

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 8, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

TEXAS INSTRUMENTS INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

3600
(Primary Standard Industrial
Classification Code Number)

75-0289970
(I.R.S. Employer
Identification No.)

8505 FOREST LANE
P.O. BOX 660199
DALLAS, TEXAS 75266-0199
(972) 995-3773

(Address, Including Zip Code, and Telephone Number,
Including
Area Code, of Registrant's Principal Executive
Office)

RICHARD J. AGNICH
SENIOR VICE PRESIDENT, SECRETARY
AND GENERAL COUNSEL
7839 CHURCHILL WAY, M/S 3995
DALLAS, TEXAS 75251
(972) 995-2551

(Name, Address, Including Zip Code, and Telephone
Number,
Including Area Code, of Agent For Service)

Copies to:

R. SCOTT COHEN
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TIMOTHY J. CARLSON
VICE PRESIDENT, GENERAL COUNSEL
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20250 CENTURY BOULEVARD
GERMANTOWN, MARYLAND 20874
(301) 515-6500

STACEY K. GEER
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191 PEACHTREE STREET
ATLANTA, GEORGIA 30303
(404) 572-4600

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement is declared effective and all other conditions to the merger of Tology Networks, Inc. with TNI Acquisition Corp. pursuant to the Agreement and Plan of Merger described in the enclosed proxy statement/ prospectus have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. []

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this form is a post-effective amendment filed pursuant to the Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE(2)
Common Stock, \$1.00 par value(3).....	5,000,000 shares	Not applicable	\$22,754.33	\$6.33

(1) Based upon the maximum number of shares of common stock that the registrant may be required to issue in the merger.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and

computed pursuant to Rule 457(f)(2), based on the sum of one-third of the par value of the securities the registrant will receive in the merger due to the fact that Telogy Networks has an accumulated capital deficit, calculated as (a) \$12,159.41, which is one-third of (x) \$0.01, the per share par value of the Telogy Networks common stock multiplied by (y) 3,647,822, the total number of shares of Telogy Networks common stock issued and outstanding as of May 29, 1999, and (b) \$8,227.31, which is one-third of (x) \$0.01, the per share par value of the Telogy Networks Series A Preferred Stock multiplied by (y) 2,468,194, the total number of shares of Telogy Networks Series A Preferred Stock issued and outstanding as of May 29, 1999, and (c) \$2,367.61, which is one-third of (x) \$0.01, the per share par value of Telogy Networks Series B Preferred Stock multiplied by (y) 710,282, the total number of shares of Series B Preferred Stock issued and outstanding as of May 29, 1999.

- (3) The Texas Instruments common stock being registered hereby includes associated rights to acquire Series B Participating Cumulative Preferred Stock of Texas Instruments.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SEC, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

[TELOGY NETWORKS LOGO]

MERGER PROPOSED -- YOUR VOTE IS VERY IMPORTANT

, 1999

Dear Telogy Networks stockholder,

The boards of directors of Telogy Networks, Inc., Texas Instruments Incorporated and TNI Acquisition Corp., a wholly owned subsidiary of Texas Instruments, have approved, and the parties have entered into, a merger agreement that would result in Telogy Networks being merged with TNI Acquisition Corp. As a result of the merger, Telogy Networks would become a wholly owned subsidiary of Texas Instruments. Based on the number of shares of Telogy Networks common stock outstanding on a fully diluted basis on May 29, 1999, Telogy Networks stockholders would receive between approximately .4431 and .5404 of a share of Texas Instruments common stock in the merger for each share of Telogy Networks common stock that they own at the time of the merger, including shares of common stock they acquire upon conversion of their preferred stock. The final exchange ratio will depend on the number of outstanding shares of capital stock and options to acquire capital stock of Telogy Networks at the time of the merger and the market price of Texas Instruments common stock during the ten consecutive trading days ending two trading days before the merger.

The merger cannot be completed unless the stockholders of Telogy Networks approve it. We have scheduled a special meeting for you to vote on the merger. YOUR VOTE IS VERY IMPORTANT. At the meeting, preferred stockholders will also consider whether to convert all outstanding shares of preferred stock into shares of common stock. Conversion of all preferred stock into common stock is a condition to consummating the merger.

The meeting will be held on _____, 1999 at 10:00 a.m., local time, at the offices of Telogy Networks, Inc., 20250 Century Boulevard, Germantown, Maryland.

Whether or not you plan to attend the meeting, please take the time to vote by completing and mailing the enclosed proxy card. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the merger and, if you own preferred stock, in favor of converting all outstanding shares of preferred stock into common stock. If you fail to return your proxy card the effect will be a vote against the merger and, if applicable, a vote against conversion of all outstanding shares of preferred stock into common stock.

This proxy statement/prospectus provides you with detailed information about the proposed merger. We encourage you to read this entire document carefully. You may also obtain information about Texas Instruments from documents that it has filed with the Securities and Exchange Commission. Some of these documents may be included with this proxy statement/prospectus.

Joseph A. Crupi
Chief Executive Officer

TELOGY NETWORKS, INC.
 20250 CENTURY BOULEVARD
 GERMANTOWN, MARYLAND 20874

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
 TO BE HELD , 1999

Telogy Networks, Inc., a Delaware corporation, will hold a special meeting of its stockholders on , 1999 at 10:00 a.m., local time, at its principal executive offices located at 20250 Century Boulevard, Germantown, Maryland for the following purposes:

1. To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated May 29, 1999, by and among Telogy Networks, Texas Instruments Incorporated, a Delaware corporation, and TNI Acquisition Corp., a Delaware corporation and wholly owned subsidiary of Texas Instruments, and the transactions contemplated by the merger agreement.
2. To consider and vote on a proposal that all outstanding shares of preferred stock of Telogy Networks be converted into shares of common stock of Telogy Networks immediately prior to consummation of the merger.
3. To consider and act on other matters incident to the conduct of the meeting.

Telogy Networks has fixed the close of business on , 1999 as the record date for determination of the stockholders entitled to notice of and to vote at the special meeting and any adjournment or postponement thereof. A list of stockholders entitled to vote at the special meeting will be available for inspection by any stockholder at Telogy Networks' executive offices between , 1999 and the date of the special meeting.

AFTER CAREFUL CONSIDERATION, YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY DETERMINED THAT THE AMOUNT OF TEXAS INSTRUMENTS COMMON STOCK TO BE RECEIVED IN THE MERGER IS FAIR TO AND IN THE BEST INTERESTS OF TELOGY NETWORKS AND ITS STOCKHOLDERS. THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND RECOMMENDS THAT YOU VOTE FOR APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE MERGER.

The accompanying proxy statement/prospectus describes the merger agreement and the transactions contemplated by the merger agreement in greater detail. We urge you to read it carefully. If you have any questions about the merger, please contact Timothy J. Carlson, Vice President, General Counsel and Secretary of Telogy Networks. He can be reached at 20250 Century Boulevard, Germantown, Maryland, and his telephone number is (301) 515-6500.

By Order of the Board of Directors,

Timothy J. Carlson
 Secretary

Whether or not you intend to be present at the special meeting, please mark, sign and date the enclosed proxy and return it in the enclosed postage prepaid envelope. Sending a proxy will not affect your right to vote in person if you attend the special meeting.

THIS PROXY STATEMENT/PROSPECTUS, DATED JUNE 8, 1999, IS SUBJECT TO COMPLETION AND AMENDMENT.

TEXAS INSTRUMENTS INCORPORATED

TELOGY NETWORKS, INC.

PROXY STATEMENT/PROSPECTUS

MERGER PROPOSED -- THE VOTE OF TELOGY NETWORKS STOCKHOLDERS IS IMPORTANT

The boards of directors of Texas Instruments Incorporated, a Delaware corporation, TNI Acquisition Corp., a Delaware corporation and wholly owned subsidiary of Texas Instruments, and Telogy Networks, Inc., a Delaware corporation, have approved, and the parties have entered into, a merger agreement under which Telogy Networks would merge with TNI Acquisition Corp. and become a wholly owned subsidiary of Texas Instruments.

This proxy statement/prospectus is being sent to stockholders of Telogy Networks in connection with the solicitation of proxies by the board of directors of Telogy Networks for use at the special meeting of Telogy Networks stockholders to be held on _____, 1999, to consider and vote upon the proposed merger. This proxy statement also constitutes a prospectus with respect to the up to 5.0 million shares of Texas Instruments common stock to be issued in the merger, including shares that may be issued in connection with the exercise of outstanding Telogy Networks stock options.

Based on the number of shares of Telogy Networks common stock outstanding on a fully diluted basis on May 29, 1999, stockholders of Telogy Networks will receive between approximately .4431 and .5404 of a share of common stock of Texas Instruments in the merger for each share of Telogy Networks common stock that they own at the time of the merger, including shares of common stock they acquire upon conversion of their preferred stock. If the merger is completed, Telogy Networks stockholders and optionholders will collectively own or be entitled to receive an aggregate of between approximately 1.0% and 1.3% of outstanding Texas Instruments common stock, depending upon the number of shares of Texas Instruments common stock issued.

Pursuant to a voting agreement executed concurrently with the merger agreement, the holders of a majority of shares of Telogy Networks capital stock entitled to vote on the merger have agreed to vote in favor of the merger and, as a result, the approval of Telogy Networks stockholders is substantially assured.

After careful consideration, the board of directors of Telogy Networks has determined that the merger is fair to, and in the best interests of, its stockholders and recommends that its stockholders vote in favor of the merger agreement and the merger.

Texas Instruments common stock is traded on the New York Stock Exchange under the symbol "TXN." Texas Instruments intends to apply for inclusion of the shares of Texas Instruments common stock offered in connection with the merger to be listed on the New York Stock Exchange.

WE URGE YOU TO CAREFULLY REVIEW THE RISK FACTORS DESCRIBED IN THIS PROXY STATEMENT/PROSPECTUS BEGINNING ON PAGE 10.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This proxy statement/prospectus is dated _____, 1999, and was first mailed to stockholders of Telogy Networks on or about _____, 1999.

THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. TEXAS INSTRUMENTS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SOURCES OF ADDITIONAL INFORMATION

THIS PROXY STATEMENT/PROSPECTUS INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT TEXAS INSTRUMENTS FROM DOCUMENTS THAT ARE NOT INCLUDED IN OR DELIVERED WITH THIS DOCUMENT. THIS INFORMATION IS AVAILABLE TO YOU WITHOUT CHARGE UPON YOUR WRITTEN OR ORAL REQUEST. YOU CAN OBTAIN DOCUMENTS INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT/PROSPECTUS, OTHER THAN SOME OF THE EXHIBITS TO THOSE DOCUMENTS, BY REQUESTING THEM IN WRITING OR BY TELEPHONE AT THE FOLLOWING ADDRESS OR TELEPHONE NUMBER:

TEXAS INSTRUMENTS INCORPORATED
ATTENTION: INVESTOR RELATIONS
8505 FOREST LANE
DALLAS, TEXAS 75266
(972) 995-3773

IF YOU WOULD LIKE TO REQUEST DOCUMENTS, PLEASE DO SO BY _____, 1999
IN ORDER TO RECEIVE THEM BEFORE THE SPECIAL MEETING OF TELOGY NETWORKS
STOCKHOLDERS.

ALSO SEE "INCORPORATION BY REFERENCE TO OTHER DOCUMENTS" AND "WHERE YOU CAN FIND MORE INFORMATION ABOUT TEXAS INSTRUMENTS" ON PAGES 45 AND 46 OF THIS PROXY STATEMENT/PROSPECTUS.

TEXAS INSTRUMENTS HAS SUPPLIED ALL INFORMATION CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS RELATING TO TEXAS INSTRUMENTS AND TNI ACQUISITION, AND TELOGY NETWORKS HAS SUPPLIED ALL OF THE INFORMATION RELATING TO TELOGY NETWORKS.

NONE OF TEXAS INSTRUMENTS, TNI ACQUISITION OR TELOGY NETWORKS HAS AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS ABOUT EITHER THE MERGER OR THE OTHER TRANSACTIONS THAT ARE DISCUSSED IN THIS PROXY STATEMENT/PROSPECTUS OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT/PROSPECTUS OR IN THE DOCUMENTS INCORPORATED BY REFERENCE. IF YOU ARE GIVEN ANY INFORMATION ABOUT THESE MATTERS THAT IS NOT DISCUSSED OR INCORPORATED BY REFERENCE IN THIS PROXY STATEMENT/PROSPECTUS, YOU MUST NOT RELY ON THAT INFORMATION.

THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY LOCATION WHERE OR TO ANY PERSON TO WHOM TEXAS INSTRUMENTS IS NOT PERMITTED TO OFFER OR TO SELL SECURITIES UNDER APPLICABLE LAW.

THE DELIVERY OF THIS PROXY STATEMENT/PROSPECTUS OR THE COMMON STOCK OF TEXAS INSTRUMENTS OFFERED BY THIS PROXY STATEMENT/PROSPECTUS DOES NOT, UNDER ANY CIRCUMSTANCE, MEAN THAT THERE HAS NOT BEEN A CHANGE IN THE AFFAIRS OF TEXAS INSTRUMENTS OR TELOGY NETWORKS SINCE THE DATE OF THIS PROXY STATEMENT/PROSPECTUS. IT ALSO DOES NOT MEAN THAT THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS IS CORRECT AFTER THIS DATE OR THAT THE INFORMATION IN THE DOCUMENTS INCORPORATED BY REFERENCE IS CORRECT AFTER THE RESPECTIVE DATES OF THOSE DOCUMENTS.

TABLE OF CONTENTS

	PAGE

ANSWERS TO FREQUENTLY ASKED QUESTIONS	
ABOUT THE MERGER.....	1
SUMMARY.....	3
RISK FACTORS.....	10
SELECTED FINANCIAL DATA OF TELOGY	
NETWORKS.....	13
MANAGEMENT'S DISCUSSION AND ANALYSIS	
OF FINANCIAL CONDITION AND RESULTS	
OF OPERATIONS FOR TELOGY NETWORKS...	14
THE TELOGY NETWORKS SPECIAL MEETING...	18
General.....	18
Matters to be Considered at the	
Telogy Networks Special	
Meeting.....	18
Date, Time and Place.....	18
Record Date; Voting; Revocation of	
Proxies.....	18
Solicitation of Proxies.....	19
Appraisal Rights.....	19
Accounting Treatment.....	20
Federal Securities Laws	
Consequences.....	20
THE MERGER.....	21
Background.....	21
Reasons for the Merger.....	23
Interests of Certain Persons in the	
Merger.....	25
Comparative Rights of Stockholders	
of Texas Instruments and Telogy	
Networks.....	26
Material Federal Income Tax	
Consequences.....	27
THE MERGER AGREEMENT.....	30
General.....	30
Effective Time.....	30
Conversion of Shares.....	30
Treatment of Preferred Stock.....	31
Treatment of Stock Options.....	31
Exchange Procedures.....	31

	PAGE

Directors and Officers.....	33
Certificate of Incorporation and	
Bylaws.....	33
Representations and Warranties.....	33
Covenants.....	35
Conditions to the Merger.....	37
Additional Covenants.....	40
Termination.....	42
Indemnification of Directors and	
Officers.....	43
Escrow Fund.....	43
Amendment.....	43
Extension and Waiver.....	43
VOTING AGREEMENT.....	44
Voting and Proxies.....	44
Prohibited Actions.....	44
Other Provisions.....	44
BUSINESS OF TEXAS INSTRUMENTS.....	45
Incorporation by Reference to Other	
Documents.....	45
Where You Can Find More Information	
About Texas Instruments.....	46
BUSINESS OF TELOGY NETWORKS.....	46
DESCRIPTION OF CAPITAL STOCK OF TEXAS	
INSTRUMENTS.....	47
General.....	47
The Common Stock.....	47
The Preferred Stock.....	48
The Rights Plan.....	48
LEGAL MATTERS.....	49
INDEPENDENT AUDITORS.....	49
INDEX TO FINANCIAL STATEMENTS OF	
TELOGY NETWORKS, INC.....	F-1
ANNEX A -- Agreement and Plan of	
Merger.....	A-1
ANNEX B -- Form of Voting Agreement...	B-1
ANNEX C -- Text of Section 262 of the	
General Corporation Law of	

ANSWERS TO FREQUENTLY ASKED QUESTIONS ABOUT THE MERGER

Q: When Do You Expect the Merger To Be Completed?

A: We are working towards completing the merger as quickly as possible. For the merger to be completed, the Telogy Networks stockholders must approve it at the special meeting of Telogy Networks stockholders. We expect to complete the merger promptly following the Telogy Networks special meeting.

Q: What Will Happen to the Telogy Networks Preferred Stock?

A: At the special meeting, holders of Telogy Networks preferred stock will be asked to elect to convert all outstanding shares of Telogy Networks preferred stock into shares of Telogy Networks common stock on a one-for-one basis, subject to any antidilution adjustments as may be required under the terms of the Telogy Networks preferred stock. This conversion will not affect the number of shares of Texas Instruments common stock that any Telogy Networks stockholder will receive in the merger.

Q: What Will Telogy Networks Stockholders Receive in the Merger?

A: For each share of Telogy Networks common stock you own, you will receive a fraction of a share of Texas Instruments common stock equal to the exchange ratio, which is determined as set forth below. Assuming that the number of shares of Telogy Networks common stock outstanding on a fully diluted basis immediately prior to the merger is 9,252,425, which was the number outstanding as of May 29, 1999, the exchange ratio would be as follows:

- - if the average trading price of Texas Instruments common stock for the ten trading days prior to _____, 1999 is greater than or equal to \$102.44, the exchange ratio would be .4431;
- - if the average trading price of Texas Instruments common stock for the ten trading days prior to _____, 1999 is less than \$102.44 but greater than \$84.00, the exchange ratio would be determined by dividing (1) the dollar amount derived by dividing (a) \$420,000,000 by (b) the aggregate number of shares of Telogy Networks common stock outstanding immediately prior to the merger, including all shares of Telogy Networks common stock issued upon conversion of the Telogy Networks preferred stock, and all Telogy Networks common stock issuable under outstanding stock options of Telogy Networks immediately prior to the merger by (2) that average trading price; and
- - if the average trading price of Texas Instruments common stock for the ten trading days prior to _____, 1999 is equal to or less than \$84.00, the exchange ratio would be .5404.

The following chart shows a range of exchange ratios and the value of consideration you would receive for each share of Telogy Networks common stock based on several assumed average trading prices of Texas Instruments common stock. These calculations assume that the number of shares of Telogy Networks common stock outstanding on a fully diluted basis immediately prior to the merger is 9,252,425, which was the number outstanding as of May 29, 1999. To determine the number of shares of Texas Instruments common stock you will receive in the merger, simply multiply the number of shares of Telogy Networks common stock you own by the applicable exchange ratio. Any resulting fractional shares will be paid in cash.

AVERAGE TRADING PRICE OF TEXAS INSTRUMENTS COMMON STOCK	EXCHANGE RATIO	VALUE OF A SHARE OF TELOGY NETWORKS COMMON STOCK
-----	-----	-----
\$120.00.....	.4431	\$55.18
110.00.....	.4431	48.74
102.44.....	.4431	45.39
100.00.....	.4539	45.39
90.00.....	.5044	45.39
84.00.....	.5404	45.39
80.00.....	.5404	43.23
70.00.....	.5404	37.82

If the average trading price had been determined on _____, 1999, it would have been \$ _____, which would have resulted in an exchange ratio of _____. The average trading price does not represent the actual value of the shares of Texas Instruments common stock you will receive in the merger. The value of those shares will depend on market conditions at the time you receive those shares.

For a more detailed discussion of the formula that will be used under the merger agreement to determine the number of shares of Texas Instruments common stock that you will receive, see the text under the heading "The Merger Agreement -- Conversion of Shares" on page 30.

Q: When Will Telocity Networks Stockholders Receive Shares of Texas Instruments Common Stock?

A: Shortly following the merger you will receive a letter of transmittal to complete and return along with your Telocity Networks stock certificates. Texas Instruments will then issue you shares of Texas Instruments common stock. However, five percent (5%) of the total number of shares of Texas Instruments common stock that you are initially entitled to receive in the merger will be placed in an escrow fund for one year, unless extended pending the resolution of any claims Texas Instruments may have to those shares under the merger agreement. You will be entitled to receive dividends on and vote the escrowed shares at Texas Instruments stockholders' meetings while the shares are being held in escrow.

For a more detailed discussion of the escrow fund, see the text under the heading "The Merger Agreement -- Escrow Fund" on page 43.

Q: What Will Happen to Outstanding Stock Options of Telocity Networks?

A: All of the outstanding stock options of Telocity Networks that are not exercised prior to the time of the merger automatically will be converted into options to acquire Texas Instruments common stock. The number of shares of common stock that may be acquired upon exercise and the exercise price of these options will be adjusted in accordance with the exchange ratio. The other terms of the options, including the vesting schedule, will remain unchanged.

Q: What Percentage of Texas Instruments Will Telocity Networks Stockholders Own Following the Merger?

A: Telocity Networks stockholders and optionholders will collectively own or be entitled to receive between 4,100,000 and 5,000,000 shares of Texas Instruments common stock in connection with the merger, depending upon the average trading price of Texas Instruments common stock. The table below shows the approximate minimum and maximum percentage ownership of Texas Instruments that shares of Texas Instruments common stock issued or issuable to Telocity Networks stockholders and optionholders will represent following the merger.

SHARES OF TEXAS INSTRUMENTS COMMON STOCK ISSUED OR ISSUABLE TO TELOGY NETWORKS STOCKHOLDERS OR OPTIONHOLDERS	PERCENTAGE OWNERSHIP OF TEXAS INSTRUMENTS
-----	-----
4,100,000.....	1.0%
5,000,000.....	1.3%

Q: What Should Telocity Networks Stockholders Do Now?

