007, and when complete are expected to reduce costs by about $200 million annually. As a result of these actions, about 500 jobs are expected to be reduced by year end. In total, we expect to incur restructuring charges of approximately $55 million, about evenly distributed across the four quarters of 2007.

Our Education Technology segment is a leading supplier of graphing handheld calculators. It also provides our customers with business and scientific calculators and a wide range of advanced classroom tools and professional development that enables students and teachers to explore math and science interactively. Our products are marketed primarily through retailers and to schools through instructional dealers. This business segment represented 4 percent of our revenue in 2006. Prices of Education Technology products tend to be stable.

In the third quarter of 2005, we implemented the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standard (SFAS) No. 123(R), *"Share-Based Payments."* The financial results of 2006 and 2005 include the effects of adopting this new accounting rule for stock options effective July 1, 2005. Before July 1, 2005, our financial results include the expense of restricted stock units, but not stock options. As a result our 2006 and 2005 financial results are not fully comparable to our prior financial results or to each other. For 2006, the total stock-based compensation expense was $332 million, or 2.3 percent of revenue, compared with $175 million, or 1.4 percent of revenue in 2005. Stock-based compensation expense has been included in the applicable income statement lines but has not been allocated between segments. Rather it is reflected in Corporate (see Note 1 to the Financial Statements for additional discussion of the impact of adopting SFAS 123(R)).

Included in Note 1 to the Financial Statements, under *Prior Period Pro Forma Presentations,* is a table that reflects what our financial results would have been if our stock-based compensation had been accounted for under the fair value method in periods prior to the adoption of SFAS 123(R).

As a result of a study of the pattern of usage of long-lived depreciable assets, effective January 1, 2006, we adopted the straight-line method of depreciation for all property, plant and equipment on a prospective basis as allowed for under SFAS No. 154, *"Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3."* The change in depreciation method for the year ended December 31, 2006, reduced depreciation expense by $156 million (see Financial Condition below and Note 1 to the Financial Statements for additional information).

We operate in a number of tax jurisdictions and are subject to several types of taxes including taxes based on income, capital, property and payroll, and sales and other transactional taxes. The timing of the final determination of our tax liabilities varies among these jurisdictions and their taxing authorities. As a result, during any particular reporting period, we might reflect (in either income before income taxes, the provision for income taxes or both) one or more tax refunds or assessments, or changes to tax liabilities, involving one or more taxing authorities.

Discontinued Operations

In January 2006, we entered into a definitive agreement to sell the Sensors & Controls segment, excluding the RFID systems operations, to an affiliate of Bain Capital, LLC, for $3 billion in cash. The sale was completed on April 27, 2006. The former Sensors & Controls business acquired by Bain Capital, LLC was renamed Sensata Technologies (Sensata). The RFID operations retained are now included in the Semiconductor segment.

Products in the former Sensors & Controls business included sensors and electrical and electronic controls. Primary markets were automotive and industrial. Other targeted markets included heating, ventilation, air conditioning, refrigeration and industrial control systems.

Results of Operations

2006 Compared with 2005

We delivered important financial achievements in 2006. Specifically, our semiconductor revenue grew more than one and a half times faster than the market, our earnings per share increased almost twice as fast as our revenue, and our return on invested capital expanded to 21.5 percent. Most important to these results was our high-performance analog product line, which grew revenue 33 percent and continued to raise the bar on gross margin for the entire company.

As expected, demand in the fourth quarter of the year was unseasonably weak, and we limited production to reduce our inventories. Even with these pressures, our profitability remained relatively stable, reflecting the benefits of our hybrid manufacturing strategy whereby we outsource to foundries a large part of our most costly production.

Statement of Operations – Selected Items

	FOR THE YEARS ENDED DECEMBER 31,		
	2006	**2005**	**2004**
Revenue by segment:			
Semiconductor	**$ 13,730**	$ 11,829	$ 11,034
Education Technology	**525**	506	518
Net revenue	**14,255**	12,335	11,552
Cost of revenue	**6,996**	6,319	6,295
Gross profit	**7,259**	6,016	5,257
Gross profit % of revenue	**50.9%**	48.8%	45.5%
Research and development	**2,195**	1,986	1,946
R&D % of revenue	**15.4%**	16.1%	16.8%
Selling, general and administrative	**1,697**	1,471	1,351
SG&A % of revenue	**11.9%**	11.9%	11.7%
Profit from operations	**3,367**	2,559	1,960
Operating profit % of revenue	**23.6%**	20.7%	17.0%
Other income (expense) net	**265**	205	233
Interest expense on loans	**7**	9	21
Income from continuing operations before income taxes	**3,625**	2,755	2,172
Provision for income taxes	**987**	582	481
Income from continuing operations	**$ 2,638**	$ 2,173	$ 1,691
Diluted income from continuing operations per common share	**$ 1.69**	$ 1.30	$ 0.96

Details of Financial Results

For the year, our revenue grew 16 percent to a record $14.25 billion. Growth was driven primarily by strong demand for our analog products, especially high-performance analog, and DSP products.

Earnings per share (EPS) from continuing operations of $1.69 increased 30 percent from the prior year. EPS in 2006 included a full year of stock-option expense of $0.14 resulting in $0.07 of additional expense compared with the prior year when stock-option expense was included for only six months.

Gross profit for 2006 was $7.26 billion, or a record 50.9 percent of revenue. This was an increase of $1.24 billion, or 21 percent, from the prior year due primarily to higher revenue and, to a lesser extent, lower depreciation in the Semiconductor segment. Stock-based compensation expense in cost of revenue increased $32 million from the prior year.

R&D expense of $2.20 billion, or 15.4 percent of revenue, increased $209 million from the prior year due to higher investment in new semiconductor technology, particularly for wireless applications, and $48 million of additional stock-based compensation expense.

Selling, general and administrative (SG&A) expense of $1.70 billion, or 11.9 percent of revenue, increased $226 million from the prior year primarily due to the combination of higher marketing expense in the Semiconductor segment, particularly for DLP® product advertising, and $77 million of higher stock-based compensation expense.

Operating profit for the year was $3.37 billion, or a record 23.6 percent of revenue. This was an increase of $808 million, or 32 percent, due to higher gross profit in the Semiconductor segment.

For the year, other income (expense) net (OI&E) of $265 million increased $60 million from 2005 primarily due to higher interest income. Interest income was $196 million in 2006, an increase of $31 million from the prior year, due to higher average interest rates earned on investments. Also contributing to the higher OI&E were $20 million of benefits in 2006 from a refund of state sales tax and $17 million of higher income in 2006 than in 2005 from final settlement of matters related to grants from the Italian government regarding our former memory operations.

The effective tax rate for continuing operations, which by definition does not include the effect of discrete tax items, was 27 percent for 2006 compared with 24 percent for 2005. The increase in the effective tax rate from the year-ago period is due to, in decreasing order, higher income from continuing operations before income taxes and the effect of non-U.S. tax rates (see Note 13 to the Financial Statements for a reconciliation of tax rates to the statutory federal tax rate).

The tax provision for continuing operations for 2006 contained net discrete tax expense items of $14 million. The provision for income taxes for 2005 contained net discrete tax benefit items of $92 million, primarily due to favorable developments on certain outstanding income tax matters. This was partially offset by an accrual for taxes on dividends from earnings that were repatriated from our non-U.S. subsidiaries under the American Jobs Creation Act of 2004 (AJCA).

For the year, income from continuing operations was $2.64 billion, or $1.69 per share, compared with $2.17 billion, or $1.30 per share in 2005. Net income was $4.34 billion, or $2.78 per share. This includes $1.09 per share from discontinued operations, almost all of which was from the gain on the sale of our former Sensors & Controls business. Earnings per share for 2006 were based on 111 million, or 7 percent, fewer average shares outstanding, the result of our stock repurchase program.

For the year, our orders were $14.02 billion. This was an increase of $1.17 billion from 2005 primarily due to higher demand for our analog products.

Semiconductor Segment

Statement of Operations – Semiconductor

	FOR THE YEARS ENDED DECEMBER 31,	
	2006	2005
Net revenue	**$ 13,730**	$ 11,829
Cost of revenue	**6,681**	6,056
Gross profit	**7,049**	5,773
Gross profit % of revenue	**51.3%**	48.8%
Profit from operations	**3,831**	2,808
Operating profit % of revenue	**27.9%**	23.7%

Semiconductor revenue in 2006 of $13.73 billion increased 16 percent from 2005 primarily due to increased product shipments resulting from higher demand for both analog, especially high-performance analog, and, to a lesser extent, DSP.

For the year, analog revenue increased 18 percent primarily due to increased shipments resulting from higher demand for high-performance analog products. Revenue from high-performance analog products increased 33 percent primarily due to market-share gains. In 2006, about 40 percent of total Semiconductor revenue came from analog.

In 2006, DSP revenue increased 16 percent due to increased shipments resulting from higher demand for wireless products. About 40 percent of total Semiconductor revenue in 2006 came from DSP.

Our 2006 remaining Semiconductor revenue increased 14 percent as increased shipments resulting from growth in demand for standard logic products, DLP products, reduced instruction set computing (RISC) microprocessors (designed to provide very fast computing, typically for a specialized application such as servers) and microcontrollers (a microprocessor designed to control a very specific task for electronic equipment) more than offset a decline in royalties.

During 2006, we signed new patent license agreements to replace agreements that had previously expired. In total, royalties in 2006 decreased by $87 million from 2005 due to the expiration of older agreements. With the signing of the new agreements, we expect royalties to range from about $80-90 million per quarter in 2007.

On an end-equipment basis, revenue from wireless products in 2006 was up 16 percent from 2005 as 3G handset revenue grew about 50 percent from 2005 and sales to the low-priced handset market increased.

In DLP products, revenue increased 15 percent from 2005 primarily due to higher demand resulting in increased shipments of products for front projectors and, to a lesser extent, products for cinema projectors and HDTVs.

In total, we estimate that our 2006 Semiconductor product revenue came from the following broad markets: communications (including wireless and broadband communications) was about 50 percent; computing (including peripherals and computers) was about 25 percent; consumer electronics was about 10 percent; industrial was less than 10 percent; and automotive was about 5 percent.

Gross profit in 2006 was $7.05 billion, or 51.3 percent of revenue. This was an increase of $1.28 billion, or 22 percent, from 2005 primarily due to higher revenue and, to a lesser extent, lower depreciation.

Operating profit in 2006 was $3.83 billion, or a record 27.9 percent of revenue. This was an increase of $1.02 billion from 2005 due to higher gross profit.

For the year, Semiconductor orders were $13.49 billion. This was an increase of 9 percent due to higher demand for analog products.

Education Technology Segment

Statement of Operations – Education Technology

	FOR THE YEARS ENDED DECEMBER 31,	
	2006	2005
Net revenue	**$ 525**	$ 506
Cost of revenue	**204**	206
Gross profit	**321**	300
Gross profit % of revenue	**61.1%**	59.2%
Profit from operations	**200**	188
Operating profit % of revenue	**38.0%**	37.2%

For the year, Education Technology revenue was $525 million. This was a 4 percent increase from 2005 due to increased shipments resulting from higher demand for graphing calculators.

Gross profit in 2006 of $321 million, or a record 61.1 percent of revenue, increased $21 million from 2005 due to higher revenue, and, to a lesser extent, product cost reductions.

Operating profit in 2006 was $200 million, or a record 38.0 percent of revenue. This was an increase of $12 million from 2005 due to higher gross profit.

Discontinued Operations

Revenue from the former Sensors & Controls business was $375 million in 2006 compared with $1.06 billion in 2005. Results for 2006 cover the period up to the date of the sale (April 27, 2006). Income from discontinued operations for 2006, which includes the $1.67 billion gain from the sale of the former Sensors & Controls business, was $1.70 billion, compared with $151 million in 2005 (see Note 2 to the Financial Statements for further discussion).

Prior Results of Operations

2005 Compared with 2004

2005 was our 75th year in operation, and as we crossed that milestone we delivered record annual results for revenue, operating profit, operating margin and operating cash flow. We also gained market share in our core semiconductor technologies of DSP and analog for the fourth consecutive year.

Details of Financial Results

For the year, our revenue reached $12.33 billion, an increase of 7 percent. We also set a new high for operating margin of 20.7 percent.