A: After you have carefully read this proxy statement/prospectus, indicate how you want to vote by completing and signing the enclosed proxy card. After completing the proxy card, sign and mail it in the enclosed prepaid return envelope marked "Proxy" as soon as possible, so that your shares may be represented and voted at the special meeting. The proxy card must be sent as indicated below:

TELOGY NETWORKS, INC. SPECIAL MEETING
20250 Century Boulevard
Germantown, Maryland 20874
Attention: Secretary

Q: Can Telocity Networks Stockholders Change Their Votes After Mailing Signed Proxy Cards?

A: Yes. There are three ways in which you may revoke your proxy and change your vote:

- First, you may send a written notice revoking your proxy to the Secretary of Telocity Networks at the above address.
- Second, you may complete and submit a new, later dated proxy card to the Secretary of Telocity Networks at the above address.
- Third, you may revoke your proxy by attending the Telocity Networks special meeting and voting in person.

Simply attending the Telocity Networks special meeting, however, will not revoke your proxy.

SUMMARY

This brief summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that may be important to you. We urge you to read carefully the entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers for further information about the merger. To learn how to obtain more information about Texas Instruments, see page 46. Each item in this summary includes a page reference directing you to a more complete description of that item.

THE COMPANIES

TEXAS INSTRUMENTS INCORPORATED (See page 45)
8505 FOREST LANE, P.O. BOX 660199
DALLAS, TEXAS 75266-0199
(972) 995-3773

Texas Instruments is a global semiconductor company and the world's leading designer and supplier of digital signal processing and analog technologies, the engines driving the digitalization of electronics. Headquartered in Dallas, Texas, Texas Instruments' businesses also include materials and controls, educational and productivity solutions and digital imaging. Texas Instruments has manufacturing or sales operations in more than 25 countries.

TELOGY NETWORKS, INC. (See page 46)
20250 CENTURY BOULEVARD
GERMANTOWN, MARYLAND 20874
(301) 515-6500

Telogy Networks is a software company that provides embedded communications software products to communications equipment manufacturers. Telogy Networks' products and services consist of embedded software products, customer training and post-sale support services. Telogy Networks' Golden Gateway(TM) voice, fax and data products are used by communications equipment manufacturers in switching, routing and cellular communications products to provide enhanced digital voice capabilities over a variety of digital transmission protocols. Telogy Networks' ActiveAir(TM) embedded software for wireless communication standards is exclusively licensed to Motorola, Inc. within a defined market.

THE MERGER

The merger agreement is attached to this document as Annex A. Please read the merger agreement in its entirety. It is the legal document that governs your rights in connection with the merger.

Conditions to Completion of the Merger (See page 37)

The completion of the merger depends on a number of conditions being satisfied, including the following:

- approval of the merger by the Telogy Networks stockholders, which, as a result of the holders of a majority of the outstanding shares of Telogy Networks capital stock agreeing to vote in favor of the merger under a voting agreement, is substantially assured;
- the expiration or termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
- no injunction being entered by a court preventing the merger and no continuing injunction proceeding being instituted by a governmental entity; and
- the receipt of letters from KPMG LLP and Ernst & Young LLP that state that the merger is appropriately accounted for as a "pooling of interests."

Furthermore, Telogy Networks will not be obligated to complete the merger unless a number of conditions have been satisfied, including:

- the representations and warranties of Texas Instruments and TNI Acquisition in the merger agreement are accurate in all material respects;
- Texas Instruments has performed or complied with all conditions contained in the merger agreement; and
- tax counsel to Telogy Networks has given an opinion that satisfies the Telogy Networks board of directors that the tax treatment of the merger will be as described in this proxy statement/prospectus.

Finally, Texas Instruments and TNI Acquisition will not be obligated to complete the merger unless a number of conditions have been satisfied, including:

- the representations and warranties of Telogy Networks in the merger agreement are accurate in all material respects;
- Telogy Networks has performed or complied with all conditions contained in the merger agreement; and
- tax counsel to Texas Instruments and TNI Acquisition has given an opinion that satisfies their respective boards of directors that the tax treatment of the merger will be as described in this proxy statement/prospectus.

None of the parties has a present intention to waive any conditions to the merger. In the event the board of directors of Texas Instruments or Telogy Networks determine to waive compliance with any of the agreements or conditions, they will seek the advice of counsel with respect to whether this proxy statement/prospectus should be revised and recirculated to stockholders to reflect the waiver.

Termination of the Merger Agreement (See page 42)

Texas Instruments and Telogy Networks may agree in writing to terminate the merger agreement at any time without completing the merger, even after the stockholders of Telogy Networks have approved it. In addition, either Texas Instruments or Telogy Networks may decide, without the consent of the other, to terminate the merger agreement if:

- the merger has not been completed by August 31, 1999 or by the date of any extension;
- Telogy Networks stockholders do not approve the merger;
- any law prohibits consummation of the merger; or
- the other party breaches any material obligation under the merger agreement that cannot be cured.

Texas Instruments may also terminate the merger agreement if Telogy Networks stockholders exercise, and do not withdraw, their appraisal rights with respect to a number of shares of Telogy Networks common stock that would prohibit the merger from being accounted for as a pooling of interests. Although we cannot presently estimate this limit, it will be less than 10%, or approximately 925,000, shares of Telogy Networks common stock.

Also, if the merger agreement is terminated:

- by Telogy Networks because the merger was not completed by August 31, 1999 or by the date of any extension;
- by either party because the Telogy Networks stockholders do not approve the merger;
- by Texas Instruments because Telogy Networks breaches a material obligation under the merger agreement that is not cured; or
- by Texas Instruments because Telogy Networks stockholders exercise and do not withdraw their appraisal rights to the extent that the merger cannot be accounted for as a pooling of interests,

and, within 12 months of the termination, Telogy Networks enters into an agreement with another party to acquire Telogy Networks, then Telogy Networks must pay Texas Instruments a termination fee of \$22,500,000. The possibility that a termination fee could be triggered may deter other potential acquirors from pursuing an acquisition of Telogy Networks.

Appraisal Rights (See page 19)

Holders of Telogy Networks capital stock who do not vote in favor of the merger and follow the appropriate procedures under Section 262 of the General Corporation Law of the State of Delaware will be entitled to receive the fair value in cash of their shares of Telogy Networks stock instead of Texas Instruments common stock. The text of Section 262 of the General Corporation Law of the State of Delaware is attached to this proxy statement/prospectus as Annex C.

Accounting Treatment (See page 20)

We expect the merger to qualify as a pooling of interests under generally accepted accounting principles, which means that for accounting and financial reporting purposes, the recorded assets and liabilities of Telogy Networks will be carried forward and combined with those of Texas Instruments at their recorded amounts.

Federal Income Tax Consequences of the Merger to Telogy Networks Stockholders
(See page 27)

In the opinion of King & Spalding, counsel to Telogy Networks, for U.S. federal income tax purposes the merger will qualify as a nontaxable transaction and the exchange of your shares of Telogy Networks common stock for shares of Texas Instruments common stock will not cause you to recognize any gain or loss. However, you will have to recognize income or gain in connection with any cash you receive in lieu of fractional shares of Texas Instruments common stock.

Voting Agreement (See page 44)

To induce Texas Instruments and TNI Acquisition to enter into the merger agreement, various stockholders representing approximately 63.3% of the voting power of Telogy Networks as of May 29, 1999, including its officers and directors, entered into a voting agreement with Texas Instruments. As of May 29, 1999, the officers and directors of Telogy Networks owned an aggregate of approximately 47.1% of Telogy Networks capital stock entitled to vote at the special meeting. These stockholders agreed to vote their shares of Telogy Networks capital stock "FOR" the approval and adoption of the merger agreement, the merger and the conversion of all outstanding shares of preferred stock into common stock, and against any action that would result in a breach of the merger agreement. Because these stockholders have agreed to vote their shares in this way, other potential acquirors may be deterred from pursuing an acquisition of Telogy Networks. The form of voting agreement is attached to this proxy statement/prospectus as Annex B.

RISK FACTORS

Stockholders of Telogy Networks are urged to consider the "Risk Factors" beginning on page 10 in determining whether to approve the merger.

SUMMARY SELECTED HISTORICAL FINANCIAL DATA OF TEXAS INSTRUMENTS

Set forth below is the summary selected financial data for Texas Instruments for and as of the periods indicated. This summary of selected historical financial data is only a summary and we urge you to read this summary in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes thereto contained in Texas Instruments' annual report on Form 10-K for the year ended December 31, 1998 and quarterly report on Form 10-Q for the three months ended March 31, 1999.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1997	1996	1999	1998
(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)					
INCOME STATEMENT DATA:					
Net revenues.....	\$ 8,460	\$ 9,750	\$ 9,940	\$2,039	\$2,187
Operating costs and expenses.....	8,061	9,135	9,966	1,756	2,209
Profit (loss) from operations.....	399	615	(26)	283	(22)
Other income (expense) net.....	293	192	76	78	57
Interest on loans.....	75	94	73	18	18
Income (loss) from continuing operations before provision for income taxes and extraordinary item.....	617	713	(23)	343	17
Provision for income taxes.....	210	411	23	110	6
Income (loss) from continuing operations before extraordinary item.....	\$ 407	\$ 302	\$ (46)	\$ 233	\$ 11
Diluted earnings (loss) per common share from continuing operations before extraordinary item.....	\$ 1.02	\$.76	\$ (.12)	\$ 0.58	\$ 0.03
Basic earnings (loss) per common share from continuing operations before extraordinary item.....	\$ 1.04	\$.78	\$ (.12)	\$ 0.59	\$ 0.03
Dividends declared per common share.....	\$ 0.255	\$.34	\$.34	\$0.085	\$ --
Average common and dilutive potential common shares outstanding during period, in thousands.....	400,929	397,727	379,388	404,252	399,980

AS OF MARCH 31,
1999

(IN MILLIONS)

BALANCE SHEET DATA:	
Working capital.....	\$ 2,925
Property, plant and equipment (net).....	3,326
Total assets.....	11,115
Long-term debt.....	989
Stockholders' equity.....	6,679

SUMMARY SELECTED HISTORICAL FINANCIAL DATA OF TELOGY NETWORKS

Set forth below is the summary selected financial information for Tology Networks for and as of the periods indicated. This summary of selected historical financial data is only a summary and we urge you to read this summary in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations of Tology Networks" and the financial statements and related notes thereto contained in this proxy statement/prospectus.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1998	1997	1996	1999	1998
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)					
STATEMENT OF OPERATIONS DATA:					
Net revenues.....	\$14,116	\$ 4,235	\$ 1,351	\$4,419	\$ 788
Cost of revenues.....	959	1,303	416	424	188
Gross profit.....	13,157	2,932	935	3,995	600
Operating expenses:					
Sales and marketing.....	5,229	3,719	1,277	1,541	998
Research and development.....	4,576	3,414	1,310	1,306	1,239
General and administrative.....	4,548	1,658	1,283	1,154	1,074
Total operating expenses.....	14,353	8,791	3,870	4,001	3,311
Operating loss.....	(1,196)	(5,859)	(2,935)	(6)	(2,711)
Interest income, net.....	868	289	55	215	57
Other income, net.....	538	--	--	200	1
Income (loss) before taxes and discontinued operations.....	210	(5,570)	(2,880)	409	(2,653)
Provision for income taxes.....	105	--	--	--	--
Net income (loss) from continuing operations.....	105	(5,570)	(2,880)	409	(2,653)
Income (loss) from discontinued operations...	242	(2,816)	1,251	--	(135)
Net income (loss).....	\$ 347	\$(8,386)	\$(1,629)	\$ 409	\$(2,788)
Net income (loss) per common share from continuing operations:					
Basic and diluted.....	\$ (1.81)	\$ (1.86)	\$ (1.00)	\$(2.21)	\$ (0.88)
Net income (loss) per common share:					
Basic and diluted.....	(1.73)	(2.80)	(0.56)	(2.21)	(0.92)
Weighted average common shares outstanding...	3,149	2,996	2,887	3,247	3,020

AS OF MARCH 31,
1999

(IN THOUSANDS)

BALANCE SHEET DATA:

Cash and cash equivalents.....	\$ 9,087
Working capital.....	11,687
Total assets.....	25,578
Long-term debt including current portion.....	1,000
Total stockholders' deficit.....	(18,063)

MARKET PRICE AND DIVIDEND INFORMATION FOR TEXAS INSTRUMENTS

Texas Instruments common stock is listed on the New York Stock Exchange under the symbol "TXN." The table below sets forth for each of the calendar quarters indicated, the high and low sales prices per share of Texas Instruments common stock on the composite tape as reported by The Wall Street Journal and the dividends per share paid on the Texas Instruments common stock, both as adjusted for a two-for-one stock split in November 1997. Stock splits may be considered in the future based on a variety of factors, including market conditions and the trading price of Texas Instruments common stock.

	QUARTER			
	1ST	2ND	3RD	4TH
Stock prices:				
1999 High.....	\$107.88	\$ 119.31(1)		
Low.....	86.00	99.00(1)		
1998 High.....	62.75	67.00	\$63.69	\$90.44
Low.....	40.25	46.88	46.06	45.38
1997 High.....	43.63	48.19	71.00	71.25
Low.....	31.06	36.81	42.13	39.63
1996 High.....	55.75	59.63	59.25	68.38
Low.....	42.75	48.63	40.50	47.50
Dividends:				
1999.....	\$.085			
1998.....	.085	\$.085	\$.085	\$.085
1997.....	.085	.085	.085	.085
1996.....	.085	.085	.085	.085

(1) Through June 4, 1999.

On June 1, 1999, the last trading day prior to the announcement by Texas Instruments and Telogy Networks that they had entered into the merger agreement, the last reported sale price of the Texas Instruments common stock on the New York Stock Exchange was \$106.625 per share. On June 4, 1999, there were approximately 28,000 holders of record of Texas Instruments common stock. WE URGE YOU TO OBTAIN CURRENT MARKET PRICE INFORMATION FOR TEXAS INSTRUMENTS COMMON STOCK.

There is no established trading market for Telogy Networks common stock. On May 29, 1999, there were approximately 110 holders of record of Telogy Networks common stock. The board of directors of Telogy Networks has never declared dividends on Telogy Networks common stock.

COMPARATIVE PER SHARE DATA

We have summarized below the per share information of Texas Instruments and Telogy Networks on a historical, pro forma combined and pro forma equivalent basis. The information should be read in conjunction with the historical financial statements and related notes of Telogy Networks that are contained in this proxy statement/prospectus and of Texas Instruments that are incorporated by reference in this proxy statement/prospectus. For information on where you can find more information about Texas Instruments, see page 46.

You should be aware that this pro forma information may not be indicative of what actual results will be in the future or what the results would have been for the periods presented.

	YEAR ENDED DECEMBER 31,			THREE MONTHS
	1998	1997	1996	ENDED MARCH 31, 1999
Unaudited Pro Forma Combined(1)				
Income (loss) per common share from continuing operations, basic.....	\$ 1.03	\$ 0.76	\$(0.13)	\$ 0.59
Income (loss) per common share from continuing operations, diluted.....	1.01	0.74	(0.13)	0.57
Cash dividends declared per share.....	0.255	0.340	0.340	0.085
Book value per share, basic.....	16.62	--	--	16.95
Book value per share, diluted.....	16.16	--	--	16.40
Telogy Networks Per Share Equivalent(1)(2)				
Income (loss) per common share from continuing operations, basic.....	0.46	0.34	(0.06)	0.26
Income (loss) per common share from continuing operations, diluted.....	0.45	0.33	(0.06)	0.25
Cash dividends declared per share.....	0.113	0.151	0.151	0.038
Book value per share, basic.....	7.36	--	--	7.51
Book value per share, diluted.....	7.16	--	--	7.27
Telogy Networks Historical				
Income (loss) per common share from continuing operations, basic and diluted.....	(1.81)	(1.86)	(1.00)	(0.13)
Cash dividends declared per share.....	--	--	--	--
Book value per share, basic and diluted.....	(3.39)	--	--	(5.45)
Texas Instruments Historical				
Income (loss) per common share from continuing operations, basic.....	1.04	0.78	(0.12)	0.59
Income (loss) per common share from continuing operations, diluted.....	1.02	0.76	(0.12)	0.58
Cash dividends declared per share.....	0.255	0.340	0.340	0.085
Book value per share, basic.....	16.71	--	--	17.04
Book value per share, diluted.....	16.28	--	--	16.52

(1) The pro forma combined per share data for Texas Instruments and Telogy Networks for the years ended December 31, 1998, 1997 and 1996 and the three months ended March 31, 1999 has been prepared as if the merger had occurred at the beginning of each respective period, except with respect to book value data, which has been prepared as if the merger had occurred at the end of each respective period. Pro forma cash dividends declared per share represent historical dividends per share declared by Texas Instruments.

(2) The equivalent pro forma share amounts of Telogy Networks are calculated by multiplying pro forma net income per share of Texas Instruments and pro forma book value per share of Texas Instruments by an assumed exchange ratio of .4431, based on the number of shares of Telogy Networks common stock outstanding on a fully diluted basis as of May 29, 1999, and the closing price of Texas Instruments common stock of \$106.625 on May 28, 1999.

RISK FACTORS

We urge you to consider carefully the risk factors set forth below, as well as the other information set forth in this proxy statement/prospectus, before voting to approve the merger. In addition, you are strongly urged to consider the risk factors set forth elsewhere in this proxy statement/prospectus and in the documents incorporated by reference. This proxy statement/prospectus contains forward-looking statements which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause these differences include, but are not limited to, the risk factors set forth below.

THE VALUE OF THE MERGER CONSIDERATION IS NOT FIXED AND, THEREFORE, COULD BE LESS THAN ANTICIPATED BY TELOGY NETWORKS STOCKHOLDERS AND OPTIONHOLDERS.

The number and market price of the shares of Texas Instruments common stock that Telogy Networks stockholders and optionholders will receive or be entitled to receive in connection with the merger is subject to fluctuation. Telogy Networks stockholders and optionholders will receive or be entitled to receive an aggregate of between 4.1 million and 5.0 million shares of Texas Instruments common stock based upon the average trading price of Texas Instruments common stock during a ten trading day period ending on the second trading day prior to the time of the merger. See "The Merger Agreement -- Conversion of Shares" on page 30. Although the number of Texas Instruments shares Telogy Networks stockholders and optionholders will receive in the merger is based on that average trading price, the market price of Texas Instruments common stock may fluctuate. Accordingly, on the date of the merger and on the date Telogy Networks stockholders and optionholders actually receive their shares of Texas Instruments common stock upon surrender of their Telogy Networks stock certificates or exercise of their stock options, the market price of the Texas Instruments common stock may be more or less than the average trading price of Texas Instruments common stock used to determine the merger consideration.

TEXAS INSTRUMENTS COULD MAKE CLAIMS AGAINST YOUR ESCROWED SHARES OF TEXAS INSTRUMENTS COMMON STOCK IF IT DISCOVERS PROBLEMS WITH THE ACQUIRED TELOGY NETWORKS BUSINESS AFTER THE MERGER.

This acquisition involves a number of uncertainties. Therefore, in making the decision to acquire Telogy Networks, Texas Instruments has relied on management's knowledge of the industry, due diligence procedures and representations and warranties of Telogy Networks contained in the merger agreement. There can be no assurance that these representations and warranties are or will be true and complete. If the representations and warranties of Telogy Networks in the merger agreement are inaccurate, Texas Instruments may be able to make claims against the shares of Texas Instruments common stock issued to Telogy Networks stockholders in the merger that are being held in escrow. If Texas Instruments makes and prevails on any of these claims, you will not receive all or a portion of your shares of Texas Instruments common stock being held in escrow.

TELOGY NETWORKS OFFICERS AND DIRECTORS HAVE CONFLICTS OF INTEREST THAT MAY INFLUENCE THEM TO SUPPORT OR APPROVE THE MERGER.

The officers and directors of Telogy Networks participate in arrangements that provide them with interests in the merger that are different from, or are in addition to, yours. In particular, Texas Instruments has agreed to indemnify the officers and directors of Telogy Networks for their acts and omissions as officers and directors of Telogy Networks to the maximum extent permitted by law for a period of not less than seven years after the merger. The officers of Telogy Networks, consisting of Joseph Crupi, William Witowsky, Nancy Goguen, William Simmelink, Phillip Swan and Timothy Carlson, have agreed to execute employment agreements with Texas Instruments, which provide for salary, benefits and the commitment by Texas Instruments to recommend to the Texas Instruments Compensation Committee that the Telogy Networks officers be granted additional stock options for Texas Instruments common stock at specified times. These employment agreements will expire on January 31, 2003, unless extended or earlier terminated in accordance with their terms.

As a result of the foregoing interests, these officers and directors could be more likely to vote to approve the merger agreement than if they did not hold these interests. Telogy Networks stockholders should consider whether these interests may have influenced these officers and directors to support or recommend the merger.

TEXAS INSTRUMENTS MAY HAVE DIFFICULTY INTEGRATING TELOGY NETWORKS' OPERATIONS AND RETAINING IMPORTANT EMPLOYEES.

Texas Instruments has not traditionally developed and marketed application software similar to the software developed by Telogy Networks. Consequently, Texas Instruments will be largely dependent on the management and employees of Telogy Networks for the success of this business. Moreover, there can be no guarantee that management will successfully be able to integrate the new employees and operations following the merger and there is the risk that Texas Instruments will be unable to retain all of Telogy Networks' employees that are important to the business for a number of reasons, including the risk that the cultures of the companies will not blend. There also can be no assurance that any contemplated synergies from the integration of the businesses will be realized.

THE INTEGRATION OF TELOGY NETWORKS WILL REQUIRE SUBSTANTIAL TIME AND EFFORT OF KEY MANAGERS OF TEXAS INSTRUMENTS, WHICH COULD DIVERT THE ATTENTION OF THOSE MANAGERS FROM OTHER MATTERS.

The acquisition of Telogy Networks may place significant demands on one or several key managers of Texas Instruments. Risks exist in the consolidation of the systems, operations and administrative functions of Telogy Networks and Texas Instruments. Managing the growth of the Telogy Networks business may limit the time available to those managers of Texas Instruments to attend to other operational, financial and strategic issues.

TELOGY NETWORKS STOCKHOLDERS SHOULD NOT PLACE UNDUE RELIANCE ON FORWARD-LOOKING INFORMATION

Information contained in this proxy statement/prospectus may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which can be identified by the use of forward-looking terminology like "may," "will," "expect," "intend," "anticipate," "believe," "estimate" or "continue" or the negative thereof or other variations of those words or comparable terminology. All of these statements, including those regarding Texas Instruments' and Telogy Networks' financial position, business strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements and are subject to certain risks and uncertainties that could cause actual results to differ materially from those in such 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 Texas Instruments or its management:

- Market demand for semiconductors, particularly for digital signal processors and analog chips in key markets, such as telecommunications and computers;
- Texas Instruments' ability to develop, manufacture and market innovative products in a rapidly changing technological environment;
- Texas Instruments' ability to compete in products and prices in an intensely competitive industry;
- Texas Instruments' ability to maintain and enforce a strong intellectual property portfolio and obtain needed licenses from third parties;
- Timely completion by customers and suppliers of their Year 2000 programs, accurate assessment of Texas Instruments' Year 2000 readiness and of risks associated with its current and past products, and effective implementation of contingency plans and corrective actions;
- Global economic, social and political conditions in the countries in which Texas Instruments and its customers and suppliers operate, including fluctuations in foreign currency exchange rates;

- Losses or curtailments of purchases from key customers;
- Texas Instruments' ability to recruit and retain skilled personnel;
- Availability of raw materials and critical manufacturing equipment; and
- Realization of savings from announced worldwide corporate restructuring efforts and consolidation of manufacturing operations.

For a more detailed discussion of these factors, see the text under the heading "Cautionary Statements Regarding Future Operations" in Item 1 of Texas Instruments' annual report on Form 10-K for the year ended December 31, 1998.

All forward-looking statements contained in this proxy statement/prospectus are expressly qualified in their entirety by the cautionary statements set forth in this proxy statement/prospectus and the documents incorporated by reference. Stockholders of Texas Instruments and Telogy Networks are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date of the proxy statement/prospectus. Neither Texas Instruments nor Telogy Networks undertakes any responsibility to update you on the occurrence of any anticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this proxy statement/prospectus or in documents incorporated by reference to this proxy statement/prospectus.

SELECTED FINANCIAL DATA OF TELEGY NETWORKS

Telogy Networks is providing the following financial information as required by the SEC to aid you in your analysis of the financial aspects of the merger. Telogy Networks derived this information from its audited financial statements for 1994 through 1998 and its unaudited financial statements for the three months ended March 31, 1998 and 1999. The selected financial data set forth below are only a summary and we urge you to read this summary in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations for Telogy Networks" and the financial statements and the related notes thereto of Telogy Networks contained in this proxy statement/prospectus.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1998	1997	1996	1995	1994	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
STATEMENT OF OPERATIONS DATA:							
Net revenues.....	\$14,116	\$ 4,235	\$ 1,351	\$ --	\$ --	\$4,419	\$ 788
Cost of revenues.....	959	1,303	416	--	--	424	188
Gross profit.....	13,157	2,932	935	--	--	3,995	600
Operating expenses:							
Sales and marketing.....	5,229	3,719	1,277	276	--	1,541	998
Research and development.....	4,576	3,414	1,310	1,069	--	1,306	1,239
General and administrative.....	4,548	1,658	1,283	681	--	1,154	1,074
Total operating expenses.....	14,353	8,791	3,870	2,026	--	4,001	3,311
Operating loss.....	(1,196)	(5,859)	(2,935)	(2,026)	--	(6)	(2,711)
Interest income, net.....	868	289	55	11	--	215	57
Other income, net.....	538	--	--	--	--	200	1
Income (loss) before taxes and discontinued operations.....	210	(5,570)	(2,880)	(2,015)	--	409	(2,653)
Provision for income taxes.....	105	--	--	--	--	--	--
Net income (loss) from continuing operations.....	105	(5,570)	(2,880)	(2,015)	--	409	(2,653)
Total income (loss) from discontinued operations.....	242	(2,816)	1,251	1,505	161	--	(135)
Net income (loss).....	\$ 347	\$(8,386)	\$(1,629)	\$ (510)	\$ 161	\$ 409	\$(2,788)
Net income (loss) per common share from continuing operations:							
Basic and diluted.....	(1.81)	(1.86)	(1.00)	(0.80)	--	(2.21)	(0.88)
Net income (loss) per common share:							
Basic and diluted.....	(1.73)	(2.80)	(0.56)	(0.20)	(0.07)	(2.21)	(0.92)
Weighted average common shares outstanding.....	3,149	2,996	2,887	2,515	2,363	3,247	3,020

	AS OF DECEMBER 31,					AS OF MARCH 31,
	1998	1997	1996	1995	1994	1999
	(IN THOUSANDS)					
BALANCE SHEET DATA:						
Cash and cash equivalents.....	\$12,672	\$ 6,786	\$ 407	\$ 91	\$ 822	\$ 9,087
Working capital.....	19,180	5,649	592	1,043	1,799	11,687
Total assets.....	25,753	9,910	5,109	3,985	4,155	25,578
Long-term debt including current portion.....	1,000	--	--	--	--	1,000
Total stockholders' (deficit) equity...	(11,077)	(6,323)	1,999	2,055	2,554	(18,063)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR TELOGY NETWORKS

Telogy Networks was founded in 1989 as a contract research and development company. In July 1997, Telogy Networks' board of directors decided to exit the contract research and development business to focus on the development of embedded software for high-growth potential communications. As a result, the contract research and development business is reflected as discontinued operations for all periods presented in Telogy Networks' statements of operations.

Telogy Networks' Golden Gateway voice, fax and data products are used by communications equipment manufacturers in switching, routing and cellular communications products to provide enhanced digital voice capabilities over a variety of digital transmission protocols. Telogy Networks' ActiveAir embedded software for wireless communication standards is exclusively licensed to Motorola, Inc. within a defined market.

Under Telogy Networks' business model, a product license to a customer is called a design win, which typically includes:

- software license revenues for the software development tool kit used by the original equipment manufacturer ("OEM") to design Telogy Networks' software into its hardware products;
- software license revenues based on unit volume shipments of the OEM's products; and
- product training, post-sale customer support and, where required by the OEM, integration services.

RESULTS OF OPERATIONS

Three Months Ended March 31, 1999 Compared to Three Months Ended March 31, 1998

Net revenues increased \$3.6 million, or 461%, from \$788,000 in the three months ended March 31, 1998 to \$4.4 million in the three months ended March 31, 1999. The growth in revenue resulted primarily from \$2.0 million in ongoing royalties from Motorola during the three months ended March 31, 1999. The remaining increase was due to Telogy Networks' increased success in obtaining new OEM product design wins. Design wins totaled 15 in the three months ended March 31, 1999 versus five in the three months ended March 31, 1998.

Cost of revenues increased \$236,000, or 126%, from \$188,000 in the three months ended March 31, 1998 to \$424,000 in the three months ended March 31, 1999. Gross profit increased \$3.4 million, or 566%, from \$600,000 in the three months ended March 31, 1998 to \$4.0 million in the three months ended March 31, 1999. Cost of revenues principally relate to expenses associated with custom software integration and customer support services. Gross margin was 76% in the three months ended March 31, 1998 and 90% in the three months ended March 31, 1999. This improvement was due to a shift from labor-intensive software integration services to software licensing.

Sales and marketing expenses increased \$543,000, or 54%, from \$998,000 in the three months ended March 31, 1998 to \$1.5 million in the three months ended March 31, 1999 primarily due to increased compensation to sales personnel. The size of the marketing staff remained constant at seven while the number of sales personnel increased from six at March 31, 1998 to 20 at March 31, 1999.

Research and development expenses increased \$67,000, or 5%, from \$1.2 million in the three months ended March 31, 1998 to \$1.3 million in the three months ended March 31, 1999 primarily due to additional expenditures relating to continued development of the Golden Gateway product line.

General and administrative expenses remained relatively constant at \$1.1 million for the three months ended March 31, 1998 and \$1.2 million for the three months ended March 31, 1999.

Interest income, net increased \$158,000, or 277%, from \$57,000 in the three months ended March 31, 1998 to \$215,000 in the three months ended March 31, 1999 due to increased cash balances. In April

1998, Telogy Networks issued \$10.7 million in Series B preferred stock, received \$4.0 million from a license agreement and received \$5.0 million from a sale of certain assets.

Other income, net increased \$199,000 from \$1,000 in the three months ended March 31, 1998 to \$200,000 in the three months ended March 31, 1999 due to the amortization to other income of deferred amounts received from Motorola in connection with a non-competition agreement entered into when Telogy Networks sold substantially all of its wireless assets to Motorola in April 1998.

Income from continuing operations improved from a loss from continuing operations of \$2.7 million for the three months ended March 31, 1998 to net income from continuing operations of \$409,000 for the three months ended March 31, 1999.

Total loss from discontinued operations was \$135,000 in the three months ended March 31, 1998. This loss resulted from a revision of the original estimate of the charge taken for discontinued operations in July 1997.

Net income improved from a net loss of \$2.8 million for the three months ended March 31, 1998 to net income of \$409,000 for the three months ended March 31, 1999.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net revenues increased \$9.9 million, or 233%, from \$4.2 million in 1997 to \$14.1 million in 1998. The growth in revenues resulted primarily from a \$4.0 million initial royalty and \$4.0 million in ongoing royalties from Motorola in 1998. The remaining increase was due to Telogy Networks' increased success in obtaining OEM product design wins. Design wins totaled 36 in 1998 versus 12 in 1997.

Cost of revenues decreased \$344,000, or 26%, from \$1.3 million in 1997 to \$959,000 in 1998. Gross profit increased \$10.2 million, or 349%, from \$2.9 million in 1997 to \$13.2 million in 1998. Gross margin was 69% in 1997 and 93% in 1998. This improvement was due to a shift from labor-intensive software integration services to software licensing.

Sales and marketing expenses increased \$1.5 million, or 41%, from \$3.7 million in 1997 to \$5.2 million in 1998. This increase was the result of increased compensation expense as Telogy Networks expanded its sales force and from additional rent and facilities expenses for additional sales offices.

Research and development expenses increased \$1.2 million, or 34.0%, from \$3.4 million in 1997 to \$4.6 million in 1998. The increase was due primarily to increased compensation expense as Telogy Networks increased its hiring of research and development staff.

General and administrative expenses increased \$2.9 million, or 174%, from \$1.7 million in 1997 to \$4.6 million in 1998. The increase was primarily due to additional compensation expense.

Interest income, net increased \$579,000, or 200%, from \$289,000 in 1997 to \$868,000 in 1998 due to increased cash balances. In April 1998, Telogy Networks issued \$10.7 million in Series B preferred stock, received \$4.0 million from a licensing agreement and received \$5.0 million from a sale of certain assets. The increase in interest income in 1998 as compared to 1997 is attributable to the income on the higher cash balances Telogy Networks was able to maintain as a result of the April 1998 transaction.

Other income, net was \$538,000 in 1998 due to the amortization to other income of deferred amounts received from Motorola in connection with the non-competition agreement with Motorola.

Net income from continuing operations improved from a net loss of \$5.6 million in 1997 to net income of \$105,000 in 1998.

Total income (loss) from discontinued operations improved \$3.1 million from a loss of \$2.8 million in 1997 to income of \$242,000 in 1998. This improvement resulted from a revision of the original estimate of the charge taken for discontinued operations made in July 1997. This revision included the reversal of accrued warranty costs of approximately \$200,000 and accrued restructuring expenses of approximately \$156,000.

Net income (loss) improved from a net loss of \$8.4 million in 1997 to net income of \$347,000 in 1998.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Net revenues from continuing operations increased \$2.8 million, or 213%, from \$1.4 million in 1996 to \$4.2 million in 1997. The growth in revenue came as a result of Telogy Networks' increased success in obtaining OEM product design wins. Design wins totaled 12 in 1997 versus two in 1996.

Cost of revenues increased \$887,000, or 213%, from \$416,000 in 1996 to \$1.3 million in 1997 due to increased sales volume. Gross profit increased \$2.0 million, or 214%, from \$935,000 in 1996 to \$2.9 million in 1997. Gross margin was 69% in both 1997 and 1996.

Sales and marketing expenses increased \$2.4 million, or 191%, from \$1.3 million in 1996 to \$3.7 million in 1997. The increase was due to increased compensation expense as Telogy Networks hired sales staff and to the marketing expenses associated with the formal product launch of its Golden Gateway and ActiveAir products.

Research and development expenses increased \$2.1 million, or 161%, from \$1.3 million in 1996 to \$3.4 million in 1997. The increase was due primarily to increased compensation expense as Telogy Networks increased its hiring of research and development staff.

General and administrative expenses increased \$375,000, or 29%, from \$1.3 million in 1996 to \$1.7 million in 1997. The increase was due to increased compensation expense, higher depreciation expenses, and increased rent from a full year of occupancy in Telogy Networks' new headquarters facility.

Interest income, net increased \$234,000, or 425%, from \$55,000 in 1996 to \$289,000 in 1997 due to increased cash balances. In July 1997, Telogy Networks completed the sale of \$12.3 million in Series A Convertible Preferred Stock. The increase in interest income is attributable to the income on the higher cash balances Telogy Networks was able to maintain as a result of the July 1997 transaction.

Net loss from continuing operations improved from \$2.9 million in 1996 to \$5.6 million in 1997.

Net loss increased \$6.8 million, or 425%, from \$1.6 million in 1996 to \$8.4 million in 1997.

LIQUIDITY AND CAPITAL RESOURCES

Telogy Networks' cash and cash equivalents totaled \$9.1 million at March 31, 1999, \$12.7 million at December 31, 1998 and \$6.8 million at December 31, 1997. In addition, Telogy Networks had short and long term investments in U.S. Treasury and corporate debt securities totaling \$1.2 million at March 31, 1999 and \$6.1 million at December 31, 1998. The increases in cash and cash equivalents and investments are primarily attributable to proceeds of the Series B preferred stock and the sale of certain assets and license of ActiveAir to Motorola in April 1998 and the sale of Series A preferred stock in March 1997.

Telogy Networks believes that inflation does not have a significant impact on its financial results.

YEAR 2000 COMPLIANCE

Many currently installed computer systems and software products are dependent upon internal calendars coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. Computer systems and software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Telogy Networks has completed a preliminary review of its computer and non-information technology systems to assess what steps, if any, are required to achieve full Year 2000 compliance. Based upon this preliminary review Telogy Networks believes that all of the systems material to its operations are currently Year 2000 compliant. Telogy Networks does not anticipate that its final review will modify this assessment, nor that it will incur material expenses or meaningful delays in connection with Year 2000 Compliance.

Telogy Networks is currently discussing Year 2000 readiness with its material supply and service vendors, with its third party partners and with some of its key OEM customers. Some of Telogy Networks' third party partners' products, with which Telogy Networks' products are compatible, do utilize and/or require input and processing of specific date functions, such as real time operating system products and protocol stack products. Some of Telogy Networks' OEM customers' products also utilize or require input and processing of specific date functions. To date, those vendors, third party partners and key OEM customers that have been contacted have indicated that their hardware or software products are or will be Year 2000 compliant on a timely basis. Moreover, Telogy Networks intends to continue to assess its exposure to Year 2000 noncompliance on the part of its vendors, third party partners and key OEM customers.

Despite Telogy Networks' efforts to date and anticipated future efforts, there can be no assurance that all of Telogy Networks' vendors', third party partners' and key OEM customers' products and systems will be Year 2000 compliant. In the event such products or systems fail to be Year 2000 compliant, Telogy Networks' customers may not be able to timely complete development of products in which Telogy Networks' software products are to be embedded or to ship finished products which contain Telogy Networks products. This delay in development and/or shipping could adversely affect Telogy Networks' results of operations, since Telogy Networks' business is heavily dependent upon royalties received when its OEM customers ship products to their customers.

Based on its assessment to date, Telogy Networks believes that Year 2000 issues will not pose significant operational problems for its business. Therefore, Telogy Networks does not have, and does not intend to create, a contingency plan in the event Year 2000 compliance cannot be achieved in a timely manner.

DISCLOSURES ABOUT MARKET RISK

Telogy Networks does not enter into hedging or other derivative securities transactions that would subject it to market risk. Telogy Networks does not engage in transactions in foreign denominated currencies and does not have any material obligations that are subject to volatility in foreign currency exchange rates or in interest rates.

THE TELOGY NETWORKS SPECIAL MEETING

GENERAL

We are furnishing this proxy statement/prospectus to you in connection with the solicitation of proxies by the Telogy Networks board of directors for use at the Telogy Networks special meeting of stockholders. This proxy statement/prospectus, the attached notice of special meeting of stockholders and the enclosed form of proxy are first being mailed to stockholders of Telogy Networks on or about _____, 1999.

MATTERS TO BE CONSIDERED AT THE TELOGY NETWORKS SPECIAL MEETING

At the Telogy Networks special meeting, holders of Telogy Networks capital stock will consider and vote on proposals:

- to approve and adopt the merger agreement and the merger; and
- to convert all outstanding shares of preferred stock into common stock immediately prior to consummation of the merger.

A copy of the merger agreement is attached as Annex A to this proxy statement/prospectus.

AFTER CAREFUL CONSIDERATION, THE TELOGY NETWORKS BOARD OF DIRECTORS HAS UNANIMOUSLY DETERMINED THAT THE MERGER IS FAIR TO AND IN THE BEST INTERESTS OF TELOGY NETWORKS AND ITS STOCKHOLDERS. THE TELOGY NETWORKS BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND UNANIMOUSLY RECOMMENDS THAT HOLDERS OF TELOGY NETWORKS CAPITAL STOCK VOTE TO APPROVE AND ADOPT THE MERGER AGREEMENT AND THE MERGER AND TO CONVERT ALL OUTSTANDING SHARES OF PREFERRED STOCK INTO COMMON STOCK.

DATE, TIME AND PLACE

The Telogy Networks special meeting is scheduled to be held at 10:00 a.m., local time, on _____, 1999, at 20250 Century Boulevard, Germantown, Maryland.

PLEASE COMPLETE THE PROXY CARD AND SEND IT TO THE SECRETARY OF TELOGY NETWORKS SO THAT TELOGY NETWORKS RECEIVES IT NO LATER THAN _____, 1999, AT THE FOLLOWING ADDRESS:

Telogy Networks, Inc.
20250 Century Boulevard
Germantown, Maryland 20874
Attention: Secretary

RECORD DATE; VOTING; REVOCATION OF PROXIES

The Telogy Networks board of directors has fixed the close of business on _____, 1999 as the record date for the determination of the stockholders entitled to notice of, and to vote at, the Telogy Networks special meeting. On that date, Telogy Networks had outstanding _____ shares of common stock, 2,468,194 shares of Series A Preferred Stock and 710,282 shares of Series B Preferred Stock. The holders of these shares will be entitled to one vote per share, which, in the case of the preferred stock, is subject to antidilution adjustments, on the merger agreement and the merger. In addition, the holders of shares of Series A Preferred Stock will be entitled to a separate class vote on the merger agreement and the merger and on the conversion of all outstanding Series A Preferred Stock into Telogy Networks common stock. The holder of the Series B Preferred Stock will be entitled to a separate class vote on the conversion of all outstanding Series B Preferred Stock into Telogy Networks common stock. The merger agreement will be approved and adopted if:

- a majority of the shares of common stock, Series A Preferred Stock and Series B Preferred Stock, voting as one class, vote in favor of the merger agreement and the merger; and

- a majority of the shares of Series A Preferred Stock, voting as a separate class, vote in favor of the merger agreement and the merger.

The conversion of all outstanding shares of Series A Preferred Stock to common stock will be approved if the holders of 51% of the outstanding shares of Series A Preferred Stock elect to convert those shares into common stock. The conversion of all outstanding shares of Series B Preferred Stock to common stock will be approved if the holders of 51% of the outstanding shares of Series B Preferred Stock elect to convert those shares into common stock. Conversion of all preferred stock into common stock is a condition to consummating the merger.

As of May 29, 1999, Telogy Networks' officers and directors owned and held the power to vote 3,242,259 shares of Telogy Networks common stock, representing approximately 47.1% of the voting power on the record date, and 1,996,287 shares of Series A Preferred Stock, representing approximately 80.9% of the shares of Series A Preferred Stock outstanding on the record date. To induce Texas Instruments and TNI Acquisition to enter into the merger agreement, Telogy Networks stockholders representing 63.3% of the voting power of Telogy Networks as of May 29, 1999 have agreed, in connection with the voting agreement and without any additional consideration being paid to them to vote all of their shares of Telogy Networks capital stock in favor of approving and adopting the merger agreement and the merger and to convert all outstanding shares of preferred stock into shares of common stock at the Telogy Networks special meeting. The form of the voting agreement is attached as Annex B to this proxy statement/prospectus.