Diluted income from continuing operations per share was $1.30 for the year and includes stock-based compensation expense of $0.07 for the year.

Gross profit of $6.02 billion, or 48.8 percent of revenue, increased 14 percent from 2004 primarily due to higher gross margin in our Semiconductor business segment. Stock-based compensation expense included in cost of revenue was $32 million in 2005 compared with zero in 2004.

R&D expense of $1.99 billion, or 16.1 percent of revenue, increased $40 million, or 2 percent from 2004, primarily due to stock-based compensation expense, which was $53 million in 2005 compared with zero in 2004.

SG&A expense of $1.47 billion, or 11.9 percent of revenue, increased 9 percent primarily due to higher stock-based compensation and, to a lesser extent, expenses for DLP product advertising. Stock-based compensation expense included in SG&A was $90 million in 2005 compared with $18 million in 2004.

Operating profit for the year was a record $2.56 billion. Operating margin was also a record at 20.7 percent of revenue, increasing 31 percent from 2004 due to higher operating margin in Semiconductor. Total stock-based compensation expense for 2005 was $175 million, or 1.4 percent of revenue, compared with $18 million in 2004.

Profit sharing expense in 2005 was $115 million compared with $243 million in 2004. Beginning in 2005, expenses under the TI employee profit sharing plan were determined using a different formula than was used in 2004 (see Note 11 to the Financial Statements for a description of the new calculation). We accrue profit sharing based on how we expect to perform for the year in total. The accrual in a given quarter is based on our expectations at that time as to annual performance. The profit sharing accrual is included in cost of revenue, R&D expense, and SG&A expense. As a result of the change in our profit sharing formula we expect profit sharing expenses to be more stable over time.

OI&E decreased $28 million in 2005 to $205 million. Interest income was $165 million, an increase of $29 million, due to higher average interest rates earned on short-term investments. This was offset by lower income in 2005 than in 2004 from settlements related to grants from the Italian government regarding our former memory business operations, and the 2004 favorable settlement with the State of Texas over claims for refund of state sales taxes relating to our former defense electronics business.

In 2005, we recognized net discrete tax items of $92 million, consisting of $147 million primarily associated with favorable developments on certain outstanding income tax matters, partially offset by a $55 million accrual for taxes on dividends from earnings repatriated from our non-U.S. subsidiaries under the AJCA. The effective tax rate for 2005, which, by definition, does not include discrete tax items, was 24 percent. This compares with the effective tax rate in 2004 of 22 percent. This difference was primarily due to an increase in income from continuing operations before income taxes in 2005. The effective tax rate for 2005 of 24 percent differs from the 35 percent corporate statutory rate due to the effect of non-U.S. tax rates and, to a lesser extent, various tax benefits such as for export sales and research activities.

Including the effect of the discrete tax items recognized during 2005, the overall tax rate was 21 percent compared with 22 percent in 2004. The lower tax rate in 2005 was the result of the discrete tax items recognized during the year, partially offset by the impact of the increase in income before income taxes.

For the year, income from continuing operations was $2.17 billion, or $1.30 per share, an increase of 29 percent compared with 2004 income from continuing operations of $1.69 billion, or $0.96 per share.

For the year, net income, which includes income from continuing operations and discontinued operations, was $2.32 billion, or $1.39 per share, an increase of 25 percent compared with 2004 net income of $1.86 billion, or $1.05 per share. Earnings per share growth of 32 percent in 2005 exceeded net income growth, reflecting a net decline of about 100 million shares in the average diluted shares outstanding primarily resulting from our stock repurchase program.

For the year, our orders of $12.84 billion increased 13 percent as demand grew for our Semiconductor products. Semiconductor orders increased 13 percent to $12.34 billion due to broad-based demand for our DSP and analog products.

Semiconductor Segment

Statement of Operations – Semiconductor

	FOR THE YEARS ENDED DECEMBER 31,	
	2005	2004
Net revenue	**$ 11,829**	$ 11,034
Cost of revenue	**6,056**	6,026
Gross profit	**5,773**	5,008
Gross profit % of revenue	**48.8%**	45.4%
Profit from operations	**2,808**	2,068
Operating profit % of revenue	**23.7%**	18.7%

Semiconductor revenue in 2005 of $11.83 billion increased 7 percent from 2004 primarily due to increased shipments resulting from higher demand for wireless products and, to a lesser extent, increased shipments from higher demand for high-performance analog products.

For the year, wireless revenue grew 14 percent, with success in both the fast-growing 3G WCDMA (Wideband Code-Division Multiple Access) market, and in supplying chips to the rapidly growing emerging market for low-price cell phones. Industry shipments of WCDMA cell phones doubled in 2005. In 2005, about 55 percent of our 3G revenue came from sales of OMAP™ application processors and about 45 percent from sales of digital baseband modems. (OMAP processors are high-performance processors that enable multimedia applications in cell phones and other electronic devices.)

For the year, high-performance analog revenue grew 13 percent, reflecting the combination of four consecutive quarters of solid growth and the inventory correction that was underway at our distributors at the end of 2004. We exited 2005 with distribution inventory levels of our high-performance analog products lower than they were at the end of 2004, despite resales that were significantly higher.

Analog revenue increased 4 percent from 2004 primarily due to increased shipments resulting from growth in demand for high-performance analog products, which more than offset the loss of revenue from our commodity liquid crystal display (LCD) driver product line, which we divested in the first quarter of 2005. In 2005, about 40 percent of total Semiconductor revenue came from analog.

DSP revenue increased 15 percent from 2004 primarily due to increased shipments resulting from growth in demand for wireless products. In 2005, about 40 percent of total Semiconductor revenue came from DSP.

For the year, remaining Semiconductor revenue increased 2 percent from 2004 primarily due to higher shipments resulting from increased demand for RISC microprocessors and microcontrollers that offset a decline in revenue from DLP products.

We began 2005 with excess inventories of DLP products at both our customers and their channels. Overall DLP revenue declined 8 percent in 2005. We left the year in a much better position, with revenue in the fourth quarter up 10 percent from the year-ago quarter. In 2005, DLP was about 5 percent of Semiconductor revenue, while RISC microprocessors, standard logic, microcontrollers and royalties were under 5 percent each.

In total, we estimate that our 2005 Semiconductor product revenue came from the following broad markets: communications (including wireless and broadband communications) was about 50 percent; computing (including peripherals and computers) was about 30 percent; consumer electronics was about 10 percent; industrial was about 5 percent; and automotive was about 5 percent.

Gross profit of $5.77 billion, or 48.8 percent of revenue, increased $765 million from 2004, primarily due to manufacturing cost reductions and, to a lesser extent, higher revenue.

Operating profit was $2.81 billion, or 23.7 percent of revenue, up $740 million from 2004 due to higher gross profit.

For the year, Semiconductor orders increased 13 percent to $12.34 billion due to broad-based demand for our DSP and analog products.

Education Technology Segment

Statement of Operations – Education Technology

	FOR THE YEARS ENDED DECEMBER 31,	
	2005	2004
Net revenue	**$ 506**	$ 518
Cost of revenue	**206**	226
Gross profit	**300**	292
Gross profit % of revenue	**59.2%**	56.4%
Profit from operations.	**188**	176
Operating profit % of revenue	**37.2%**	34.0%

Education Technology revenue for 2005 was $506 million, down 2 percent from 2004 primarily due to tighter inventory management at retail customers.

Gross profit of $300 million, or a record 59.2 percent of revenue, increased $8 million from 2004 primarily due to lower manufacturing costs.

Operating profit was a record $188 million, or 37.2 percent of revenue, an increase of $12 million from 2004 due to higher gross profit.

Discontinued Operations

Revenue for 2005 from the former Sensors & Controls business was $1.06 billion, up 3 percent from 2004 due to increased shipments resulting from growth in demand for sensor products.

Income from discontinued operations before income taxes was $232 million, or 21.9 percent of revenue, a decrease of $17 million from the prior year primarily due to costs associated with new products.

Income from discontinued operations net of income taxes was $151 million, or $0.09 per share, a decrease of 11 percent compared with 2004 income from discontinued operations net of tax of $170 million, or $0.10 per share, primarily due to lower operating profit.

Financial Condition

At the end of 2006, total cash (cash and cash equivalents plus short-term investments) was $3.72 billion, down $1.61 billion from the end of 2005.

Accounts receivable were $1.77 billion at the end of 2006, an increase of $126 million from 2005 primarily due to higher revenue. Days sales outstanding were 46 at the end of 2006, compared with 45 at the end of 2005.

Inventory was $1.44 billion at the end of 2006. Compared with a year ago, when inventory was below desired levels, inventory increased $252 million. Days of inventory at the end of 2006 were 75 compared with 64 at the end of 2005.

For the year, depreciation was $1.05 billion. This was a decrease of $294 million compared with 2005, $156 million of which was due to our change at the beginning of 2006 from an accelerated to a straight-line method of depreciation.

Liquidity and Capital Resources

Our primary source of liquidity is our cash flow from operations. In addition, we have $1.18 billion of cash and cash equivalents and $2.53 billion of short-term investments, totaling $3.72 billion as of December 31, 2006. Other sources of liquidity include a new five-year $1 billion revolving credit facility and a non-U.S. revolving credit facility of $175 million (see Note 6 to the Financial Statements for additional information). As of December 31, 2006, these facilities were not being utilized.

For the year, cash flow from operations decreased $1.15 billion to $2.45 billion, primarily due to increased working capital requirements that more than offset higher income from continuing operations. The increased working capital requirements reflect the payment of income taxes related to the gain on the sale of our former Sensors & Controls business; the reduction in accounts payable primarily relating to payments for manufacturing equipment and to foundry suppliers; and increased inventory from the less-than-desirable levels at year-end 2005.

In 2006, investing activities provided $3.09 billion in cash, compared with 2005, when investing activities used cash of $1.63 billion. We received cash proceeds from the sale of the former Sensors & Controls business of $3.00 billion in 2006. Sales and maturities of cash investments, net of purchases, were $1.60 billion in 2006 compared with a negative $0.42 billion in 2005 as we increased the cash available for repurchasing shares of our common stock as discussed below.

For 2006, capital expenditures were $1.27 billion, about even with 2005. Our capital expenditures in 2006 were primarily for assembly and test equipment and advanced wafer fabrication equipment.

For 2006, net cash used in financing activities was $5.57 billion compared with $3.54 billion in 2005, primarily reflecting increased repurchases of our common stock and the repayment of $586 million of debt. We used $5.30 billion of cash to repurchase 172 million shares of our common stock in 2006 compared with $4.15 billion used to repurchase 153 million shares of our common stock in 2005. Repurchases in 2006 reduced our shares outstanding by 9 percent. Dividends paid in 2006 of $199 million, compared with $173 million in 2005, reflect the effect of increases in the quarterly dividend rate in the fourth quarters of 2005 and 2006. The quarterly cash dividend rate was increased to $0.03 per share beginning with the dividend declared on October 20, 2005. The quarterly cash dividend rate was increased to $0.04 per share beginning with the dividend declared on October 19, 2006. The effect of the dividend rate increases on total dividends paid in 2006 was partially offset by the lower number of shares outstanding.

Cash proceeds received from the exercise of employee stock options in 2006 were $419 million compared with $461 million in 2005.

In 2005, to avail ourselves of tax savings provided for under the AJCA, we repatriated $1.29 billion of previously undistributed earnings of non-U.S. subsidiaries. During the fourth quarter of 2005, our Japan subsidiary borrowed $275 million of variable-rate bank notes in order to facilitate this process. This debt was prepaid in the second quarter of 2006. A portion of this debt had been due in 2008 and the remainder had been due in 2010. During 2006, we also retired $300 million of maturing debt and redeemed $11 million of debt that was to mature in 2020.

In 2006, the board of directors authorized the repurchase of an additional $10 billion of our common stock. Cumulatively, our board of directors has authorized $15 billion in stock repurchases since September 2004. At year end, $5.49 billion of these authorizations remain.