Shares of Telogy Networks stock represented by properly executed proxies will, unless these proxies have been properly revoked, be voted in accordance with the instructions indicated on such proxies or, if no instructions have been indicated, will be voted for approval and adoption of the merger agreement, the merger, the conversion of all outstanding shares of preferred stock into common stock and, in the best judgment of the individuals named in the accompanying proxy, on any other matters which may properly come before the Telogy Networks special meeting. Any proxy may be revoked by the stockholder giving it, at any time prior to its being voted, by filing a notice of revocation or a duly executed proxy bearing a later date with the Secretary of Telogy Networks at the address given on the notice of stockholders' meeting accompanying this proxy statement/prospectus. Any proxy may also be revoked by the stockholder's attendance at the Telogy Networks special meeting and voting in person. A notice of revocation need not be on any specific form. Abstentions may be specified with respect to the approval and adoption of the merger agreement by properly marking the "ABSTAIN" box on the proxy for such proposal. Abstentions and broker nonvotes will have the same effect as a vote against the approval and adoption of the merger agreement at the Telogy Networks special meeting.

SOLICITATION OF PROXIES

Proxies are being solicited by and on behalf of the Telogy Networks board of directors. Telogy Networks will bear the costs relating to the solicitation of proxies. In addition to solicitation by mail, Telogy Networks' directors, officers and regular employees, without additional remuneration, may solicit proxies by telephone, facsimile machine and personal interviews, and Telogy Networks reserves the right to retain outside agencies for the purpose of soliciting proxies.

APPRAISAL RIGHTS

Holders of Telogy Networks capital stock who do not vote in favor of the merger and follow the appropriate procedures under the General Corporation Law of the State of Delaware ("DGCL") will be entitled, instead of receiving the shares of Texas Instruments common stock in the merger, to have a judge determine the fair value in cash of their shares of Telogy Networks common stock. Texas Instruments will not be obligated to complete the merger if Telogy Networks stockholders exercise and do not withdraw their appraisal rights to the extent that the merger cannot be accounted for as a pooling of interests. Although we cannot presently estimate this limit, it will be less than 10%, or approximately 925,000 shares, of Telogy Networks common stock.

ACCOUNTING TREATMENT

The merger is intended to qualify as a pooling of interests for financial reporting purposes under generally accepted accounting principles. Under this method of accounting, the recorded assets and liabilities of Texas Instruments and Telogy Networks will be carried forward to the combined company at their recorded amounts. The operating results of the combined company will include operating results of Texas Instruments and Telogy Networks for the periods subsequent to the combination and, to the extent material, the combined recorded operating results of the separate companies for periods prior to the combination on a restated basis.

FEDERAL SECURITIES LAWS CONSEQUENCES

All shares of Texas Instruments common stock received by Telogy Networks stockholders in the merger will be freely transferable, except that shares of Texas Instruments common stock received by persons who are deemed to be "affiliates," as such term is defined under the Securities Act, of Telogy Networks prior to the merger may be resold by them only in transactions permitted by the resale provisions of Rule 145 promulgated under the Securities Act or as otherwise permitted under the Securities Act. Persons who are affiliates of Telogy Networks generally include individuals or entities that control, are controlled by, or are under common control with, Telogy Networks and may include certain officers and directors of Telogy Networks as well as principal stockholders of Telogy Networks. All directors and officers of Telogy Networks will deliver a letter agreement to the effect that he or she will not offer or sell or otherwise dispose of any of the shares of Texas Instruments common stock issued to him or her in or in connection with the merger in violation of the Securities Act or the rules and regulations promulgated by the SEC under that Act.

THE MERGER

BACKGROUND

Telogy Networks has been a supplier of voice over packet software applications for Texas Instruments digital signal processing ("DSP") platforms since 1995.

In September 1997, a representative of Texas Instruments' Wireless Communication Business Unit initiated discussions with Telogy Networks regarding a potential strategic relationship with, investment in or acquisition of Telogy Networks. In October 1997, the parties executed a confidentiality agreement and Texas Instruments provided a general letter of interest. In November 1997, Texas Instruments provided a non-binding proposal to acquire Telogy Networks. In December 1997, Texas Instruments' board of directors authorized the acquisition of only the wireless portion of Telogy Networks' business. Telogy Networks subsequently provided Texas Instruments a letter outlining the terms of an acceptable transaction. In January 1998, Texas Instruments delivered a non-binding proposal to purchase Telogy Networks' wireless business and make, in conjunction with such acquisition, an equity investment in Telogy Networks' remaining software business. Discussions between the parties continued until Texas Instruments withdrew its offer in February 1998.

In April 1998, Telogy Networks executed an agreement with Motorola, Inc. regarding the sale of substantially all of the assets used in Telogy Networks' wireless business, a license of Telogy Networks' wireless software and an equity investment by Motorola in Telogy Networks. This transaction was completed in May 1998.

Texas Instruments and Telogy Networks continued their normal business relationship from February 1998 until February 1999. Their relationship included discussions regarding standard joint marketing and sales activities, design reviews and product roadmaps.

In August 1998, the board of directors of Telogy Networks reviewed the dynamics of the voice over Internet protocol ("VoIP") industry, Telogy Networks' position in the industry and the possible strategic alternatives available to Telogy Networks, including an initial public offering of its common stock or a sale of the business. As a result of this review, in August 1998 Telogy Networks engaged BT Alex. Brown Incorporated to contact specified companies regarding their interest in pursuing a strategic relationship or possible acquisition of Telogy Networks. Texas Instruments was not on the "A" list of specified companies but was included on an alternative "B" list of companies that could only be approached with authorization from Telogy Networks. Telogy Networks did not authorize BT Alex. Brown to pursue Texas Instruments as a potential acquiror. During September and October 1998, BT Alex. Brown contacted the companies specified on the "A" list, including a company that is referred to in this proxy statement/prospectus as the "Other Bidder." These contacts did not result in any material expressions of interest in pursuing a potential transaction with Telogy Networks.

In October 1998, Telogy Networks initiated discussions with Texas Instruments regarding a possible license by Texas Instruments of voice codec software developed by Telogy Networks. The parties continued to discuss the proposed license through November and December 1998. In January 1999, Texas Instruments and Telogy Networks executed an agreement that afforded Texas Instruments joint ownership rights in a voice codec software application developed and owned by Telogy Networks. The parties began discussing a similar agreement relating to a modem software application in February 1999, but these discussions were subsequently discontinued.

In February 1999, Telogy Networks terminated its engagement letter with BT Alex. Brown and began planning an initial public offering of its common stock.

In February 1999, Texas Instruments and Telogy Networks met to discuss alternatives to enhance their business relationship. At the meeting, Texas Instruments suggested either an equity investment or an acquisition of Telogy Networks. Telogy Networks agreed to make a presentation to Texas Instruments

regarding joint opportunities. Following these discussions, Telogy Networks requested assistance from BT Alex. Brown on terms consistent with those set forth in the original engagement letter with respect to the proposed transaction with Texas Instruments.

In March 1999, Telogy Networks made a presentation to Texas Instruments regarding proposed joint opportunities or a possible acquisition of Telogy Networks. Subsequently, the Other Bidder contacted Telogy Networks regarding a proposed acquisition of Telogy Networks. Telogy Networks and the Other Bidder conducted general discussions regarding an acquisition and executed a confidentiality agreement in March 1999.

On April 7, 1999, Telogy Networks met with Texas Instruments to discuss an acquisition of Telogy Networks. On April 14, 1999, the parties executed a confidentiality agreement and Texas Instruments delivered a written acquisition proposal, subject to authorization by the Texas Instruments board of directors, to Telogy Networks. At that time, Telogy Networks informed Texas Instruments that it was considering several strategic alternatives, including an initial public offering of its common stock and a sale of the business to another bidder.

During the weeks of April 12 and April 19, 1999, Telogy Networks invited investment banks to make presentations to management with respect to the prospects and possible schedule for an initial public offering of its common stock and potential valuations of Telogy Networks.

On April 21, 1999, the board of directors of Texas Instruments authorized a proposed acquisition of Telogy Networks.

Toward the end of April 1999, Texas Instruments communicated to Telogy Networks a revised acquisition proposal that increased the consideration to be paid to the stockholders of Telogy Networks.

On April 29, 1999, the board of directors of Telogy Networks authorized management to proceed with an initial public offering of its common stock and communicated this decision to Texas Instruments.

On May 12, 1999, Texas Instruments contacted BT Alex. Brown to discuss the strategic alternatives that the board of directors of Telogy Networks had been considering, including an initial public offering of its common stock, and the market value of merger transactions in the technology industry.

On May 14, 1999, the board of directors of Texas Instruments revised its authorization, giving management increased flexibility with respect to the proposed acquisition of Telogy Networks.

On May 17, 1999, the Other Bidder, Telogy Networks and BT Alex. Brown discussed an acquisition transaction and the Other Bidder provided a written acquisition proposal to Telogy Networks. Because the acquisition proposals from Texas Instruments and the Other Bidder both contemplated the issuance of common stock to the stockholders of Telogy Networks, the values of the offers were dependent on the market price of the common stock of the companies. Based on the closing price of the common stock of both companies on May 17, 1999, the acquisition proposal from the Other Bidder was higher than the acquisition proposal from Texas Instruments.

On May 18, 1999, Telogy Networks held an organizational meeting for its initial public offering of common stock. Also on that date, Texas Instruments provided Telogy Networks with a revised acquisition proposal that provided for increased consideration to the stockholders of Telogy Networks.

On May 19, 1999, Telogy Networks and Texas Instruments met to discuss the Texas Instruments' acquisition proposal.

BT Alex. Brown presented the two acquisition proposals at a special meeting of the finance committee of the board of directors of Telogy Networks held on the morning of May 20, 1999. Later that day, the Other Bidder notified Telogy Networks that it had revised its offer to increase the consideration to be paid to the stockholders of Telogy Networks. The board of directors of Telogy Networks held a special telephonic meeting at 7:30 p.m. to discuss the proposed acquisitions. At the board meeting, BT Alex. Brown made a presentation with respect to the terms of the two acquisition proposals, the fit of Telogy Networks with each company, the market value and volatility of the common stock of each company, the

risks of a potential merger transaction with each company and the probability of closing a merger transaction with each company. The board of directors of Telogy Networks authorized management of Telogy Networks to encourage Texas Instruments to increase the value of its acquisition proposal. In response to this request, Texas Instruments revised its offer to increase the consideration to be paid to the stockholders of Telogy Networks. The board of directors of Telogy Networks reconvened at 10:30 p.m., at which time it approved the revised offer of Texas Instruments and authorized the chief executive officer of Telogy Networks to execute a letter of intent with Texas Instruments. The letter of intent, which was executed on May 20, 1999, included an agreement that Telogy Networks would cease all other discussions regarding an acquisition proposal until the later of June 1, 1999 or until the parties terminated their discussions. Immediately following the board of directors meeting, the Other Bidder notified Telogy Networks that it had again revised its offer to increase the consideration to be paid to the stockholders of Telogy Networks.

From May 21 to May 24, 1999, Texas Instruments and Telogy Networks completed their due diligence. From May 24 to May 28, 1999, the parties, with the assistance of their respective legal advisors, negotiated the terms of the merger agreement.

On May 28, 1999, at a special telephonic meeting of the finance committee of the board of directors of Telogy Networks, BT Alex. Brown and management of Telogy Networks reviewed the progress of the negotiations and the principal terms of the merger agreement. BT Alex. Brown reviewed with the finance committee certain financial analyses relating to the proposed merger and the Other Bidder's acquisition proposal. Representatives of BT Alex. Brown and management of Telogy Networks answered numerous questions from the finance committee concerning the proposed transaction. Based on the closing price of the common stock of Texas Instruments and the Other Bidder on May 28, 1999, the acquisition proposal from the Other Bidder was higher than the acquisition proposal from Texas Instruments. The finance committee authorized management of Telogy Networks to encourage Texas Instruments to increase the value of its acquisition proposal. In response to this request, Texas Instruments revised its offer to increase the consideration to be paid to the stockholders of Telogy Networks. Based on the closing price of the common stock of Texas Instruments and the Other Bidder on May 28, 1999, the acquisition proposal from the Other Bidder was 17.4% higher than the revised acquisition proposal from Texas Instruments. However, the revised acquisition proposal from Texas Instruments was structured to reduce the financial risk to stockholders between the execution of the merger agreement and the closing, when compared to the Other Bidder's proposal.

On May 29, 1999, at a special telephonic meeting of the board of directors of Telogy Networks, BT Alex. Brown, Telogy Networks' legal counsel and management of Telogy Networks reviewed the status of negotiations and the principal terms of the merger agreement. BT Alex. Brown then reviewed with the board of directors certain financial analyses relating to the proposed merger and the Other Bidder's acquisition proposal. Representatives of BT Alex. Brown, Telogy Networks' legal counsel and management of Telogy Networks answered numerous questions from the board of directors concerning the proposed transaction. After due consideration of all factors deemed by the Telogy Networks board of directors to be relevant, the board of directors unanimously determined that the merger with Texas Instruments would be in the best interests of Telogy Networks and its stockholders, approved the merger agreement, and recommended that the stockholders of Telogy Networks adopt and approve the merger agreement and the merger. See "-- Reasons for the Merger -- Telogy Networks' Reasons for the Merger" on page 24.

Following approval of the board of directors of Telogy Networks, on May 29, 1999 the parties executed the merger agreement and certain stockholders of Telogy Networks executed the voting agreement.

REASONS FOR THE MERGER

Texas Instruments' Reasons for the Merger. Texas Instruments believes the combination of Telogy Networks' position as a leading provider of communications software with Texas Instruments' leadership in programmable DSP will provide the combined entity a unique position in the emerging markets for

transmitting digital voice and data packets over the Internet. This market is known as VoIP, or more generically as Internet telephony. This market is a sub-segment of the broader digital communications market.

Texas Instruments expects that the merger will enable it to more quickly and better provide the market with combined, or integrated, digital signal processing hardware and embedded software. Texas Instruments believes this product will be a base component in Internet telephones, telecommunication infrastructure interfaces, such as servers, and other Internet appliances.

VoIP allows voice and data to travel simultaneously over a single network line, resulting in better, more flexible and more cost-effective telephone service for end users. Texas Instruments expects this market will depend heavily on programmable digital signal processors and software that converts and compresses voice, data and faxes into small digital "packets" that travel quickly and reliably across corporate local area networks, intranets and the Internet at quality levels equivalent to traditional circuit-switched telephony.

Key product applications of VoIP include:

- gateways;
- remote access servers and concentrators;
- Internet protocol telephones;
- digital subscriber loop ("DSL") modems, cable modems and Internet protocol fax machines; and
- Internet appliances.

Utilizing VoIP, businesses will be able to reduce operating costs by eliminating the traditional voice-only line, thus having to manage only one network that can transmit both voice and data simultaneously. VoIP also can lower long-distance and fax costs by routing calls over private data lines. Individuals can realize similar benefits through long-distance suppliers that offer per-minute rate savings utilizing VoIP technology.

Telogy Networks' Reasons for the Merger. After careful consideration, the Telogy Networks board of directors has determined that the terms of the merger agreement and the merger are fair from a financial point of view to, and are in the best interests of, Telogy Networks and its stockholders. Accordingly, the Telogy Networks board of directors has unanimously approved and adopted the merger agreement and recommends approval of the merger agreement by Telogy Networks' stockholders. In making its decision to approve the merger agreement and the merger, and its determination that the merger is in the best interests of Telogy Networks and its stockholders, the board of directors of Telogy Networks consulted with BT Alex. Brown, its financial advisor, regarding the financial aspects of the proposed transaction and with its legal advisors regarding the legal terms of the transaction, as well as with management of Telogy Networks. Telogy Networks did not request that its financial advisor render a written fairness opinion with respect to the merger. However, BT Alex. Brown made presentations to the finance committee of the board of directors and the entire board of directors of Telogy Networks with respect to the financial aspects of the proposed merger with Texas Instruments and the acquisition proposal presented by the Other Bidder. The board of directors also considered the following factors, to which relative weights were not assigned:

- A review by the Telogy Networks board of directors of the business, operations, financial condition and earnings of Texas Instruments on a historical basis, and current industry, economic and market conditions. The board of directors also considered the historical and prospective stock price performance of the Texas Instruments common stock, including the anticipated impact of the merger on the price of Texas Instruments common stock over both the short and long term.
- The compatibility of the respective businesses, operating philosophies and strategic objectives of Texas Instruments and Telogy Networks, including the fact that Telogy Networks' products are currently implemented exclusively on Texas Instruments processors.

- The economic terms of the merger agreement and the merger, including the exchange ratio. The Telogy Networks board of directors considered that (a) the exchange ratio had been determined through arms-length negotiations and (b) the exchange ratio represented an implied value to Telogy Networks stockholders of \$48.47 per share based upon Texas Instruments' closing price of \$109.375 per share on May 28, 1999, the trading day before Telogy Networks' board of directors approved the merger. The Telogy Networks board of directors gave due consideration to the fact that the exchange ratio would allow holders of Telogy Networks common stock to benefit from any increase in the market price of Texas Instruments common stock prior to the time of the merger while reducing risk to them arising from a decline in the market price of Texas Instruments common stock below a specified level. This risk reduction is due to Texas Instruments' agreement to issue up to 900,000 additional shares of Texas Instruments common stock if Texas Instruments' stock price falls below a specified level.
- Possible strategic alternatives to the merger for enhancing long-term stockholder value, including transactions with other potential strategic merger partners and an initial public offering of the common stock of Telogy Networks. In its comparison of the offers of Texas Instruments and the Other Bidder, the board of directors of Telogy Networks considered the value of both offers between the dates they were made and the dates they were evaluated by the board of directors, the volatility of the common stock offered to Telogy Networks, the anticipated responses from Telogy Networks' customers to a merger with the companies and the overall compatibility of the business environments of Telogy Networks and the companies.
- The other terms and conditions of the merger agreement, including the possibility that Telogy Networks may be required, if the merger agreement is terminated under certain circumstances and within 12 months of such termination Telogy Networks agrees to a business combination with another entity, to pay a fee of \$22.5 million to Texas Instruments. The Telogy Networks board of directors recognized that inclusion of those provisions in the merger agreement would render it less likely that a more attractive offer would be presented to Telogy Networks; however, the Telogy Networks board of directors believes that the merger represents the best opportunity to enhance long-term stockholder value.
- The likelihood that the merger with Texas Instruments would be consummated compared to Telogy Networks' other strategic alternatives, which were in preliminary stages.
- The familiarity of the Telogy Networks board of directors with and review of Telogy Networks' business, operations, financial condition and earnings on a historical and a prospective basis.
- The engagement of BT Alex. Brown as Telogy Networks' financial advisor and the involvement of BT Alex. Brown throughout the merger discussions and negotiations.
- The expectation that the merger will be tax-free, except for cash to be paid in lieu of fractional shares, for federal income tax purposes to Telogy Networks and its stockholders and will qualify as a pooling of interests for accounting and financial reporting purposes.
- The general favorable impact that the merger could be expected to have on the constituencies served by Telogy Networks, including its customers and employees.

THE TELOGY NETWORKS BOARD OF DIRECTORS BELIEVES THAT THE MERGER IS FAIR TO, AND IN THE BEST INTERESTS OF, THE TELOGY NETWORKS STOCKHOLDERS AND HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND RECOMMENDS THAT THE TELOGY NETWORKS STOCKHOLDERS VOTE FOR APPROVAL OF THE MERGER AGREEMENT AND THE MERGER.

INTERESTS OF CERTAIN PERSONS IN THE MERGER

In considering the respective recommendations of the Telogy Networks board of directors with respect to the merger agreement and the transactions contemplated by the merger agreement, stockholders of Telogy Networks should be aware that members of the management and the board of directors of Telogy

Networks have particular interests in the merger that are different from, or in addition to, the interests of stockholders of Telogy Networks generally. In particular, Texas Instruments has agreed to indemnify the officers and directors of Telogy Networks for their acts and omissions as officers and directors of Telogy Networks to the maximum extent permitted by law for a period of not less than seven years after the merger.

The merger agreement provides that, at the time of the merger, each outstanding option to purchase shares of Telogy Networks common stock will be converted automatically into an option to purchase shares of Texas Instruments common stock, based upon the exchange ratio determined as of the time of the merger. In addition, the officers of Telogy Networks, consisting of Joseph Crupi, William Witowsky, Nancy Goguen, William Simmelink, Phillip Swan and Timothy Carlson, have agreed to execute employment agreements with Texas Instruments, which provide for salary, benefits and the commitment by Texas Instruments to recommend to the Texas Instruments Compensation Committee that the Telogy Networks officers be granted additional stock options for Texas Instruments common stock at specified times. These agreements will expire on January 31, 2003, unless extended or earlier terminated in accordance with their terms.

COMPARATIVE RIGHTS OF STOCKHOLDERS OF TEXAS INSTRUMENTS AND TELOGY NETWORKS

Upon approval of the merger by the stockholders of Telogy Networks, at the time of the merger, the holders of Telogy Networks common stock will become holders of Texas Instruments common stock. The rights of Texas Instruments stockholders are governed by Texas Instruments' restated certificate of incorporation, its bylaws, as amended, and Delaware law, including the DGCL. The rights of Telogy Networks stockholders are governed by its certificate of incorporation, its bylaws and Delaware law, including the DGCL.

The following is a summary of the material differences between the rights of the holders of Telogy Networks common stock and the rights of holders of Texas Instruments common stock. Because each of Texas Instruments and Telogy Networks is a Delaware corporation, these differences arise primarily from differences in the provisions of Texas Instruments' restated certificate of incorporation and Telogy Networks' certificate of incorporation and the differences between Texas Instruments' bylaws and Telogy Networks' bylaws.

The following summary does not purport to be a complete statement of the rights of Texas Instruments stockholders under Texas Instruments' restated certificate of incorporation and Texas Instruments' bylaws as compared with the rights of the Telogy Networks stockholders under Telogy Networks' certificate of incorporation and Telogy Networks' bylaws and does not purport to be a complete description of the specific provisions referred to below. The identification of specific differences is not meant to indicate that other equally or more significant differences do not exist. This summary is qualified in its entirety by reference to the governing corporate instruments of Texas Instruments incorporated by reference to the registration statement of which this joint proxy statement/prospectus is a part, to which stockholders are referred. The terms of Texas Instruments common stock are described under "Description of Capital Stock of Texas Instruments" on page 47.