Long-term Contractual Obligations

	PAYMENTS DUE BY PERIOD				
Contractual Obligations	2007	2008/2009	2010/2011	Thereafter	Total
Long-term debt obligations (a)	$ 43	$ —	$ —	$ —	$ 43
Operating lease obligations (b)	85	101	71	162	419
Software license obligations (c)	33	36	8	—	77
Purchase obligations (d)	117	130	10	61	318
Retirement plans funding (e)	110	—	—	—	110
Deferred compensation plan (f)	22	38	30	105	195
Venture capital commitments (g)	32	—	—	—	32
Total	$ 442	$ 305	$ 119	$ 328	$ 1,194

(a) Includes amounts classified as current portion of long-term debt, i.e., obligations that will be retired within 12 months.
(b) Includes minimum lease payments for leased facilities and equipment, as well as purchases of industrial gases under contracts accounted for as operating leases.
(c) Includes agreements to license electronic design automation software; these are classified as operating leases or capital leases in accordance with Statement of Position 98-1.
(d) Includes contractual arrangements with suppliers where there is a fixed non-cancellable payment schedule or minimum payments due with a reduced delivery schedule. Excluded from the table are cancellable arrangements. However, depending on the timing of cancelling certain purchase arrangements, an additional $57 million of cancellation penalties may be required to be paid, which are not reflected in the table.
(e) Includes the expected contribution planned during 2007. Funding projections beyond the current year are not practical to estimate due to the rules affecting tax-deductible contributions and the impact from the plan asset performance, interest rates and potential U.S. and international legislation. (f) Includes an estimate of payments under this plan for the liability that existed at December 31, 2006. Certain employees are eligible to defer a portion of their salary, bonus and profit sharing into a nonqualified deferred compensation plan. Employees who participate in the plan can select one of eight distribution options offered by the plan. Payments are made after the employee terminates, in accordance with the employee's distribution election and plan balance.
(g) Includes investments in certain venture capital funds where we have committed to provide additional capital to those funds. As appropriate investments are entered into, the venture capital general partners may draw upon those committed additional funds. Because the timing of these commitments is unknown, the table reflects the commitments assuming that they are immediately called by the venture capital funds' general partners in the maximum amount committed.

We believe we have the necessary financial resources to fund our working capital needs, capital expenditures, dividend payments and other business requirements for at least the next 12 months.

Critical Accounting Policies

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

Revenue Recognition

Revenue from sales of our products is recognized upon shipment or delivery, depending upon the terms of the sales order, provided that persuasive evidence of a sales arrangement exists, title and risk of loss have transferred to the customer, the sales amount is fixed or determinable and collection of the revenue is reasonably assured. A portion of our sales is to distributors. We recognize revenue from sales of our products to distributors upon delivery of product to the distributors consistent with the above principles.

We reduce revenue based on estimates of future credits to be granted to customers. Credits are granted for reasons such as prompt payment discounts, volume-based incentives, other special pricing arrangements and product returns due to quality issues. Our estimates of future credits are based on historical experience, analysis of product shipments and contractual arrangements with customers.

Distributor revenue is recognized net of allowances, which are management's estimates based on analysis of historical data, current economic conditions and contractual terms. These allowances recognize the impact of credits granted to distributors under certain programs common in the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities, or are allowed to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in their inventory. Historical claims data are maintained for each

of the programs, with differences among geographic regions taken into consideration. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in distributor revenue and inventory levels. Allowances are also adjusted when recent historical data do not represent anticipated future activity.

Our contractual agreements with our intellectual property licensees determine the amount and timing of royalty revenue. Royalty revenue is recognized when earned according to the terms of the agreement and when realization of payment is considered probable by management. Where royalties are based upon licensee sales, we recognize royalty revenue upon the sale by the licensee of royalty-bearing products, as estimated by us, based on historical experience and analysis of annual sales results of licensees. Estimates are periodically adjusted as a result of reviews of reported results of licensees, which may take the form of independent audits. Where warranted, revenue from licensees may be recognized on a cash basis.

In addition, we monitor collectibility of accounts receivable primarily through review of the accounts receivable aging. When facts and circumstances indicate the collection of specific amounts or from specific customers is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made.

Stock-based Compensation

With the implementation of SFAS 123(R), effective July 1, 2005, stock-based compensation changed our financial statements as detailed in Notes 1 and 9 to the Financial Statements. Determining the amount and distribution of expense for stock-based compensation, as well as the associated impact to the balance sheets and statements of cash flows, requires us to develop estimates of the fair value of stock-based compensation expense. The most significant factors of that expense that require estimates or projections include the expected volatility, expected lives and estimated forfeiture rates of employee stock options.

For grants made prior to July 1, 2005, an analysis of historical volatility was used to develop the estimate of expected volatility. Effective July 1, 2005, we changed our method of determining expected volatility on all options granted after that date to rely solely on available implied volatility rates. We believe that market-based measures of implied volatility are currently the best available indicators of expected volatility. The effect of this change in assumption was not material in 2005 or in 2006.

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

Estimated forfeiture rates are derived from historical forfeiture patterns. We believe the historical experience method is the best estimate of forfeitures currently available.

Inventory Valuation Allowances

Inventory is valued net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. Allowances are determined quarterly by comparing inventory levels of individual materials and parts to historical usage rates, current backlog and estimated future sales and by analyzing the age of inventory, in order to identify specific components of inventory that are judged unlikely to be sold. Allowances are also calculated quarterly for instances where inventoried costs for individual products are in excess of market prices for those products. In addition to this specific identification process, statistical allowances are calculated for remaining inventory based on historical write-offs of inventory for salability and obsolescence reasons. Inventory is written off in the period in which disposal occurs. Actual future write-offs of inventory for salability and obsolescence reasons may differ from estimates and calculations used to determine valuation allowances due to changes in customer demand, customer negotiations, technology shifts and other factors.

Income Taxes

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

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

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. In this process, certain relevant criteria are evaluated including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior carryback years that can be used to absorb net operating losses and credit carrybacks, and taxable income in future years. Our judgment regarding future taxable income may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require material adjustments to these deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

In addition to the factors described above, the effective tax rate reflected in forward-looking statements is based on then current tax law. Significant changes during the year in enacted tax law could affect these estimates.

Impairment of Long-lived Assets

We review long-lived assets for impairment when certain indicators are present that suggest the carrying amount may not be recoverable. This review process primarily focuses on intangible assets from business acquisitions; property, plant and equipment; and software for internal use or embedded in products sold to customers. Factors considered include the under-performance of an asset compared to expectations and shortened useful lives due to planned changes in the use of the assets. Recoverability is determined by comparing the carrying amount of long-lived assets to estimated future undiscounted cash flows. If future undiscounted cash flows are less than the carrying amount of the long-lived assets, an impairment charge would be recognized for the excess of the carrying amount over fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash-flow technique. Additionally, in the case of assets that will continue to be used in future periods, a shortened depreciable life may be utilized if appropriate, resulting in accelerated amortization based upon the expected net realizable value of the asset at the date the asset will no longer be utilized. Actual results may vary from estimates due to, among other things, differences in operating results, shorter asset useful lives and lower market values for excess assets.

Changes in Accounting Standards

See Note 10 for a discussion of the impact of adopting SFAS 158, *“Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).”* See Changes in Accounting Standards in Note 1 to the Financial Statements for a discussion of other changes in accounting standards.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *“Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109.”* This Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements. FIN 48 requires companies to determine that it is “more likely than not” that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 will also require significant additional disclosures. This Interpretation will be effective for fiscal years beginning after December 15, 2006. We will implement this Interpretation in the first quarter of 2007 on a prospective basis. We are currently evaluating the potential impact this Interpretation will have on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *“Fair Value Measurements,”* which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another U.S. generally accepted accounting principles standard requires or permits assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value to any new circumstances. This standard will also require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by us beginning in the first quarter of 2008. We are currently evaluating the potential impact this standard will have on our financial position and results of operations.

In September 2006, the SEC Staff issued Staff Accounting Bulletin (SAB) No. 108, *“Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.”* SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years’ financial statements. We have adopted the provisions of SAB 108 for the year ending December 31, 2006, and have determined it does not have an impact on our financial position and results of operations for the period then ended.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-3, "*How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation*)." This standard allows companies to present in their statements of income any taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions between a seller and a customer, such as sales, use, value-added and some excise taxes, on either a gross (included in revenue and costs) or a net (excluded from revenue) basis. This standard will be effective for us in interim periods and fiscal years beginning after December 15, 2006. We present these transactions on a net basis and, therefore, the adoption of this standard will have no impact on our financial position and results of operations.

Off-balance Sheet Arrangements

As of December 31, 2006, we had no significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Commitments and Contingencies

See Note 14 to the Financial Statements for a discussion of our commitments and contingencies.

Quantitative and Qualitative Disclosures about Market Risk

The U.S. dollar is the functional currency for financial reporting. In this regard, we use forward currency exchange contracts to minimize the adverse earnings impact from the effect of exchange rate fluctuations on our non-U.S. dollar net balance sheet exposures. For example, at year-end 2006, we had forward currency exchange contracts outstanding of $268 million to hedge net balance sheet exposures (including $85 million to sell euros, $82 million to sell British pounds and $48 million to sell Japanese yen). Similar hedging activities existed at year-end 2005. Because most of the aggregate non-U.S. dollar balance sheet exposure is hedged by these exchange contracts, based on year-end 2006 balances and rates, a hypothetical 10 percent plus or minus fluctuation in non-U.S. currency exchange rates would result in a pre-tax currency exchange gain or loss of less than $1 million.

Our total long-term debt, at historical cost, was $43 million at year-end 2006 and $630 million at year-end 2005. This long-term debt had a fair value, based on current interest rates, of approximately $44 million at year-end 2006 and $634 million at year-end 2005. Fair value will vary as interest rates change.

In order to achieve a mix of interest rates on our long-term debt, we used interest rate swaps that changed the characteristics of the interest payments on certain underlying debt from fixed-rate payments to short-term LIBOR-based variable rate payments. Although these interest rate swaps had no impact in 2006, the swaps decreased interest expense by $11 million in 2005 and $19 million in 2004. The year-end 2006 effective interest rate for the $43 million of 8.75% notes due 2007, including the effect of the swaps, was approximately 9.10%. Measured from its inception through year-end 2006, the effect of this swap has been to reduce the average annual interest rate on these notes from 8.75% to 6.54%.

Our cash equivalents are debt securities with original maturities equal to or less than three months. Short-term investments are debt securities, including auction-rate securities, with original maturities greater than three months (see Note 3 to the Financial Statements for additional information). Their aggregate fair value and carrying amount were $3.51 billion at year-end 2006 (fair value and carrying amount were $5.10 billion at year-end 2005). Fair value will vary as interest rates change.

Equity and other long-term investments at year-end 2006 consisted of the following:

- Equity investments – include marketable (publicly traded) and non-marketable (private investments, including various venture funds) equity investments.
- Investments in mutual funds – consist of mutual funds that were selected to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The mutual funds hold a variety of debt and equity investments.

Marketable equity investments are stated at fair value and marked-to-market through stockholders' equity, net of tax. Impairments deemed to be other than temporary are expensed in the Statement of Income. Changes in prices of the mutual fund investments are expected to offset related changes in deferred compensation liabilities such that a 10 percent increase or decrease in investment prices would not affect operating results.

QUARTERLY FINANCIAL DATA

2006	QUARTER 1st	2nd	3rd	4th
Net revenue	$ 3,334	$ 3,697	$ 3,761	$ 3,463
Gross profit	1,672	1,907	1,932	1,748
Profit from operations	718	953	930	767
Income from continuing operations	$ 542	$ 739	$ 686	$ 671
Net income	$ 585	$ 2,387	$ 702	$ 668
Diluted earnings per share:				
Income from continuing operations	$ 0.33	$ 0.47	$ 0.45	$ 0.45
Net income	$ 0.36	$ 1.50	$ 0.46	$ 0.45

2005	QUARTER 1st	2nd	3rd	4th
Net revenue	$ 2,702	$ 2,971	$ 3,339	$ 3,324
Gross profit	1,244	1,426	1,690	1,657
Profit from operations	436	602	761	760
Income from continuing operations	$ 371	$ 584	$ 596	$ 622
Net income	$ 411	$ 628	$ 631	$ 655
Diluted earnings per share:				
Income from continuing operations	$ 0.21	$ 0.35	$ 0.36	$ 0.38
Net income.	$ 0.24	$ 0.38	$ 0.38	$ 0.40

Included in the results above were the following items:

2006	QUARTER 1st	2nd	3rd	4th
Stock-based compensation (a)	**$ 91**	**$ 84**	**$ 79**	**$ 78**
Royalty settlement benefit (b)	**—**	**(60)**	**—**	**—**
Sales tax refund benefit (c)	**—**	**(77)**	**—**	**—**
Research tax credit (d)	**—**	**—**	**—**	**(72)**

2005	QUARTER 1st	2nd	3rd	4th
Stock-based compensation (a)	$ 5	$ 5	$ 80	$ 85
Favorable tax adjustments and discrete items (e)	—	(78)	(5)	(9)
Gains on sales of assets (f)	(24)	(1)	—	—

(a) Reflects our adoption of SFAS 123(R) as of July 1, 2005 (see Note 1 to the Financial Statements, Effects of Stock-based Compensation, for details).
(b) Reflects settlement of patent-related litigation with Conexant Systems, Inc.
(c) Reflects settlement of an audit of Texas state sales and use taxes paid on various purchases over a nine-year period.
(d) The 2006 U.S. federal research tax credit was reinstated in December 2006.
(e) Includes favorable adjustments primarily associated with notification of proposed audit adjustments communicated by tax authorities and partially offset by tax related to the American Jobs Creation Act of 2004.
(f) Includes the disposition of a sales facility and the sale of our liquid crystal display driver product line.

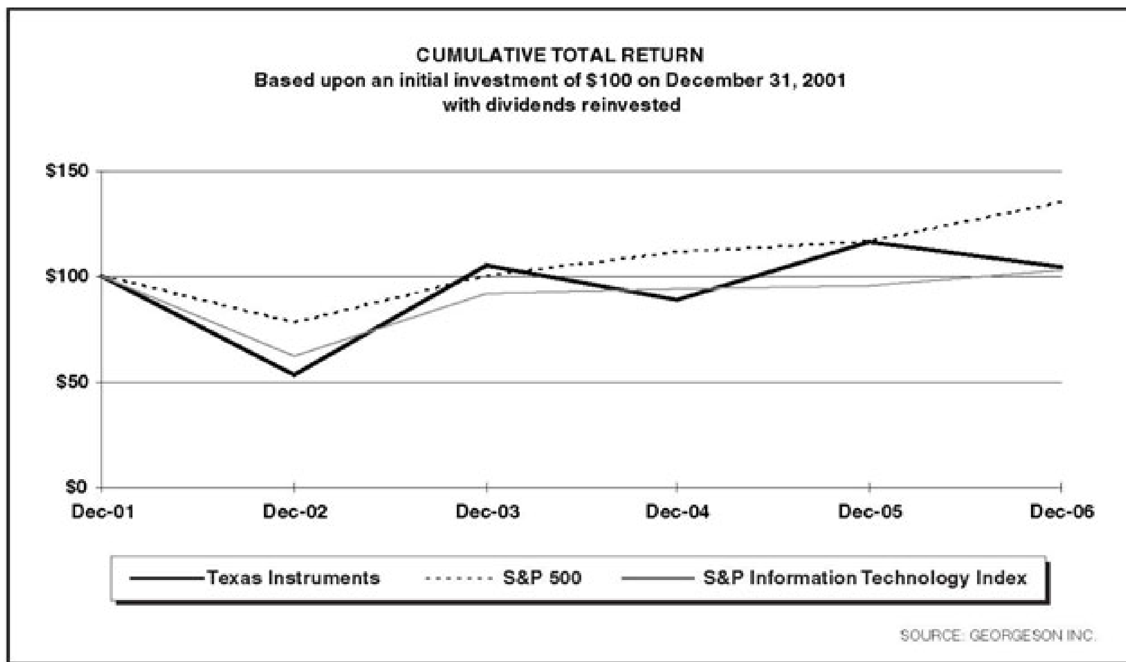
COMMON STOCK PRICES AND DIVIDENDS

TI common stock is listed on the New York Stock Exchange and traded principally in that market. The table below shows the high and low closing prices of TI common stock as reported by Bloomberg L.P. and the dividends paid per common share for each quarter during the past two years.

	QUARTER			
	1st	2nd	3rd	4th
Stock Prices:				
2006 High	**$ 34.45**	**$ 35.56**	**$ 33.89**	**$ 33.06**
Low	**29.23**	**28.90**	**27.00**	**28.55**
2005 High	$ 27.37	$ 28.34	$ 33.96	$ 34.11
Low	20.77	22.76	28.03	27.47
Dividends paid:				
2006	**$ 0.030**	**$ 0.030**	**$ 0.030**	**$ 0.040**
2005	$ 0.025	$ 0.025	$ 0.025	$ 0.030

COMPARISON OF TOTAL SHAREHOLDER RETURN

This graph compares TI's total shareholder return with the S&P 500 Index and the S&P Information Technology Index over a five-year period, beginning December 31, 2001, and ending December 31, 2006. The total shareholder return assumes $100 invested at the beginning of the period in TI common stock, the S&P 500 Index and the S&P Information Technology Index. It also assumes reinvestment of all dividends.



	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
Texas Instruments	$ 100	$ 54	$ 106	$ 89	$ 116	$ 105
S&P 500	$ 100	$ 78	$ 100	$ 111	$ 117	$ 135
S&P Information Technology Index	$ 100	$ 63	$ 92	$ 94	$ 95	$ 103

SAFE HARBOR STATEMENT

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995: 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 or phrases of similar import. Similarly, statements in this report that describe the Company’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 the Company or its management:

- Market demand for semiconductors, particularly for analog chips and digital signal processors in key markets such as communications, entertainment electronics and computing;
- 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;
- TI’s ability to compete in products and prices in an intensely competitive industry;
- 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;
- 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 networks and fluctuations in foreign currency exchange rates;
- Natural events such as severe weather and earthquakes in the locations in which TI, its customers or its suppliers operate;
- Availability and cost of raw materials, utilities, manufacturing equipment, third-party manufacturing services and manufacturing technology;
- 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, the outcome of tax audits and the ability to realize deferred tax assets;
- 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 company forecasts;
- The financial impact of inadequate or excess TI inventories to meet demand that differs from projections;
- Product liability or warranty claims, or recalls by TI customers for a product containing a TI part;
- TI’s ability to recruit and retain skilled personnel; and
- Timely implementation of new manufacturing technologies, installation of manufacturing equipment and the ability to obtain needed third-party foundry and assembly/test subcontract services.