Authorized Capital Stock

The authorized capital stock of Telogy Networks consists of 30,000,000 shares of Telogy Networks common stock, \$0.01 par value, and 10,000,000 shares of preferred stock, \$0.01 par value.

The authorized capital stock of Texas Instruments consists of 1,200,000,000 shares of Texas Instruments common stock, \$1.00 par value, and 10,000,000 shares of Texas Instruments preferred stock, \$25.00 par value.

Rights Plan

Texas Instruments has adopted a rights plan that is described under the heading "Description of Capital Stock of Texas Instruments -- The Rights Plan" on page 48. As described in that section, the rights plan may have antitakeover effects. Telogy Networks has not adopted a rights plan.

Stockholder Action by Written Consent

Under the DGCL, stockholders of Delaware corporations are permitted to act by written consent in lieu of a meeting of stockholders unless the certificate of incorporation prohibits stockholder action by written consent. Telogy Networks' certificate of incorporation does not prohibit its stockholders from acting by written consent in lieu of a meeting of stockholders and Telogy Networks' bylaws expressly provide procedures for effecting such actions by written consent; however, Texas Instruments' restated certificate of incorporation does prohibit stockholder action by written consent. This provision of Texas Instruments' restated certificate of incorporation may have antitakeover effects because Texas Instruments stockholders can only act at meetings of stockholders called in accordance with the restated certificate of incorporation, bylaws and DGCL.

Special Meetings of Stockholders

Telogy Networks' bylaws provide that special meetings of the stockholders shall be called by the president or secretary at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote; however, Texas Instruments' bylaws do not provide a means for stockholders to call special meetings. This provision of Texas Instruments' bylaws may have antitakeover effects because Texas Instruments stockholders may not call special meetings of stockholders to consider merger or acquisition proposals.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of the material anticipated U.S. federal income tax consequences to the Telogy Networks stockholders of the conversion of Telogy Networks preferred stock into Telogy Networks common stock and of the merger. The discussion is based on laws, regulations, rulings and decisions in effect on the date hereof, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to particular stockholders in light of their personal circumstances or to stockholders subject to special treatment under the Internal Revenue Code of 1986, as amended (the "Code"), including, without limitation, banks, tax-exempt organizations, insurance companies, dealers in securities or foreign currency, stockholders whose shares of Telogy Networks preferred or common stock are not held as "capital assets" within the meaning of Section 1221 of the Code, stockholders who received their Telogy Networks common stock through the exercise of employee stock options or otherwise as compensation and stockholders who are not U.S. persons (as defined in Section 7701(a)(30) of the Code). In addition, the discussion does not address any state, local or foreign tax consequences of the merger.

WE URGE YOU TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES OF THE MERGER TO YOU.

Federal Income Tax Consequences of Conversion of Preferred Stock to Common Stock

For federal income tax purposes, no gain or loss will be recognized by the holders of Telogy Networks preferred stock upon conversion of their shares of preferred stock into shares of common stock immediately prior to the merger. Shares of Telogy Networks common stock that are treated as having been received by a stockholder upon conversion of Telogy Networks preferred stock will have the same tax basis as the stockholder's basis in the shares of Telogy Networks preferred stock that were converted, and the holding period of the shares of Telogy Networks common stock deemed to have been received upon conversion of a stockholder's Telogy Networks preferred stock will include the holding period of the shares of Telogy Networks preferred stock that were converted.

Federal Income Tax Consequences of the Merger to Telogy Networks Stockholders

In connection with the registration statement of which this proxy statement/prospectus is a part, King & Spalding, counsel to Telogy Networks, will deliver an opinion to Telogy Networks (the "Registration Statement Tax Opinion") that, subject to the assumptions, limitations, qualifications and other considerations described below under "Certain Considerations with Respect to Tax Opinions," the merger will be treated for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code and the U.S. federal income tax consequences of the merger will be that:

- no gain or loss will be recognized by the holders of Telogy Networks common stock (including holders of Telogy Networks preferred stock upon conversion of their shares of Telogy Networks preferred stock into shares of common stock immediately prior to consummation of the merger) who exchange all of their shares of Telogy Networks common stock in the merger solely for shares of Texas Instruments common stock, except with respect to cash, if any, received in lieu of fractional shares of Texas Instruments common stock;
- the tax basis of the shares of Texas Instruments common stock received by a holder of Telogy Networks common stock will be the same as the tax basis of the shares of Telogy Networks common stock surrendered in exchange therefor, reduced by any amount allocable to a fractional share of Texas Instruments common stock for which cash is received;
- the holding period of the shares of Texas Instruments common stock received in the merger by a holder of Telogy Networks common stock, including a fractional share of Texas Instruments common stock deemed to have been received and then exchanged for cash, will include the holding period of the shares of Telogy Networks common stock surrendered in exchange therefor;
- cash received by a holder of Telogy Networks common stock in lieu of a fractional share of Texas Instruments common stock will be treated as received in exchange for such fractional share, and capital gain or loss will be recognized by the holder in an amount equal to the difference between the amount of cash received and the portion of the tax basis of the share of Telogy Networks common stock allocable to the fractional interest; and
- no gain or loss will be recognized by the former stockholders of Telogy Networks if any shares of Texas Instruments common stock issued in the merger are returned to Texas Instruments from the escrow fund, and a former Telogy Networks stockholder's tax basis in any shares of Texas Instruments common stock so returned to Texas Instruments will be added to the tax basis of the stockholder's remaining shares of Texas Instruments common stock received in the merger.

Each party's obligation to consummate the merger is conditioned upon the receipt of its respective counsel's opinion, dated as of the time of the merger, that, subject to the assumptions, limitations, qualifications and other considerations described below under "Certain Considerations with Respect to Tax Opinions," the merger will be treated for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code (the "Closing Tax Opinions"). If either Texas Instruments or Telogy Networks is unable to obtain its respective Closing Tax Opinion from its counsel, it is permitted under the merger agreement to waive the receipt of such Closing Tax Opinion as a condition to its obligation to consummate the merger. As of the date of this proxy statement/prospectus, neither Texas

Instruments nor Telogy Networks intends to waive the receipt of its Closing Tax Opinion as a condition to the consummation of the merger. If Telogy Networks fails to obtain a Closing Tax Opinion and decides to waive that condition to the completion of the merger, Telogy Networks will resolicit the vote of its stockholders to approve the merger agreement.

Appraisal Rights

Cash received by a holder of Telogy Networks common stock in satisfaction of appraisal rights will result in the recognition of gain or loss for federal income tax purposes, measured by the difference between the amount of cash received and the basis of the Telogy Networks common stock surrendered. The gain or loss will be capital gain or loss provided that the shares of Telogy Networks common stock were held as capital assets and will be long-term capital gain or loss if the Telogy Networks common stock had been held for more than one year at the time of the merger.

Federal Income Tax Consequences of the Merger to the Companies

The merger will not result in taxable income for any of Texas Instruments, TNI Acquisition and Telogy Networks.

Certain Considerations with Respect to Tax Opinions

The Registration Statement Tax Opinion, the Closing Tax Opinions and the foregoing summary of the anticipated U.S. federal income tax consequences of the merger are based upon and are subject to certain assumptions, limitations and qualifications, including certain representations made by Telogy Networks and Texas Instruments. If any of these representations or assumptions is inconsistent with the actual facts, the U.S. federal income tax treatment of the merger could be adversely affected. In addition, no ruling from the Internal Revenue Service with respect to the tax consequences of the merger has been, or will be, requested. The tax opinions are not binding on the Internal Revenue Service or the courts, and it is possible that the Internal Revenue Service could assert a contrary position and that a court could sustain that position.

THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement, dated as of May 29, 1999, between Telogy Networks, Texas Instruments and TNI Acquisition, a copy of which is attached as Annex A to this proxy statement/prospectus and incorporated by reference. The following summary is qualified in its entirety by reference to the text of the merger agreement.

GENERAL

The merger agreement provides that, following the approval and adoption of the merger agreement by the stockholders of Telogy Networks and the satisfaction or waiver of the other conditions to the merger:

- TNI Acquisition will merge with and into Telogy Networks; and
- TNI Acquisition will cease to exist and Telogy Networks will continue as the surviving corporation following the merger. As a result of the merger, as of the time of the merger, Telogy Networks will succeed to and assume all rights and obligations of TNI Acquisition, in accordance with the DGCL.

EFFECTIVE TIME

The merger agreement provides that, subject to the requisite approval of the stockholders of Telogy Networks and the satisfaction or waiver of other conditions, the merger will be consummated by the filing of an appropriate certificate of merger and any other appropriate documents, in accordance with the relevant provisions of the DGCL, with the Secretary of State of the State of Delaware.

CONVERSION OF SHARES

Upon the consummation of the merger:

- Each share of Telogy Networks common stock issued and outstanding immediately prior to the effective time, other than shares held by Telogy Networks as treasury shares and shares held by Texas Instruments or TNI Acquisition, will be converted into and exchangeable for the right to receive the number of shares of Texas Instruments common stock equal to the exchange ratio, together with any associated right to acquire shares of Series B Participating Cumulative Preferred Stock of Texas Instruments under Texas Instruments' Rights Plan; provided, however, in the event of changes in Texas Instruments common stock prior to the time of the merger, such as stock dividends or stock splits, the exchange ratio and the average stock price will be adjusted in accordance with the merger agreement to the extent necessary to reflect the change. The exchange ratio is calculated as follows:

- (1) if the average trading price of Texas Instruments common stock for the ten trading days prior to _____, 1999, is greater than or equal to \$102.44, the exchange ratio will be determined by dividing 4,100,000 by the aggregate number of shares of Telogy Networks common stock outstanding immediately prior to the merger, including all shares of Telogy Networks common stock issued upon conversion of the Telogy Networks preferred stock, and all Telogy Networks common stock issuable under outstanding stock options of Telogy Networks immediately prior to the merger;
- (2) if the average trading price of Texas Instruments common stock for the ten trading days prior to _____, 1999, is less than \$102.44 but greater than \$84.00, the exchange ratio will be determined by dividing (1) the dollar amount derived by dividing (a) \$420,000,000 by (b) the aggregate number of shares of Telogy Networks common stock outstanding immediately prior to the merger, including all shares of Telogy Networks common stock issued upon conversion of the Telogy Networks preferred stock, and all Telogy Networks common stock issuable under outstanding stock options of Telogy Networks immediately prior to the merger by (2) that average trading price; and

(3) if the average trading price of Texas Instruments common stock for the ten trading days prior to _____, 1999, is equal to or less than \$84.00, the exchange ratio will be determined by dividing 5,000,000 by the aggregate number of shares of Telogy Networks common stock outstanding immediately prior to the merger, including all shares of Telogy Networks common stock issued upon conversion of the Telogy Networks preferred stock, and all Telogy Networks common stock issuable under outstanding stock options of Telogy Networks immediately prior to the merger;

- each share of Telogy Networks common stock which is held by Telogy Networks at the time of the merger will become one share of treasury stock of the surviving corporation; and
- each share of common stock of TNI Acquisition outstanding immediately prior to the merger will be converted into one share of common stock of the surviving corporation.

TREATMENT OF PREFERRED STOCK

At the special meeting, holders of Telogy Networks preferred stock will vote on whether to convert all outstanding shares of Series A Preferred Stock and Series B Preferred Stock into Telogy Networks common stock prior to the time of the merger. Accordingly, if this proposal is approved at the special meeting, all shares of preferred stock of Telogy Networks will be converted to Telogy Networks common stock immediately prior to the merger. These converted shares will be converted into Texas Instruments common stock at the time of the merger. Because holders of more than 51% of each of the Telogy Networks Series A Preferred Stock and Series B Preferred Stock have executed a voting agreement to vote in favor of this conversion, the approval of the proposal is substantially assured.

TREATMENT OF STOCK OPTIONS

At the time of the merger, subject to various conditions and limitations, each outstanding option to purchase shares of Telogy Networks common stock will be assumed by Texas Instruments and converted into an option, or a new substitute option will be granted, to purchase the number of shares of Texas Instruments common stock, rounded up to the nearest whole share, equal to the number of shares of Telogy Networks common stock subject to the original option multiplied by the exchange ratio. The exercise price per share of Texas Instruments common stock under the new option will be equal to the former exercise price per share of Telogy Networks common stock immediately prior to the time of the merger divided by the exchange ratio, rounded down to the nearest penny. The other terms of the options, including the vesting schedule, will remain unchanged.

EXCHANGE PROCEDURES

As soon as reasonably practical after the time of the merger, a form of letter of transmittal and instructions will be mailed to each record holder of certificates that, immediately prior to the time of the merger, represented outstanding shares of Telogy Networks common stock or shares of preferred stock that have been converted to common stock but for which no new certificate has been issued. After receipt of such transmittal form, each holder of certificates should surrender the certificates to Texas Instruments' transfer agent and registrar (the "Exchange Agent"), together with the letter of transmittal duly executed and completed in accordance with the instructions thereto. Upon surrender of the certificates to and acceptance of the certificates by the Exchange Agent, each holder will be entitled to receive:

- certificates of Texas Instruments common stock evidencing the whole number of shares of Texas Instruments common stock to which the holder is entitled; and
- a check in the amount equal to the cash that such holder has the right to receive pursuant to the merger agreement, including cash in lieu of any dividends and other distributions with respect to the shares represented by the certificates and cash in lieu of fractional shares.

If any shares of Texas Instruments common stock are to be issued in a name other than that in which the certificate(s) representing Telogy Networks common stock surrendered in exchange for shares of Texas Instruments common stock is registered, the certificates so surrendered must be properly endorsed or otherwise be in proper form for transfer and the person requesting the exchange must pay to the Exchange Agent any applicable stock transfer taxes or must establish to the satisfaction of the Exchange Agent that the taxes have been paid or are not applicable. No interest will be paid on the merger consideration.

After the time of the merger, no holder of a certificate which, immediately prior to the time of the merger, represented shares of Telogy Networks common stock, or shares of preferred stock that have been converted to common stock but for which no new certificate has been issued, will be entitled to receive any dividend or other distribution from Texas Instruments until the holder surrenders the certificate for a certificate representing shares of Texas Instruments common stock. Upon the surrender, there will be paid to the holder the amount of any dividends or other distributions which after the time of the merger became payable with respect to the number of whole shares of Texas Instruments common stock into which the shares of Telogy Networks common stock are converted. No interest will be paid on the dividends or other distributions.

No fractional shares of Texas Instruments common stock will be issued in the merger. A holder of Telogy Networks common stock who would otherwise be entitled to receive fractional shares of Texas Instruments common stock as a result of the merger will receive, in lieu of fractional shares, cash in an amount equal to the price per share of Texas Instruments common stock, as determined in accordance with the procedures described below, multiplied by the fraction to which the holder would otherwise be entitled. In order to satisfy the payment for the fractional shares, the surviving corporation will deposit with the Exchange Agent an amount of money equal to the aggregate amount of all fractional shares multiplied by the closing price on the New York Stock Exchange on the date of the time of the merger. The Exchange Agent will then distribute the proceeds, without interest, to the holders of the fractional interests.

Any portion of the merger consideration, any dividends or distributions, or any cash owed in lieu of fractional shares with respect to shares of Texas Instruments common stock that has not been distributed to the holders of the certificates representing shares of Telogy Networks common stock, or shares of preferred stock that have been converted to common stock but for which no new certificate has been issued, within six months after the time of the merger will be delivered to the surviving corporation. Any holders who have not surrendered their certificates in accordance with the relevant provisions of the merger agreement may look only to the surviving corporation and Texas Instruments as a general creditor for payment of their claims for any merger consideration and any dividends or distributions with respect to shares of Texas Instruments common stock.

None of Texas Instruments, TNI Acquisition, Telogy Networks, the surviving corporation or the Exchange Agent will be liable in respect of any merger consideration delivered to a public official under applicable abandoned property, escheat or similar law. If any certificate or certificates representing shares of Telogy Networks common stock, or shares of preferred stock that have been converted to common stock but for which no new certificate has been issued, are not surrendered prior to five years after the time of the merger, or immediately prior to such earlier date on which any merger consideration in respect of such certificate would otherwise escheat to or become the property of any governmental agency or regulatory authority, any cash, shares, dividends or distributions payable in respect of such certificate or certificates will become the property of the surviving corporation.

TELOGY NETWORKS STOCKHOLDERS SHOULD NOT SEND STOCK CERTIFICATES REPRESENTING TELOGY NETWORKS COMMON STOCK TO TEXAS INSTRUMENTS OR TELOGY NETWORKS. CERTIFICATES FOR SHARES OF TELOGY NETWORKS COMMON STOCK, OR SHARES OF PREFERRED STOCK THAT HAVE BEEN CONVERTED TO COMMON STOCK BUT FOR WHICH NO NEW CERTIFICATE HAS BEEN ISSUED, WILL BE EXCHANGED FOR CERTIFICATES OF SHARES OF TEXAS INSTRUMENTS COMMON STOCK FOLLOWING THE CONSUMMATION OF THE MERGER IN ACCORDANCE WITH INSTRUCTIONS WHICH TELOGY NETWORKS OR THE EXCHANGE AGENT WILL SEND TO HOLDERS OF TELOGY NETWORKS COMMON STOCK AFTER THE MERGER.

Shares of Telogy Networks common stock outstanding immediately prior to the time of the merger and held by a holder who has not voted in favor of or consented to the merger, who properly demands in writing appraisal of his, hers or its shares of Telogy Networks capital stock in accordance with Section 262 of the DGCL, and who shall have not withdrawn the demand or otherwise forfeited appraisal rights, will not be converted into or represent the right to receive the merger consideration for the shares. These stockholders will be entitled to receive payment of the appraised value of the shares of Telogy Networks common stock held by them in accordance with the provisions of Section 262, except that all dissenting shares held by stockholders who shall have failed to perfect or who effectively shall have withdrawn or lost their rights to appraisal of the securities under Section 262 will be deemed to have been converted into, as of the effective time, the right to receive without any interest, the merger consideration upon surrender of the certificate or certificates that formerly represented such securities. See "The Telogy Networks Special Meeting -- Appraisal Rights" on page 19.

DIRECTORS AND OFFICERS

The merger agreement provides that the board of directors of the surviving corporation from and after the time of the merger will consist of the directors of TNI Acquisition immediately prior to the time of the merger. The merger agreement further provides that the officers of the surviving corporation from and after the time of the merger will be the officers of TNI Acquisition immediately prior to the time of the merger.

Each director and officer will hold office from the time of the merger until his respective successor is duly elected or appointed and qualified in the manner provided in the certificate of incorporation or bylaws of the surviving corporation, or otherwise provided by applicable law.

CERTIFICATE OF INCORPORATION AND BYLAWS

The merger agreement provides that:

- the certificate of incorporation of Telogy Networks in effect immediately prior to the time of the merger will be the certificate of incorporation of the surviving corporation until thereafter amended in accordance with its terms or as provided by applicable law; and
- the bylaws of Telogy Networks in effect immediately prior to the time of the merger will be the bylaws of the surviving corporation until thereafter amended in accordance with its terms or as provided by applicable law.

REPRESENTATIONS AND WARRANTIES

- The merger agreement contains various customary representations and warranties of Telogy Networks relating to, among other things:
 - (1) its organization, standing and similar corporate matters;
 - (2) its capital structure and the capital structure of its subsidiaries;
 - (3) authorization, execution, delivery, performance and enforceability of the merger agreement;
 - (4) delivery of financial statements and validity of accounts receivable;
 - (5) the absence of undisclosed liabilities;
 - (6) the absence of material changes or events, except as otherwise provided in the merger agreement;
 - (7) the absence of any untrue statements of a material fact or omission of any material fact required to be stated or necessary to make statements included in the registration statement filed with the SEC and this proxy statement/prospectus not misleading;

- (8) the absence of any necessary consents or approvals other than those specified in the merger agreement;
 - (9) the absence of any material violation of the certificate of incorporation, bylaws, any material agreement or any law, order, writ, injunction, decree, ordinance, award, stipulation, statute, judicial or administrative doctrine, rule or regulation entered by a governmental entity;
 - (10) real property;
 - (11) the absence of any pending or threatened litigation against it or any of its subsidiaries, except as otherwise disclosed or in connection with the merger agreement, that would have a material adverse effect on it, individually or taken in the aggregate;
 - (12) permits and licenses;
 - (13) employee arrangements and benefit plans;
 - (14) labor matters;
 - (15) environmental matters;
 - (16) tax matters;
 - (17) the absence of any questionable payments;
 - (18) material contracts;
 - (19) insurance matters;
 - (20) subsidies;
 - (21) intellectual property;
 - (22) software;
 - (23) year 2000 matters;
 - (24) the absence of any broker's, finder's or investment banker's fees owed in connection with the transactions contemplated by the merger agreement, other than amounts owed to BT Alex. Brown;
 - (25) tax and accounting matters regarding the tax-free nature of the transaction and "pooling of interests;"
 - (26) product liability and recalls;
 - (27) customers, suppliers and vendors; and
 - (28) exemption of the merger agreement from the Delaware and Maryland takeover statutes.
- The merger agreement also contains various representations and warranties of Texas Instruments and TNI Acquisition relating to, among other things:
- (1) their organization, standing and similar corporate matters;
 - (2) authorization, execution, delivery, performance and enforceability of the merger agreement;
 - (3) documents filed by Texas Instruments with the SEC and financial statements;
 - (4) the absence of any untrue statements of a material fact or omission of any material fact required to be stated or necessary to make statements included or incorporated by reference in the registration statement filed with the SEC and this proxy statement/prospectus not misleading;

- (5) the absence of any necessary consents or approvals other than those specified in the merger agreement and the absence of any conflicts with their organizational and various other documents;
- (6) the absence of any liability or obligation or engagement in any business activity by TNI Acquisition, except in connection with the merger agreement;
- (7) the absence of any broker's, finder's or investment banker's fees owed in connection with the transactions contemplated by the merger agreement; and
- (8) tax and accounting matters regarding the tax-free nature of the transaction and "pooling of interests."