For a more detailed discussion of these factors, see the text under the heading “Risk Factors” in Item 1A of the Company’s most recent Form 10-K. The forward-looking statements included in this report are made only as of the date of publication (February 2007), and the Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

Exhibit 21

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES
LIST OF SUBSIDIARIES OF THE REGISTRANT

The following are current subsidiaries of the Registrant.

Subsidiary and Name Under Which Business is Done	Where Organized
Auto Circuits, Inc.	Massachusetts
Benchmarq Microelectronics Corporation of South Korea	Delaware
Burr-Brown Europe Limited	United Kingdom
Burr-Brown International Holding Corporation	Delaware
Butterfly Communications Inc.	Delaware
Chipcon, Inc.	California
Condat Edinburgh Ltd.	United Kingdom
European Engineering and Technologies S.p.A.	Italy
Telogy Networks, Inc.	Delaware
Texas Instruments Asia Limited	Delaware
Texas Instruments Australia Pty Limited	Australia
Texas Instruments (Bahamas) Limited	Bahamas
Texas Instruments Belgium S.A.	Belgium
Texas Instruments Berlin AG	Germany
Texas Instruments Business Expansion GmbH	Germany
Texas Instruments Canada Limited	Canada
Texas Instruments China Incorporated	Delaware
Texas Instruments de Mexico, S. de R.L. de C.V.	Mexico
Texas Instruments Denmark A/S	Denmark
Texas Instruments Deutschland GmbH	Germany
Texas Instruments Espana, S.A.	Spain
Texas Instruments Finance GmbH & Co. KG	Germany
Texas Instruments Foreign Sales Corporation	Barbados
Texas Instruments France S.A.	France
Texas Instruments Gesellschaft m.b.H.	Austria
Texas Instruments Holland B.V.	Netherlands
Texas Instruments Hong Kong Limited	Hong Kong
Texas Instruments (India) Private Limited	India
Texas Instruments Insurance (Bermuda) Limited	Bermuda
Texas Instruments International Capital Corporation	Delaware
Texas Instruments International (Overseas) Limited	United Kingdom
Texas Instruments International Trade Corporation	Delaware
Texas Instruments International (U.S.A.) Inc.	Delaware
Texas Instruments (Ireland) Limited	Ireland
Texas Instruments Israel Ltd.	Israel
Texas Instruments Israel Trading (2003) Ltd.	Israel
Texas Instruments Japan Limited	Japan
Texas Instruments Korea Limited	Korea
Texas Instruments Limited	United Kingdom
Texas Instruments Low Power Wireless San Diego Incorporated	Delaware
Texas Instruments Malaysia Sdn. Bhd.	Malaysia
Texas Instruments Norway AS	Norway
Texas Instruments Norway ASA	Norway
Texas Instruments Oy	Finland
Texas Instruments Palo Alto Incorporated	California
Texas Instruments (Philippines) Incorporated	Delaware
Texas Instruments Richardson LLC	Delaware
Texas Instruments Santa Rosa Incorporated	California
Texas Instruments Semiconductor Technologies (Shanghai) Co., Ltd.	China
Texas Instruments Semiconductores e Tecnologias Ltda.	Brazil

Texas Instruments (Shanghai) Co., Ltd.	China
Texas Instruments Singapore (Pte) Limited	Singapore
Texas Instruments Sunnyvale Incorporated	Delaware
Texas Instruments Taiwan Limited	Taiwan
Texas Instruments Trade & Investment Company S.A.	Panama
Texas Instruments Tucson Corporation	Delaware
TI Europe Limited	United Kingdom
TI (Philippines), Inc.	Philippines
Unitrode Corporation	Maryland
Unitrode-Maine	Maine

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report on Form 10-K of Texas Instruments Incorporated of our reports dated February 23, 2007, with respect to the consolidated financial statements of Texas Instruments Incorporated, Texas Instruments Incorporated management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Texas Instruments Incorporated, included in the 2006 Annual Report to Stockholders of Texas Instruments Incorporated.

We also consent to the incorporation by reference in the following registration statements, and in the related prospectuses thereto, of our reports dated February 23, 2007 with respect to the consolidated financial statements of Texas Instruments Incorporated, Texas Instruments Incorporated management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Texas Instruments Incorporated, incorporated by reference in this Annual Report on Form 10-K for the year ended December 31, 2006: Registration Statements (Forms S-8) No. 33-42172, No. 33-54615, No. 333-07127 (as amended), No. 333-41913, No. 333-41919, No. 333-31321 (as amended), No. 333-31323, No. 333-48389, No. 333-44662, No. 333-107759, No. 333-107760 and No. 333-107761, No. 333-127021 and Registration Statements (Forms S-3) No. 33-48840, No. 33-39628, No. 333-03571 (as amended), No. 333-93011, and Registration Statements (Forms S-4) No. 333-89433 (as amended), No. 333-87199, No. 333-80157 (as amended), and No. 333-41030 (as amended).

/S/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Dallas, Texas
February 23, 2007

Exhibit 31(a)

CERTIFICATIONS

I, Richard K. Templeton, certify that:

1. I have reviewed this report on Form 10-K of Texas Instruments Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2007

/s/ Richard K. Templeton

Richard K. Templeton
President and
Chief Executive Officer

CERTIFICATIONS

I, Kevin P. March, certify that:

1. I have reviewed this report on Form 10-K of Texas Instruments Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2007

/s/ Kevin P. March

Kevin P. March
Senior Vice President and
Chief Financial Officer

Exhibit 32(a)

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Richard K. Templeton, President and Chief Executive Officer of Texas Instruments Incorporated (the "Company"), hereby certifies that, to his knowledge:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2007

/s/ Richard K. Templeton

Richard K. Templeton
President and
Chief Executive Officer

Exhibit 32(b)

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin P. March, Senior Vice President and Chief Financial Officer of Texas Instruments Incorporated (the “Company”), hereby certifies that, to his knowledge:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2007

/s/ Kevin P. March

Kevin P. March
Senior Vice President and
Chief Financial Officer