COVENANTS

During the period from the date of the merger agreement until the time of the merger, Telogy Networks has agreed to:

- conduct its operations in the ordinary and usual course of business; and
- with no less diligence and effort than would be applied in the absence of the merger agreement, use commercially reasonable efforts to:

- (1) preserve intact its current business organizations;
 - (2) keep available the service of its current officers and employees;
- and
- (3) preserve its relationships with customers, suppliers and others having business dealings with it.

Further, Telogy Networks has agreed that, among other things and subject to various conditions and exceptions, it will not and will cause its subsidiaries not to, without the prior written consent of Texas Instruments:

- (1) amend its certificate of incorporation or bylaws;
- (2) authorize for issuance, issue, sell, deliver or agree to commit to issue, sell or deliver any stock of any class or any other securities convertible into or exchangeable for any stock or any equity equivalents except for the issuance of up to 50,000 Telogy Networks stock options to new employees or to existing employees in connection with annual performance reviews consistent with past practices;
- (3) (a) split, combine or reclassify any shares of its capital stock;
- (b) declare, set aside or pay any dividend or other distribution in respect of its capital stock;
- (c) make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make payments to stockholders in their capacity as such; or
- (d) redeem, repurchase or otherwise acquire any of its securities or any securities of any of its subsidiaries;
- (4) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of Telogy Networks or any of its subsidiaries;
- (5) alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary of Telogy Networks;

- (6) (a) incur or assume any long-term or short-term debt or issue any debt securities, except for borrowings under existing lines of credit in the ordinary and usual course of business consistent with past practice;
- (b) assume, guarantee, endorse or otherwise become liable or responsible, whether directly, contingently or otherwise, for the obligations of any other person, except in the ordinary and usual course of business consistent with past practice, taken as a whole, and except for obligations of the wholly owned subsidiaries of Telogy Networks;
- (c) make any loans, advances or capital contributions to, or investments in, any other person, other than to the wholly owned subsidiaries of Telogy Networks or customary loans or advances to employees in the ordinary and usual course of business consistent with past practice and in amounts not material to the maker of such loan or advance;
- (d) pledge or otherwise encumber shares of capital stock of Telogy Networks or its subsidiaries; or
- (e) mortgage or pledge any of its material assets, tangible or intangible, or create or suffer to exist any material lien thereupon, other than permitted liens or as disclosed in the merger agreement;
- (7) (a) except as may be required by law or as contemplated by the merger agreement, enter into, adopt or amend or terminate any benefit plan, employee arrangement, stock appreciation right, restricted stock, performance unit, stock equivalent or stock purchase agreement for the benefit or welfare of any director, officer or employee in any manner;
- (b) except as set forth in the merger agreement or as required under existing agreements, increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date of the merger agreement, including, the granting of stock appreciation rights or performance units, or grant any completion bonuses or change of control payments in respect of the merger or that will be affected thereby; or
- (c) hire, promote, or change the classification or status in respect of any employee or individual;
- (8) acquire, sell, lease or dispose of any assets outside the ordinary and usual course of business consistent with past practice or any assets which in the aggregate are material to Telogy Networks and its subsidiaries taken as a whole, enter into any commitment or transaction outside the ordinary and usual course of business consistent with past practice or grant any exclusive distribution rights;
- (9) except as may be required as a result of a change in law or in generally accepted accounting principles, change any of the accounting principles or practices used by it;
- (10) revalue in any material respect any of its assets, including, writing down the value of inventory or writing-off notes or accounts receivable other than in the ordinary and usual course of business consistent with past practice or as required by generally accepted accounting principles;
- (11) (a) acquire, by merger, consolidation or acquisition of stock or assets, any corporation, partnership or other business organization or division thereof or any equity interest therein;
- (b) enter into any material contract or agreement, other than in the ordinary and usual course of business consistent with past practice, or amend in any material respect any material contracts or agreements;

- (c) authorize any new capital expenditure or expenditures which, individually, is in excess of \$100,000 or, in the aggregate, are in excess of \$200,000; or
- (d) enter into or amend any contract, agreement, commitment or arrangement providing for the taking of any action that would be prohibited by the merger agreement;
- (12) make or revoke any tax election, or settle or compromise any tax liability, or change, or make a request to any taxing authority to change, any aspect of its method of accounting for tax purposes;
- (13) pay, discharge or satisfy any material claims, liabilities or obligations, absolute, accrued, asserted or unasserted, contingent or otherwise, in excess of \$100,000 individually or \$200,000 in the aggregate, or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which Telogy Networks or any of its subsidiaries is a party;
- (14) settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated hereby;
- (15) take any action that would prevent or impede the merger from qualifying as a pooling of interests under APB 16 and the applicable SEC rules and regulations or as a reorganization under Section 368 of the Code;
- (16) enter into any agreement or arrangement that limits or otherwise restricts Telogy Networks or any of its subsidiaries or any successor thereto or that could, after the effective time, limit or restrict the surviving corporation and its affiliates, including Texas Instruments, or any successor thereto, from engaging or competing in any line of business or in any geographic area;
- (17) fail to comply in any material respect with any law applicable to Telogy Networks, its subsidiaries or their respective assets which would result in a material adverse effect on Telogy Networks;
- (18) enter into any direct or indirect arrangements for financial subsidies;
- (19) effect a "mass layoff" or "plant closing;"
- (20) enter into any contract with an officer, director, employee, agent, or other similar representative of Telogy Networks or any of its subsidiaries that is not terminable, without penalty or other liability, upon not more than 60 calendar days' notice, other than standard confidentiality and inventions agreements;
- (21) enter into any contract, agreement or arrangement to port software to any digital signal processor of any vendor other than Texas Instruments or its subsidiaries; or
- (22) take, propose to take, or agree in writing or otherwise to take, any of the foregoing actions or any action which would make any of the representations or warranties of Telogy Networks contained in the merger agreement untrue, incomplete or incorrect.

CONDITIONS TO THE MERGER

- The respective obligations of TNI Acquisition, Texas Instruments and Telogy Networks to consummate the merger are subject to the satisfaction or waiver of certain conditions, including that:

- (1) the merger agreement shall have been approved and adopted by the stockholders of Telogy Networks;

- (2) any waiting periods applicable to the merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall have expired or early termination of the waiting periods shall have been granted without limitation, restriction or condition;
 - (3) there shall not be in effect any law of any governmental entity of competent jurisdiction restraining, enjoining or otherwise preventing consummation of the transactions contemplated by the merger agreement;
 - (4) the registration statement filed by Texas Instruments in connection with the registration under the Securities Act of shares of Texas Instruments common stock to be issued in the merger shall have been declared effective by the SEC and shall be effective at the effective time, and no stop order suspending effectiveness shall have been issued, no action, suit, proceeding or investigation by the SEC to suspend its effectiveness shall have been initiated and be continuing, and all necessary approvals under state securities laws or the Securities Act or Exchange Act relating to the issuance or trading of Texas Instruments' common stock shall have been received;
 - (5) the Texas Instruments common stock required to be issued under the merger agreement shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance; and
 - (6) Telogy Networks shall have received and delivered to Texas Instruments a letter from KPMG LLP dated as of the date the registration statement is declared effective and dated as of the closing date of the merger agreement, stating that the accounting of the merger as a pooling of interests under APB 16 and the applicable SEC rules and regulations is appropriate if the merger is consummated as contemplated by the merger agreement. Texas Instruments shall have received and delivered to Telogy Networks a letter from Ernst & Young LLP, dated as of the date the registration statement is declared effective and dated as of the closing date of the merger agreement, stating that accounting of the merger as a pooling of interests under APB 16 and the applicable SEC rules and regulations is appropriate if the merger is consummated as contemplated by the merger agreement.
- The obligations of Texas Instruments and TNI Acquisition to effect the merger are further subject to satisfaction of the following conditions:
- (1) the representations and warranties of Telogy Networks contained in the merger agreement, to the extent qualified by materiality or material adverse effect, shall, taken as a whole, have been true and, to the extent not qualified by materiality or material adverse effect, shall, taken as a whole, have been true in all material respects, in each case when made and on and as of the closing date of the merger agreement as though made on and as of the closing date, except for representations and warranties made as of a specified date, which need be true, or true in all material respects, as the case may be, only as of the specified date;
 - (2) Telogy Networks shall have performed or complied in all material respects with all agreements and conditions contained in the merger agreement required to be performed or complied with by it prior to or at the time of the closing;
 - (3) Telogy Networks shall have delivered to Texas Instruments a certificate, dated the date of the closing, signed by the President or any Vice President of Telogy Networks, but without personal liability thereto, certifying as to the fulfillment of the conditions specified in (1) and (2) above;
 - (4) Texas Instruments shall have received an opinion of Weil, Gotshal & Manges LLP, dated as of the effective time, based on the representations of Texas Instruments and Telogy Networks to the effect that:
 - (a) the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code;

- (b) each of Texas Instruments, TNI Acquisition and Tology Networks will be a party to the reorganization within the meaning of Section 368(b) of the Code; and
 - (c) no gain or loss will be recognized by Tology Networks, Texas Instruments or TNI Acquisition as a result of the merger;
- (5) all authorizations, consents or approvals of a governmental entity required in connection with the execution, delivery and performance of the merger agreement shall have been made or obtained, without any limitation, restriction or condition that has or could reasonably be expected to have, individually or in the aggregate, a material adverse effect on Tology Networks, or an effect on Texas Instruments and its subsidiaries that, were such effect applied to Tology Networks and its subsidiaries, could have or could reasonably be expected to have, individually or in the aggregate, a material adverse effect on Tology Networks, except for such authorizations, consents or approvals, the failure of which to have been made or obtained does not and could not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Tology Networks, or an effect on Texas Instruments and its subsidiaries that, were such effect applied to Tology Networks and its subsidiaries, has or could reasonably be expected to have, individually or in the aggregate, a material adverse effect on Tology Networks;
 - (6) Tology Networks shall have obtained the consent or approval of each person whose consent or approval shall be required under any material contract, real property lease or other obligation specifically identified in the merger agreement;
 - (7) prior to the date of Tology Networks' stockholder meeting, Texas Instruments shall have received from Tology Networks' "affiliates" an affiliate letter;
 - (8) holders of no more than that number of shares of Tology Networks capital stock that, when taken together with all other relevant factors, could reasonably be expected to impair or compromise "pooling of interests" treatment, shall have exercised and not withdrawn, forfeited or otherwise permitted to lapse appraisal, dissenters' or similar rights under applicable law with respect to their shares in connection with the merger; and
 - (9) all outstanding shares of Tology Networks preferred stock shall have been converted into shares of Tology Networks common stock.
- The obligations of Tology Networks to effect the merger are further subject to the following conditions:
- (1) the representations and warranties of Texas Instruments and TNI Acquisition contained in the merger agreement, to the extent qualified by materiality or material adverse effect, shall, taken as a whole, have been true and, to the extent not qualified by materiality or material adverse effect, shall, taken as a whole, have been true in all material respects, in each case when made and on and as of the closing date as though made on and as of the closing date, except for representations and warranties made as of a specified date, which need be true, or true in all material respects, as the case may be, only as of the specified date;
 - (2) Texas Instruments shall have performed or complied in all material respects with all agreements and conditions contained in the merger agreement required to be performed or complied with by it prior to or at the time of the closing;
 - (3) Texas Instruments shall have delivered to Tology Networks a certificate, dated the date of the closing, signed by the President or any Vice President of Texas Instruments, but without personal liability thereto, certifying as to the fulfillment of the conditions specified in (1) and (2) above; and

- (4) Telogy Networks shall have received an opinion of King & Spalding, dated the effective time, based on the representations of Texas Instruments and Telogy Networks to the effect that:
- (a) the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code;
 - (b) each of Texas Instruments, TNI Acquisition, and Telogy Networks will be a party to the reorganization within the meaning of Section 368(b) of the Code; and
 - (c) no gain or loss will be recognized by a stockholder of Telogy Networks as a result of the merger, except with respect to cash received in lieu of fractional shares.

ADDITIONAL COVENANTS

Each of Texas Instruments, TNI Acquisition and Telogy Networks have also agreed, among other things and subject to various conditions and exceptions, that:

- as soon as practicable following the date of the merger agreement, Texas Instruments and Telogy Networks will jointly prepare the proxy statement/prospectus in connection with the vote of the stockholders of Telogy Networks in respect of the merger and Texas Instruments will file with the SEC the registration statement in connection with the registration under the Securities Act of the shares of Texas Instruments common stock to be issued in connection with the merger;
- Telogy Networks will use its reasonable best efforts to cause to be delivered to Texas Instruments a letter of KPMG dated a date within two business days before the registration statement becomes effective stating that the merger may properly be accounted for as a pooling of interests and Texas Instruments will use its reasonable best efforts to cause to be delivered to Telogy Networks a letter of Ernst & Young LLP dated a date within two business days before the registration statement becomes effective stating that the merger may properly be accounted for as a pooling of interests;
- Telogy Networks will take all lawful action necessary to convene a meeting of its stockholders for the purpose of voting on the approval and adoption of the merger agreement and to solicit proxies from its stockholders to approve the merger, and will hold such stockholders' meeting as soon as practicable after the date of the merger agreement;
- each party will use its reasonable best efforts to take, or cause to be taken, all actions and do, or cause to be done, all things necessary, proper or advisable under applicable laws to consummate the merger; each party will use its reasonable best efforts to obtain all requisite approvals and authorizations for the merger, including, without limitation, those required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;
- subject to specified exceptions, each party will use its reasonable best efforts to resolve such objections, if any, as may be asserted by a governmental entity or other person in respect of the merger under any antitrust law;
- Telogy Networks will keep Texas Instruments informed of any litigation which may be brought against Telogy Networks or its directors relating to the merger and to consult with and obtain Texas Instruments' prior written consent before entering into any settlement or compromise of any such litigation;
- Telogy Networks will and will cause its respective subsidiaries to afford Texas Instruments and TNI Acquisition and their authorized representatives reasonable access at all reasonable times to all employees, plants, offices, warehouses and other facilities and to all books and records of Telogy Networks and its subsidiaries;
- Texas Instruments and TNI Acquisition will not, and will cause their authorized representatives not to, disclose any documents or information concerning Telogy Networks and its subsidiaries furnished to Texas Instruments or TNI Acquisition in connection with the merger;

- each party will consult with each of the others before issuing any press release or otherwise making any public statements in respect of the merger;
- each party will give prompt notice to the other of the occurrence of particular events;
- each party will deliver certificates regarding particular tax matters to counsel to Telogy Networks and counsel to TNI Acquisition and Texas Instruments;
- Texas Instruments and TNI Acquisition will do or cause to be done certain things related to employee matters, including, without limitation, to honor the obligations of Telogy Networks under the provisions of all employment, consulting, termination, severance, change of control and indemnification agreements between and among Telogy Networks or any of its subsidiaries and any current or former officer, director, consultant or employee of Telogy Networks or any of its subsidiaries;
- Telogy Networks will terminate its 401(k) plan and enter into employment agreements with key employees;
- Texas Instruments will use its reasonable best efforts to cause the shares of Texas Instruments common stock to be issued in connection with the merger to be listed on the New York Stock Exchange;
- each party will take all commercially reasonable actions necessary to consummate the merger and otherwise act to eliminate or minimize the effects of any takeover statute on the merger; and
- subject to specified exceptions, for 18 months following May 29, 1999, if the merger agreement is terminated for any reason, neither Texas Instruments nor any affiliate which it controls will, directly or indirectly, actively solicit or induce any employee of Telogy Networks to leave such employment and become an employee of Texas Instruments or its affiliates.

Telogy Networks has also further agreed not to, and not to permit its subsidiaries to, nor authorize or permit any officer, director or employee of or any investment banker, attorney or other advisor or representative of Telogy Networks or any of its subsidiaries to, directly or indirectly:

- solicit, initiate or encourage the submission of any Acquisition Proposal, as defined below; or
- participate in any discussions or negotiations regarding or furnish to any person any information in respect of, or take any other action to facilitate, any Acquisition Proposal or any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal.

Telogy Networks will notify Texas Instruments of any Acquisition Proposal as promptly as practicable. Telogy Networks also agreed to terminate any existing activities, discussions or negotiations with any parties conducted before the merger agreement in respect of any possible Acquisition Proposal.

Telogy Networks' board of directors will not withdraw or modify, or propose to withdraw or modify, in a manner adverse to Texas Instruments, its approval or recommendation of the merger agreement or the merger unless the Telogy Networks board of directors, after consultation with independent legal counsel, determines in good faith that such action is necessary to avoid a breach by the Telogy Networks board of directors of its fiduciary duties to Telogy Networks' stockholders under applicable law.

"Acquisition Proposal" is defined as an inquiry, offer or proposal regarding any of the following, other than the transactions contemplated by the merger agreement, involving Telogy Networks or any of its subsidiaries:

- any merger, consolidation, share exchange, recapitalization, business combination or other similar transaction;

- any sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all the assets of Telogy Networks and its subsidiaries, taken as a whole, in a single transaction or series of related transactions;
- any tender offer or exchange offer for 20% or more of the outstanding capital stock of Telogy Networks or the filing of a registration statement under the Securities Act in connection therewith; or
- any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

TERMINATION

The merger agreement may be terminated and the merger may be abandoned at any time prior to the time of the merger:

- by mutual written consent of Telogy Networks and Texas Instruments;
- by either Telogy Networks or Texas Instruments if:

(1) the merger is not consummated by August 31, 1999; provided, however, that if any condition to closing pertaining to stockholder approval, effectiveness of the registration statement, regulatory approvals, listing of Texas Instruments common stock on the New York Stock Exchange, or the accountant letters that remains reasonably capable of satisfaction has not been fulfilled or waived by August 31, 1999, the termination date will be extended to September 30, 1999, which date may be further extended based upon good faith negotiations of the parties, taking into consideration all relevant factors;

(2) the required approval of the stockholders of Telogy Networks has not been obtained;

(3) any law permanently restrains, enjoins or otherwise prohibits consummation of the merger.

- by Telogy Networks if there is a breach by Texas Instruments or TNI Acquisition of any representation, warranty, covenant or agreement contained in the merger agreement that cannot be cured and would cause certain closing conditions to be incapable of being satisfied; or
- by Texas Instruments if

(1) there is a breach by Telogy Networks of any representation, warranty, covenant or agreement contained in the merger agreement that cannot be cured and would cause certain closing conditions to be incapable of being satisfied or

(2) the condition regarding appraisal rights set forth in the merger agreement is not satisfied.

If the merger agreement is terminated:

- by Telogy Networks because the merger was not completed by the later of August 31, 1999, or any extended date as contemplated by the merger agreement or otherwise;
- by either party because the Telogy Networks stockholders do not approve the merger;
- by Texas Instruments because Telogy Networks breaches a material obligation under the merger agreement that is not cured; or
- by Texas Instruments if Telogy Networks stockholders exercise, and do not withdraw, appraisal rights with respect to a number of shares of Telogy Networks common stock that would prohibit the merger from being accounted for as a pooling of interests;

and Telogy Networks enters into an agreement with another party to acquire Telogy Networks within 12 months of the termination, then Telogy Networks must pay Texas Instruments a termination fee of

\$22,500,000. The possibility that a termination fee could be triggered may deter other potential acquirors from pursuing an acquisition of Telogy Networks.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Telogy Networks and Texas Instruments have agreed to indemnify the present and former directors and officers of Telogy Networks and its subsidiaries against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in connection with any claim based on or arising out of or pertaining to the fact that such person is or was a director or officer of Telogy Networks.

ESCROW FUND

At the time of the merger, 5% of the shares of Texas Instruments common stock to be delivered to Telogy Networks stockholders pursuant to the merger agreement will be put into an escrow fund. The escrow fund will be managed by Harris Trust and Savings Bank, as depositary agent. The escrow fund will be Texas Instruments' sole and exclusive remedy for any and all losses incurred or sustained by Texas Instruments as a result of any inaccuracy or breach by Telogy Networks of any provisions of the merger agreement. Texas Instruments may not make any claims against the escrow fund unless the aggregate losses incurred exceed \$100,000, at which time claims may be made for all losses in excess of that amount. To the extent not used to satisfy claims of Texas Instruments, the escrow fund will be paid to Telogy Networks' stockholders one year from the date of consummation of the merger, unless this date is extended while claims made by Texas Instruments are pending. Telogy Networks' stockholders will be entitled to receive dividends on and vote the escrowed shares at Texas Instruments stockholders' meetings while the shares are being held in escrow. John Puente and John Nehra have each been appointed as stockholder agent under the escrow fund, and each of them shall individually have authority to act for Telogy Networks' stockholders with respect to the escrow fund.

AMENDMENT

Subject to the applicable provisions of the DGCL, the merger agreement may be amended in writing at any time before or after approval of the merger by Telogy Networks' stockholders but, after any such approval, no amendment may be made which reduces the merger consideration without additional stockholder approval.

EXTENSION AND WAIVER

At any time before the time of the merger, each party to the merger agreement may extend the time for performance of any obligation or act of another party, waive any inaccuracies in the representations and warranties or waive non-compliance or non-satisfaction by the other party with any of the agreements or conditions contained in the merger agreement.

VOTING AGREEMENT

The following description of certain terms of the voting agreement is only a summary of the material provisions of the described agreement and does not purport to be complete. The form of the voting agreement is attached to this proxy statement/prospectus as Annex B.

VOTING AND PROXIES

In order to induce Texas Instruments to enter into the merger agreement, certain of Telogy Networks' stockholders, including officers and directors, entered into the voting agreement with Texas Instruments on May 29, 1999. Those stockholders who signed the voting agreement have agreed to vote an aggregate of 4,361,677 shares of Telogy Networks capital stock, representing approximately 63.3% of the total outstanding voting power as of May 29, 1999, in favor of the merger and the merger agreement. As of May 29, 1999, officers and directors of Telogy Networks owned and held the power to vote 3,242,259 shares of Telogy Networks capital stock, representing approximately 47.1% of the total voting power of Telogy Networks.

The stockholders who signed the voting agreement have also agreed to vote an aggregate of 2,139,145 shares of Telogy Networks Series A preferred stock, representing approximately 86.7% of the total outstanding Series A preferred stock as of May 29, 1999, in favor of the merger, the merger agreement and the conversion of all outstanding shares of Telogy Networks Series A preferred stock into common stock. The holder of the Telogy Networks Series B preferred stock who signed the voting agreement also agreed to vote all outstanding shares of Series B preferred stock in favor of the merger, the merger agreement and the conversion of all outstanding shares of Series B preferred stock into common stock.

PROHIBITED ACTIONS

Each stockholder party to the voting agreement also agreed not to enter into any voting agreement or grant a proxy or power of attorney with respect to Telogy Networks capital stock in any manner inconsistent with that stockholder's obligations under the voting agreement or take any other action that is inconsistent with the obligations of the stockholder under the voting agreement, including any action that would prevent or materially delay the consummation of the merger.

OTHER PROVISIONS

The voting agreement also contains provisions relating to, among other things, representations and warranties by the parties and specific performance of the voting agreement. The voting agreement terminates upon the earlier to occur of:

- the time of the merger;
- 90 days after:
 - (1) termination of the merger agreement by Texas Instruments because Telogy Networks breaches a covenant or agreement that cannot be cured; or
 - (2) termination by Texas Instruments because Telogy Networks stockholders exercise and have not withdrawn their appraisal rights to the extent that the merger cannot be accounted for as a pooling of interests; and
- the termination of the merger agreement for any other reason in accordance with its terms.

BUSINESS OF TEXAS INSTRUMENTS

Texas Instruments is a global semiconductor company and the world's leading designer and supplier of digital signal processors and analog integrated circuits, the engines driving the digitization of electronics. These two types of semiconductor products work together in digital electronic devices such as digital cellular phones. Analog technology converts analog signals like sound, light, temperature and pressure into the digital language of zeros and ones, which can then be processed in real-time by a digital signal processor. Analog integrated circuits also translate digital signals back to analog. Digital signal processors and analog integrated circuits enable a wide range of new products and features for Texas Instruments' more than 30,000 customers in commercial, industrial and consumer markets.

Texas Instruments also is a world leader in the design and manufacturing of other semiconductor products. Those products include standard logic, application-specific integrated circuits, reduced instruction-set computing microprocessors, and microcontrollers.

The semiconductor business comprised 80% of Texas Instruments' 1998 revenues when the divested memory business is excluded. Texas Instruments' semiconductor products are used in a diverse range of electronic systems, including digital cell phones, computers, printers, hard disk drives, modems, networking equipment, digital cameras and video recorders, motor controls, autos, and home appliances. Products are sold primarily to original-equipment manufacturers and through distributors. Texas Instruments' semiconductor patent portfolio has been established as an ongoing contributor to semiconductor revenues. Revenues generated from sales to Texas Instruments' top three semiconductor customers accounted for approximately 24% of total semiconductor revenues in 1998.

Texas Instruments' certificate of incorporation and bylaws provide for the indemnification of directors and officers in the event they become parties to legal proceedings arising in connection with their positions with Texas Instruments. The SEC has expressed its position that the indemnification of directors, officers and controlling person against liabilities arising under the Securities Act is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

All of the current directors and executive officers of Texas Instruments will be the directors and executive officers of Texas Instruments following the merger. For information regarding these directors and executive officers and executive compensation, see the sections of Texas Instruments' annual meeting proxy statement referenced below under "Incorporation by Reference to Other Documents."

INCORPORATION BY REFERENCE TO OTHER DOCUMENTS

As allowed by the rules of the SEC, this proxy statement/prospectus does not contain all of the information you can find in the registration statement or the exhibits to the registration statement. Specifically, the SEC allows Texas Instruments to "incorporate by reference" information into this proxy statement/prospectus, which means that Texas Instruments can disclose important information to you by referring you to another document filed separately by it with the SEC. The information incorporated in this proxy statement/prospectus by reference is deemed to be part of this proxy statement/prospectus, except for any information superseded by information that we include in this proxy statement/prospectus. This proxy statement/prospectus incorporates by reference the documents set forth below that have

previously been filed with the SEC. These documents contain important information about Texas Instruments and its finances.

DOCUMENT FILED

PERIOD OR DATE FILED

DOCUMENT FILED	PERIOD OR DATE FILED
Annual Report on Form 10-K for Fiscal Year ended December 31, 1998.....	Filed on February 22, 1999
Quarterly Report on Form 10-Q for three months ended March 31, 1999.....	Filed on April 28, 1999
Current Report on Form 8-K.....	Filed on May 24, 1999
Sections of Annual Meeting Proxy Statement on Schedule 14A under headings "Election of Directors," "Directors Compensation," "Executive Compensation" and "Compensation Committee Report on Executive Compensation".....	Filed on March 5, 1999

Texas Instruments is also incorporating by reference any additional documents that it may file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, between the date of this proxy statement/prospectus and the date of the special meeting of Telogy Networks stockholders.

WHERE YOU CAN FIND MORE INFORMATION ABOUT TEXAS INSTRUMENTS

Texas Instruments (File No. 1-3761) files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements and other information filed by Texas Instruments at the SEC's public reference room, at 450 Fifth Street, N.W., Washington, D.C., as well as at public reference rooms in New York, New York, and Chicago, Illinois. Please call (800) SEC-0330 for further information on the public reference rooms. Texas Instruments' filings are also available to the public from commercial document retrieval services and at the internet web site maintained by the SEC at <http://www.sec.gov>.

Texas Instruments has filed a registration statement on Form S-4 to register with the SEC the Texas Instruments common stock to be issued to stockholders of Telogy Networks in the merger. This proxy statement/prospectus is part of that registration statement and constitutes a prospectus of Texas Instruments in addition to being a proxy statement of Telogy Networks for its special meeting of stockholders.

Texas Instruments has supplied all information contained or incorporated by reference in this proxy statement/prospectus relating to Texas Instruments or TNI Acquisition and Telogy Networks has supplied all information relating to Telogy Networks.

BUSINESS OF TELOGY NETWORKS

Telogy Networks was founded in 1989, and specializes in providing embedded communications software to communications equipment manufacturers. By offering manufacturers a single source for integrated digital signal processor ("DSP") and microprocessor unit software, Telogy Networks enables networking and wireless equipment manufacturers to cut product-development risks, time and costs, moving them to market quickly with high quality, complete communications solutions.

In 1997, Telogy Networks began to focus on the fast-growing Internet Infrastructure industry, and into the faster growing Embedded Communications Software market. These markets are being driven by the convergence of voice, fax, data and video networks that provide increased efficiency and enhanced applications. Telogy Networks focused on two award-winning products: Golden Gateway and ActiveAir. Golden Gateway is an embedded software product that enables communications equipment manufacturers to add real-time fax, voice, and data capabilities over Internet Protocol ("IP"), Frame Relay ("FR") and Asynchronous Transfer Mode ("ATM") networks. Golden Gateway has received widespread industry

recognition for its best-in-class voice quality, real-time fax capabilities, and growing, satisfied customer base. ActiveAir is embedded software for wireless communications standards.

Motorola acquired an exclusive license to ActiveAir in May 1997. As a result, Telogy Networks no longer actively markets ActiveAir. Telogy Networks receives annual licensing fees from Motorola, as detailed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations of Telogy Networks."

Telogy Networks' primary competition comes from two sources: in-house development and engineering staffs of our prospective customers, and small software companies, such as HotHaus, a Canadian-based embedded software provider, and AudioCodes, an Israeli-based chipset/board provider. While competition from these two firms has increased in 1998, Telogy Networks views this as a sign of a healthy, growing marketplace. Management believes that Telogy Networks retains its leadership position. Further, management believes Telogy Networks is the only company that provides a complete system solution with demonstrably superior sound quality, real-time fax, and post-sales technical-support services.

Telogy Networks sells its products in the United States and Canada through a direct, regionally dispersed sales force. Internationally, Telogy Networks distributes its products through both a direct sales force and Value Added Resellers ("VARs"). VAR channel managers are based in strategic territories to provide full support to VARs and their customers. Channel managers are teamed with field application engineers dedicated to assisting with field technical issues and to liaising with headquarters staff.

DESCRIPTION OF CAPITAL STOCK OF TEXAS INSTRUMENTS

GENERAL

The authorized capital stock of Texas Instruments consists of 1,200,000,000 shares of common stock, \$1.00 par value, and 10,000,000 shares of preferred stock, \$25.00 par value. As of March 31, 1999, there were issued 393,104,624 shares of common stock, of which 1,126,538 were treasury shares and 391,978,086 were outstanding, and Texas Instruments had no preferred stock issued or outstanding. The following summary of the terms of Texas Instruments' capital stock does not purport to be complete and is qualified in its entirety by reference to the applicable provisions of Delaware law and Texas Instruments' restated certificate of incorporation, as amended.

THE COMMON STOCK

The holders of shares of Texas Instruments common stock, subject to the preferential rights of the holders of any shares of preferred stock of Texas Instruments, are entitled to dividends when and as declared by the Texas Instruments board of directors. The holders of the Texas Instruments common stock have one vote per share on all matters submitted to a vote of the stockholders, and the right to the net assets of Texas Instruments in liquidation after payment of any amounts due to creditors and in respect of any preferred stock of Texas Instruments. Holders of shares of Texas Instruments common stock are not entitled as a matter of right to any preemptive or subscription rights and are not entitled to cumulative voting for directors. All outstanding shares of Texas Instruments common stock are, and the shares of Texas Instruments common stock issued hereunder upon any conversion or exchange of any debt securities or preferred stock providing for such conversion or exchange will be, fully paid and nonassessable.

The bylaws of Texas Instruments provide that the annual meeting of stockholders shall be held on the third Thursday in April each year or on such other date as may be fixed by the Texas Instruments board of directors and as stated in a written notice, which notice must be mailed or delivered to each stockholder at least 10 days prior to any stockholder meeting.

Texas Instruments is authorized to issue additional shares of common stock without further stockholder approval, except as may be required by applicable law or stock exchange regulations.

The transfer agent and registrar for Texas Instruments' common stock is Harris Trust and Savings Bank, 311 West Monroe Street, Chicago, Illinois 60690.

THE PREFERRED STOCK

Under the restated certificate of incorporation, Texas Instruments is authorized to issue up to 10,000,000 shares of preferred stock, in one or more series, with such designations and such relative voting, dividend, liquidation, conversion and other rights, preferences and limitations as are stated in the restated certificate of incorporation, or any certificate of designation establishing such series adopted by the Texas Instruments board of directors. The 10,000,000 authorized but unissued shares of preferred stock may be issued pursuant to resolution of the Texas Instruments board of directors without the vote of the holders of any capital stock of Texas Instruments.

THE RIGHTS PLAN

On June 18, 1998, the Texas Instruments board of directors declared a dividend of one preferred stock purchase right (a "Right") for each outstanding share of Texas Instruments common stock. The dividend was paid on June 30, 1998 (the "Record Date") to holders of record of Texas Instruments common stock as of the close of business on that date. The terms and conditions of the Rights are set forth in a Rights Agreement dated as of June 19, 1998 between Texas Instruments and Harris Trust and Savings Bank, as Rights Agent (as amended, the "Rights Agreement"). The Rights will expire on June 18, 2008, unless earlier exchanged or redeemed.

Prior to the Distribution Date (as defined below), the Rights will be evidenced by the certificates for and will be transferred with the Texas Instruments common stock, and the registered holders of the Texas Instruments common stock will be deemed to be the registered holders of the Rights. After the Distribution Date, the Rights Agent will mail separate certificates evidencing the Rights to each record holder of the common stock as of the close of business on the Distribution Date, and thereafter the Rights will be transferable separately from the common stock. The "Distribution Date" generally means the earlier of (1) the close of business on the 10th day after the date of the first public announcement that a person, other than Texas Instruments or any of its subsidiaries or any employee benefit plan of Texas Instruments or any such subsidiary, has acquired beneficial ownership of 20% or more of the outstanding shares of common stock (an "Acquiring Person") and (2) the close of business on the 10th business day, or such later day as may be designated by the Texas Instruments board of directors before any person has become an Acquiring Person, after the date of the commencement of a tender or exchange offer by any person which would, if consummated, result in such person becoming an Acquiring Person.

Prior to the Distribution Date, the Rights will not be exercisable to purchase Series B Participating Cumulative Preferred Stock (the "Series B Preferred Stock"). After the Distribution Date, each Right will be exercisable to purchase, for \$200 (the "Purchase Price"), one one-thousandth of a share of Series B Preferred Stock.

At any time after any person has become an Acquiring Person, but before the occurrence of any of the events described in the second succeeding sentence, each Right, other than Rights beneficially owned by the Acquiring Person and certain affiliated persons, will entitle the holder to purchase, for the Purchase Price, a number of shares of Texas Instruments common stock having a market value of twice the Purchase Price. At any time after any person has become an Acquiring Person, but before any person becomes the beneficial owner of 50% or more of the outstanding shares of Texas Instruments common stock or the occurrence of any of the events described in the next sentence, the Texas Instruments board of directors may exchange all or part of the Rights, other than Rights beneficially owned by an Acquiring Person and certain affiliated persons, for shares of Texas Instruments common stock at an exchange ratio of one share of Texas Instruments common stock per Right. If, after any person has become an Acquiring Person, (1) Texas Instruments is involved in a merger or other business combination in which Texas Instruments is not the surviving corporation or its common stock is exchanged for other securities or assets or (2) Texas Instruments and/or one or more of its subsidiaries sell or otherwise transfer assets or earning

power aggregating more than 50% of the assets or earning power of Texas Instruments and its subsidiaries, taken as a whole, then each Right, other than Rights beneficially owned by an Acquiring Person and certain affiliated persons, will entitle the holder to purchase, for the Purchase Price, a number of shares of common stock of the other party to such business combination or sale, or in certain circumstances, an affiliate, having a market value of twice the Purchase Price.

The Texas Instruments board of directors may redeem all of the Rights at a price of \$0.01 per Right at any time before any person has become an Acquiring Person. For so long as the Rights are redeemable, the Rights Agreement may be amended in any respect. At any time when the Rights are no longer redeemable, the Rights Agreement may be amended in any respect that does not adversely affect Rights holders, other than any Acquiring Person and certain affiliated persons, cause the Rights Agreement to become amendable other than as described in this sentence or cause the Rights again to become redeemable.

Rights holders have no rights as holders of Texas Instruments common stock, including the right to vote and to receive dividends.

The Rights Agreement includes antidilution provisions designed to prevent efforts to diminish the effectiveness of the Rights.

Each outstanding share of Texas Instruments common stock on the Record Date received one Right. Shares of common stock issued after the Record Date and prior to the Distribution Date will be issued with a Right attached so that all shares of Texas Instruments common stock outstanding prior to the Distribution Date will have Rights attached.

The Rights may have antitakeover effects. The Rights may cause substantial dilution to a person that attempts to acquire Texas Instruments without a condition to such an offer that a substantial number of the Rights be acquired or that the Rights be redeemed or declared invalid. The Rights should not interfere with any merger or other business combination approved by the Texas Instruments board of directors since the Rights may be redeemed by Texas Instruments as described above.

The foregoing description of the Rights Agreement is qualified in its entirety by reference to the full text of the Rights Agreement and Amendment No. 1 to the Rights Agreement, which are included as exhibits to documents filed with the SEC and incorporated by reference.

LEGAL MATTERS

The validity of the shares of Texas Instruments common stock to be issued in the merger will be passed upon and an opinion with respect to material United States federal income tax consequences of the merger will be rendered to Texas Instruments by Weil, Gotshal & Manges LLP, Dallas, Texas and New York, New York.

An opinion with respect to material United States federal income tax consequences of the merger on holders of shares of Telogy Networks common stock will be rendered to Telogy Networks by King & Spalding, Atlanta, Georgia.

INDEPENDENT AUDITORS

The financial statements and schedule of Texas Instruments Incorporated appearing in its annual report on Form 10-K for the year ended December 31, 1998, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and incorporated herein. The financial statements of Telogy Networks, Inc. as of December 31, 1998 and 1997 and for each of the years in the three-year period ended December 31, 1998, included in this proxy statement/prospectus have been audited by KPMG LLP, independent certified public accountants, as set forth in their report thereon included herein.

TELOGY NETWORKS, INC.
INDEX TO FINANCIAL STATEMENTS

	PAGE

Independent Auditors' Report.....	F-2
Balance Sheets as of December 31, 1998 and 1997.....	F-3
Statements of Operations for the years ended December 31, 1998, 1997 and 1996.....	F-4
Statements of Stockholders' Deficit for the years ended December 31, 1998, 1997 and 1996.....	F-5
Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.....	F-6
Notes to the Financial Statements.....	F-7
Condensed Consolidated Balance Sheets as of December 31, 1998 and March 31, 1999 (unaudited).....	F-17
Condensed Consolidated Statements of Operations for the three months ended March 31, 1999 and 1998 (unaudited)....	F-18
Statements of Cash Flows for the three months ended March 31, 1999 and 1998 (unaudited).....	F-19
Notes to Unaudited Condensed Consolidated Interim Financial Statements.....	F-20

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Telogy Networks, Inc.:

We have audited the accompanying balance sheets of Telogy Networks, Inc. (the "Company") as of December 31, 1998 and 1997, and the related statements of operations, stockholders' deficit and cash flows for each of the years in the three-year period ended December 31, 1998. 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 generally accepted auditing standards. 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 financial position of Telogy Networks, Inc. as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

McLean, VA
January 27, 1999, except for Note 17 which is as of May 29, 1999

TELOGY NETWORKS, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 1998 AND 1997

	1998	1997
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 12,672,210	\$ 6,785,796
Short term investments.....	5,311,217	--
Accounts receivable, net of allowance for doubtful accounts of \$232,810 and \$337,500.....	5,320,819	1,772,140
Unbilled revenue.....	233,183	856,575
Inventories.....	--	71,535
Prepaid expenses.....	159,519	82,553
	-----	-----
Total current assets.....	23,696,948	9,568,599
	-----	-----
Property and equipment, net.....	1,238,185	311,860
Long term investments.....	759,000	--
Other assets.....	58,929	29,175
	-----	-----
Total assets.....	\$ 25,753,062	\$ 9,909,634
	=====	=====
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Bank loan -- current portion.....	\$ 149,045	\$ --
Accounts payable.....	430,300	772,086
Accrued liabilities.....	2,417,146	2,413,015
Taxes payable.....	101,475	--
Deferred non-compete income -- current portion.....	800,000	--
Deferred revenue.....	618,583	734,751
	-----	-----
Total current liabilities.....	4,516,549	3,919,852
Long-term liabilities:		
Bank loan -- long term portion.....	850,955	--
Deferred non-compete income.....	2,704,180	--
	-----	-----
Total liabilities.....	8,071,684	3,919,852
Redeemable convertible preferred stock:		
Series A redeemable convertible preferred stock, \$0.01 par value; 10,000,000 shares authorized; 2,468,194 issued and outstanding at December 31, 1998 and 1997 (liquidation preference of \$12,312,659).....	18,104,128	12,312,659
Series B redeemable convertible preferred stock, \$0.01 par value; 850,000 shares authorized; 710,282 issued and outstanding at December 31, 1998 (liquidation preference of \$10,654,231).....	10,654,231	--
	-----	-----
Total redeemable convertible preferred stock.....	28,758,359	12,312,659
Stockholders' deficit:		
Common stock, \$0.01 par value; 15,000,000 shares authorized; 3,246,264 and 3,017,890 issued and outstanding.....	32,463	30,179
Additional paid-in capital.....	--	3,967,639
Accumulated deficit.....	(11,109,444)	(10,320,695)
	-----	-----
Total stockholders' deficit.....	(11,076,981)	(6,322,877)
	-----	-----
Commitments (Note 15).....	--	--
Total liabilities, redeemable convertible preferred stock and stockholders' deficit.....	\$ 25,753,062	\$ 9,909,634
	=====	=====

See accompanying notes to financial statements.

TELOGY NETWORKS, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
	-----	-----	-----
Net revenues.....	\$14,116,263	\$ 4,235,281	\$ 1,351,038
Cost of revenues.....	959,271	1,303,098	415,941
	-----	-----	-----
Gross profit.....	13,156,992	2,932,183	935,097
Operating expenses:			
Sales and marketing.....	5,229,363	3,719,099	1,276,958
Research and development.....	4,576,141	3,414,389	1,309,593
General and administrative.....	4,547,792	1,657,243	1,282,958
	-----	-----	-----
Total operating expenses.....	14,353,296	8,790,731	3,869,509
	-----	-----	-----
Operating loss.....	(1,196,304)	(5,858,548)	(2,934,412)
Interest income, net.....	868,290	288,633	54,688
Other income, net.....	537,721	--	--
	-----	-----	-----
Income (loss) before taxes and discontinued operations.....	209,707	(5,569,915)	(2,879,724)
Provisions for income taxes.....	104,595	--	--
	-----	-----	-----
Net income (loss) from continuing operations.....	105,112	(5,569,915)	(2,879,724)
Discontinued operations:			
Income (loss) from operations, net of income tax provisions of \$69,105 and \$164,000 in 1997 and 1996, respectively.....	--	(1,480,316)	1,251,171
Gain (loss) on disposition net of income tax provisions of \$15,405, \$0 and \$0.....	241,853	(1,335,968)	--
	-----	-----	-----
Total income (loss) from discontinued operations.....	241,853	(2,816,284)	1,251,171
	-----	-----	-----
Net income (loss).....	346,965	(8,386,199)	(1,628,553)
Preferred stock accretion.....	(5,791,469)	--	--
	-----	-----	-----
Net loss applicable to common stockholders.....	\$(5,444,504)	\$(8,386,199)	\$(1,628,553)
	=====	=====	=====
Basic and diluted net loss per common share from continuing operations.....	\$ (1.81)	\$ (1.86)	\$ (1.00)
Basic and diluted net loss per common share.....	(1.73)	(2.80)	(0.56)
Weighted average number of common and common equivalent shares outstanding during the year.....	3,149,321	2,995,673	2,886,931
	=====	=====	=====

See accompanying notes to financial statements.

TELOGY NETWORKS, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT			
Balance at December 31, 1995.....	2,515,445	\$25,154	\$ 2,335,741	\$ (305,943)	\$ 2,054,952
Proceeds from private placement of common stock.....	432,090	4,321	1,507,994		1,512,315
Proceeds from exercise of stock options.....	30,100	301	59,899		60,200
Net loss.....				(1,628,553)	(1,628,553)
Balance at December 31, 1996.....	2,977,635	29,776	3,903,634	(1,934,496)	1,998,914
Proceeds from exercise of stock options.....	40,255	403	64,005		64,408
Net loss.....				(8,386,199)	(8,386,199)
Balance at December 31, 1997.....	3,017,890	30,179	3,967,639	(10,320,695)	(6,322,877)
Proceeds from exercise of stock options.....	228,374	2,284	542,116		544,400
Non-cash compensation.....			146,000		146,000
Preferred stock accretion.....			(4,655,755)	(1,135,714)	(5,791,469)
Net income.....				346,965	346,965
Balance at December 31, 1998.....	3,246,264	\$32,463	\$ --	\$(11,109,444)	\$(11,076,981)

See accompanying notes to financial statements.

TELOGY NETWORKS, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss).....	\$ 346,965	\$(8,386,199)	\$(1,628,553)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization.....	336,775	1,268,404	316,155
Provision for deferred income taxes.....	--	--	60,000
Non-cash compensation expense.....	146,000	--	--
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable....	(3,548,679)	415,119	(741,218)
(Increase) decrease in unbilled revenue.....	623,392	(37,018)	(99,644)
Decrease in inventories.....	71,535	175,357	453,994
Increase in prepaid expenses.....	(76,966)	(41,694)	(26,028)
Decrease (increase) in other assets.....	(29,754)	164,969	(118,729)
Increase (decrease) in accounts payable.....	(341,786)	407,803	(24,657)
Increase in accrued liabilities.....	105,606	1,168,101	637,418
Increase in deferred non-compete income.....	3,504,180	--	--
(Decrease) increase in deferred revenue.....	(116,168)	(765,792)	567,381
	-----	-----	-----
Net cash provided by (used in) operating activities.....	1,021,100	(5,630,950)	(603,881)
	-----	-----	-----
Cash flows from investing activities:			
Purchases of short term investments.....	(6,026,218)	--	--
Purchases of long term investments.....	(762,344)	--	--
Sales of short term investments.....	715,001	--	--
Sales of long term investments.....	3,344	--	--
Purchases of property and equipment.....	(1,263,100)	(367,672)	(652,115)
	-----	-----	-----
Net cash used by investing activities.....	(7,333,317)	(367,672)	(652,115)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuance of common stock.....	544,400	64,408	1,572,515
Proceeds from issuance of Series A redeemable convertible preferred stock, net.....	--	12,312,659	--
Proceeds from issuance of Series B redeemable preferred stock, net.....	10,654,231	--	--
Proceeds from advances under equipment term note facility.....	1,000,000	--	--
	-----	-----	-----
Net cash provided by financing activities...	12,198,631	12,377,067	1,572,515
	-----	-----	-----
Net increase in cash and cash equivalents.....	5,886,414	6,378,445	316,519
Cash and cash equivalents at beginning of year.....	6,785,796	407,351	90,832
	-----	-----	-----
Cash and cash equivalents at end of year.....	\$12,672,210	\$ 6,785,796	\$ 407,351
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid for interest during the year.....	\$ --	\$ 17,491	\$ 5,458
	=====	=====	=====

See accompanying notes to financial statements.

TELOGY NETWORKS, INC.

NOTES TO THE FINANCIAL STATEMENTS

(1) BUSINESS

Telogy Networks, Inc. ("Telogy Networks") is a software company that provides embedded communications software products to communications equipment manufacturers. Telogy Networks' products and services consist of embedded software products, customer training and post-sale support services. Telogy Networks' Golden Gateway voice, fax and data products are used by communications equipment manufacturers in switching, routing and cellular communications products to provide enhanced digital voice capabilities over a variety of digital transmission protocols. Telogy Networks' ActiveAir embedded software for wireless communication standards is exclusively licensed to Motorola, Inc. within a defined market.

Prior to Telogy Networks' adoption of the Plan described in Note 6, Telogy Networks' operations also included contract research and development and customized hardware development services.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Revenue Recognition

Telogy Networks recognizes software product revenues upon product shipment. Revenue from software licenses where the fee is not fixed or determinable is recognized as payments from customers become due. Revenue from the license with Motorola is recognized on this basis. Software maintenance revenues are recognized ratably over the term of the maintenance period. Consulting revenues are recognized as services are rendered. Revenues from certain other long-term, fixed-fee contracts are recognized using the percentage of completion method. Unbilled revenue in the balance sheet represents costs and estimated earnings in excess of billings on long-term contracts. Deferred revenue in the balance sheet represents billings in excess of costs and estimated earnings on long-term contracts. Losses to be incurred on contracts in progress are charged to cost of sales when such losses are estimated. Expected future product warranty expenses are recorded when product revenue is recognized.

Cash and Cash Equivalents

Telogy Networks considers short-term, highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Cash and cash equivalents include cash in banks and investments in overnight bank investment accounts and money market accounts. Telogy Networks considers highly liquid equity and debt securities with original maturities of greater than ninety days and less than one year to be short-term investments.

Investments

Investment securities at December 31, 1998 consist of U.S. Treasury and corporate debt securities. All of these investments are classified as available-for-sale securities and are recorded at fair value. Unrealized holding gains and losses, net of related tax effect, on available-for-sale securities, if any, are excluded from earnings and are reported as a separate component of other comprehensive income until realized.

Inventories

Inventories, consisting primarily of purchased parts, are stated at the lower of cost or market. Cost is determined using the average cost method.

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over estimated useful lives of two years for computers, software and equipment and seven years for furniture and fixtures. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed

Telogy Networks accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In 1997, Telogy Networks recorded a charge of approximately \$260,000, as a reduction in the net carrying value of computers, software and other assets. This charge is included in selling, general and administrative expense.

Research and Development

Research and development costs of new software products are expensed as incurred until technological feasibility has been established. Once technological feasibility is established, any additional costs are capitalized. No costs have been capitalized to date.

Earnings (Loss) Per Common Share

During 1997, Telogy Networks adopted the provisions of SFAS No. 128, "Earnings Per Share." The computations of basic income per share are based upon the weighted average number of common shares outstanding, while diluted income per share includes potentially dilutive securities. Potentially dilutive securities include convertible redeemable preferred stock, stock options and warrants.

Income Taxes

Income taxes are recognized using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock Option Plan

Prior to January 1, 1995, Telogy Networks accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1995, Telogy Networks adopted SFAS No. 123, "Accounting for Stock-based Compensation," which permits

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

entities to recognize as expense over the vesting period the fair value of all stock-based awards to employees on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB opinion No. 25 and provide pro forma net income disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. Telogy Networks has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from those estimates.

(3) INVESTMENTS

Telogy Networks' short term and long term investments consist of debt securities with original maturities of greater than ninety days. As of December 31, 1998, the aggregate fair value of the investments held by Telogy Networks totaled approximately \$6,070,000, which approximates cost. The weighted average yield-to-maturity on the investments held by Telogy Networks was 7.5%.

(4) PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 1998 and 1997 consist of the following:

	1998	1997
	-----	-----
Office furniture.....	\$ 241,000	\$ 216,000
Computers and equipment.....	877,000	1,906,000
Software.....	557,000	336,000
Leasehold improvements.....	60,000	121,000
	-----	-----
	1,735,000	2,579,000
	-----	-----
Less accumulated depreciation and amortization.....	(497,000)	(2,267,000)
	-----	-----
Property and equipment, net.....	\$1,238,000	\$ 312,000
	=====	=====

(5) RETIREMENT PLAN

Telogy Networks sponsors a 401(k) Retirement Plan ("the Savings Plan"), a defined contribution plan. Participation in the Savings Plan is available to all full-time employees who meet minimum service and eligibility requirements. Telogy Networks can elect to make matching contributions equal to 25% of the employee's elective deferrals up to 6% of an employee's salary. Telogy Networks matched 25% of elective deferrals up to 1.5%, 1% and 0% of employee salary in 1998, 1997 and 1996, respectively. Matching contributions for the years ended December 31, 1998, 1997 and 1996 totaled \$88,000, \$72,000, and \$0, respectively. Telogy Networks pays all administrative fees and other expenses of the plan.

(6) DISCONTINUED OPERATIONS

In July 1997, Telogy Networks adopted a plan to abandon its contract research and development (R&D) and customized hardware development services in order to focus solely on software product development and sales. Contract R&D and customized hardware development services operations are

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

therefore reflected as discontinued operations for all periods presented in Telogy Networks' statements of operations. Assets, liabilities, revenues and net operating loss from discontinued operations were as follows:

	1998 -----	1997 -----	1996 -----
Total assets.....	\$ --	\$ 2,350,000	\$3,926,000
Total liabilities.....	30,000	1,366,000	2,305,000
Revenue.....	1,136,000	6,022,000	9,456,000
Total income (loss) from discontinued operations.....	\$ 242,000 =====	\$(2,816,000) =====	\$1,251,000 =====

In 1998, Telogy Networks completed all but one of the contracts related to the discontinued operations. Net loss of \$5,000 has been accrued at December 31, 1998 for the remaining contract. In 1998, a net gain on disposal from discontinued operations resulted from a revision of the estimate made in 1997, including the reversal of accrued warranty costs of approximately \$193,000 and accrued restructuring expense of approximately \$156,000. In 1997, net loss on disposal of discontinued operations includes charges of approximately \$1,336,000 for severance and benefits for employees to be terminated, excess inventory and equipment, and other expenses.

(7) MATERIAL TRANSACTIONS

In April 1998, Telogy Networks signed a multi-year license agreement with Motorola the terms of which appointed Motorola as the exclusive licensor of Telogy Networks' ActiveAir wireless software product within certain wireless market segments. In exchange for its multi-year exclusive representation, Motorola guaranteed Telogy Networks minimum royalty payments of \$25,800,000, payable quarterly, over the four-year life of the agreement. At the agreement's expiration, Motorola can elect to purchase ActiveAir from Telogy Networks or continue to license it from Telogy Networks on terms to be negotiated at that time. Net revenues for the year ended December 31, 1998 includes \$8,000,000 associated with this agreement.

In addition, Telogy Networks sold Motorola certain assets incidental to its wireless product for \$5,000,000 and outsourced the continuing development of the ActiveAir product to Motorola. As a part of this asset purchase, Telogy Networks agreed not to compete with Motorola in the IS-136, IS-95 and GSM Air Interface Software product markets for a period of five years, but is free to use the intellectual property associated with this non-compete elsewhere. Of the total proceeds from the asset sale, approximately \$4,000,000 was received by Telogy Networks for its agreement not to compete, which was deferred at the time of the sale and is being amortized into other income over the term of the non-compete agreement. Income associated with the non-compete agreement totaled approximately \$523,000 in 1998 and is included in other income.

Subsequent to completing these two transactions, Telogy Networks entered into an agreement with Motorola whereby Telogy Networks sold Motorola 710,282 shares of newly-issued Series B Redeemable Convertible Preferred Stock. Telogy Networks received net proceeds of \$10,654,231 from the sale of these securities. The Series B Preferred securities carry with them certain rights and privileges, which are described in Note 11.

(8) LINE OF CREDIT

Telogy Networks had a \$4,000,000 line of credit agreement with a domestic bank, which expired as of February 16, 1999. There were no borrowings outstanding as of December 31, 1998. Borrowings available under the agreement are based on eligible amounts of accounts receivable, as defined. Outstanding borrowings bear interest at .75% above the prime lending rate. In addition, Telogy Networks is required to pay a commitment fee of 1/8 of 1% per annum on the total amount of the commitment.

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

(9) EQUIPMENT TERM NOTE

Telogy Networks has a \$1,000,000 line of credit available for the purchase of computer and other related equipment used in its business, of which \$1,000,000 was outstanding as of December 31, 1998. Interest only, payable at 1% above the prime lending rate, is due on any outstanding borrowings until May 5, 1999, at which time the unpaid principal amount outstanding as of that date converts to a term note payable in thirty-six monthly installments until maturity at April 5, 2002. On December 31, 1998, the interest rate on the equipment term note was 8.75%.

(10) STOCKHOLDERS' EQUITY

All stockholders have signed an agreement with Telogy Networks not to transfer any shares of capital stock or any options, warrants, or other rights to purchase shares of capital stock without first offering such shares to Telogy Networks, and upon failure of Telogy Networks to elect to purchase all of the shares, to offer such shares to other stockholders. This agreement terminates after certain conditions have been met, or after ten years from the effective date.

Telogy Networks' Series A preferred stock, Series B preferred stock and common stock vote as a single class. Common stock is entitled to one vote per share and preferred stock is entitled to one vote for each share of common stock into which it is convertible.

In March 1997, Telogy Networks issued 432,090 shares of common stock in a private placement transaction for approximately \$1,512,000, net of offering expenses.

(11) REDEEMABLE CONVERTIBLE PREFERRED STOCK

In April 1998, Telogy Networks issued 710,282 shares of Series B redeemable convertible preferred stock for approximately \$10,654,000, net of issuance costs, in a private placement transaction with Motorola, Inc. The redeemable convertible preferred stock shall be entitled to receive dividends, payable when and if declared by the board of directors. Such dividends shall not be cumulative.

In May 1997, Telogy Networks issued 2,468,194 shares of Series A redeemable convertible preferred stock for approximately \$12,313,000, net of issuance costs, in a private placement transaction. The redeemable convertible preferred stock shall be entitled to receive dividends, payable when and if declared by the board of directors, and such dividends shall not be cumulative.

The redeemable convertible preferred stock will be redeemable in full, at the option of the holders, provided a request is made by not less than 67% of the preferred stockholders. Upon request by the preferred stockholders, Telogy Networks is required to redeem the preferred stock in two equal annual installments on the seventh and eighth anniversaries of the original issue date. Telogy Networks shall effect such redemption by paying in cash a sum equal to the greater of (1) fair market value per share determined by independent appraisers, or (2) original issue price per share plus declared and unpaid dividends. Therefore, Telogy Networks is accreting the carrying amount of the redeemable convertible preferred stock to its estimated fair value over the period to the redemption dates. At December 31, 1998 the estimated fair value of the Series A redeemable convertible preferred stock and Series B redeemable convertible preferred stock was approximately \$35,400,000 and \$10,654,231, respectively. The amount accreted through December 31, 1998 was approximately \$5,791,000.

Each share of the redeemable convertible preferred stock, at the option of the holder, may be converted at anytime, into an equal number of fully paid shares of common stock, subject to certain anti-dilution provisions. The redeemable convertible preferred stock is subject to automatic conversion if (1) there is affirmative election of the holders of at least 51 percent of the outstanding shares of the redeemable convertible preferred stock or (2) upon the closing of an underwritten public offering.

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

(12) STOCK OPTIONS

Telogy Networks has adopted a stock option plan that provides for the granting to employees and officers stock options to purchase up to 2,936,287 shares of Telogy Networks' common stock. Options granted under the plan can be incentive stock options or non-qualified stock options at the discretion of the board of directors. Option exercise prices are required to be the fair market value of Telogy Networks' common stock as determined by the board of directors at the date of grant (110% of the fair market value for options granted to holders of more than 10% of Telogy Networks' common stock), except that the board of directors may fix the option price of an option not intended to be an incentive stock option at a price that is less than fair market value. Options have a term of up to ten years (up to five years for incentive stock options for holders of more than 10% of Telogy Networks' common stock) and may be exercisable in whole or in part at any time as the board of directors shall determine and set forth in each individual option agreement.

During 1996, Telogy Networks adopted the 1996 Directors Stock Option Plan that provides for the granting to the members of the board of directors stock options to purchase up to 360,000 shares of Telogy Networks' common stock. Upon initially becoming a director, an individual shall be granted an option to purchase 25,000 shares of Telogy Networks' common stock and shall be granted additional options to purchase 25,000 shares upon completion of six consecutive one-year terms following the initial term in which the director was granted the original options. Options granted under the Plan are non-qualified stock options, granted at the fair market value for Telogy Networks' common stock as determined by the board of directors at the date of grant. Options have a term of up to ten years and are exercisable at the rate of 20% per year, for options granted before December 31, 1996 and 25% thereafter.

During 1995, Telogy Networks granted 110,000 stock options to members of the board of directors and other advisors not subject to a plan. These options were non-qualified stock options granted at an exercise price equal to fair market value, having terms from eight to ten years, and are exercisable from three to five years as set forth in each individual option agreement. In February 1997, vesting of 75,000 of these options was accelerated and the options became immediately exercisable.

In July 1997, Telogy Networks determined that the fair market value of Telogy Networks' common stock was \$2.50 per share. All stock options with an exercise price greater than \$2.50 per share were repriced to \$2.50 per share.

Telogy Networks applies APB Opinion No. 25 in accounting for its Plan. Had Telogy Networks determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, Telogy Networks' net income (loss) for the years ended December 31, 1998, 1997 and 1996 would have been approximately \$315,000, (\$7,941,000), and (\$1,754,000), respectively.

The per share weighted-average fair value of stock options granted during 1998, 1997, and 1996 were \$.86, \$1.31 and \$.72, respectively, on the date of grant using the minimum value method with the following weighted-average assumptions:

	1998	1997	1996
	-----	-----	-----
Expected dividend yield.....	0%	0%	0%
Risk-free interest rate.....	5.00%	6.13%	6.99%
Expected life.....	7 years	7 years	7 years

Pro forma net loss reflects only options granted after December 31, 1994. Therefore, the full impact of calculating compensation cost for stock options under FSAS No. 123 is not reflected in pro forma net income amounts presented above because compensation cost for options granted prior to January 1, 1995 is not considered.

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

Changes in options are as follows:

	WEIGHTED AVE. EXERCISE PRICE	NUMBER OF SHARES
	-----	-----
December 31, 1995.....	1.97	944,757
Granted.....	4.25	500,900
Exercised.....	2.00	(30,100)
Canceled.....	2.19	(94,300)
	-----	-----
December 31, 1996.....	2.82	1,321,257
Granted.....	2.50	647,950
Exercised.....	1.60	(40,255)
Canceled.....	3.00	(127,765)
	-----	-----
December 31, 1997.....	\$2.28	1,801,187
Granted.....	2.79	838,650
Exercised.....	2.38	(227,974)
Canceled.....	2.56	(200,168)
	-----	-----
December 31, 1998.....	\$2.48	2,211,695

The following table summarizes information about outstanding and exercisable options at December 31, 1998:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACT LIFE	NUMBER EXERCISABLE
-----	-----	-----	-----
\$1.00-\$2.00.....	769,845	4.90	769,845
\$2.50-\$3.00.....	1,441,850	8.87	279,094
	-----	-----	-----
Total.....	2,211,695	7.75	1,048,939
	=====	=====	=====

At December 31, 1998, Tology Networks has reserved 145,103 shares for issuance of options exercisable into Tology Networks' common stock.

(13) BASIC AND DILUTED EARNINGS PER SHARE

The following tables present the computations of basic and diluted earnings per share as defined under SFAS No. 128:

	FOR THE YEAR ENDED DECEMBER 31, 1996		
	INCOME (LOSS) (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
Net loss from continuing operations.....	\$(2,879,724)	2,886,931	\$(1.00)
Net loss.....	\$(1,628,553)	2,886,931	\$(0.56)
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

Options to purchase 1,321,257 shares of common stock were not included in the computation of diluted earnings per share for the year ended December 31, 1996 as their inclusion would be anti-dilutive.

	FOR THE YEAR ENDED DECEMBER 31, 1997		
	INCOME (LOSS) (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Net loss from continuing operations.....	\$(5,569,915)	2,995,673	\$(1.86)
Net loss.....	\$(8,386,199)	2,995,673	\$(2.80)
	=====	=====	=====

Options to purchase 1,801,187 shares of common stock and Series A redeemable preferred stock convertible into 2,468,194 shares of common stock were not included in the computation of diluted earnings per share for the year ended December 31, 1997, as their inclusion would be anti-dilutive.

	FOR THE YEAR ENDED DECEMBER 31, 1998		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Net income from continuing operations.....	\$ 105,112		
Preferred stock accretion.....	(5,791,469)		
Net loss from continuing operations attributable to common stockholders.....	(5,686,357)	3,149,321	\$(1.81)
Net income (loss) per common share:			
Net income.....	346,965		\$
Preferred stock accretion.....	(5,791,469)		
Net loss applicable to common stockholders.....	\$(5,444,504)	3,149,321	\$(1.73)
			=====

Options to purchase 2,211,695 shares of common stock and redeemable preferred stock convertible into 3,178,476 shares of common stock were not included in the computation of diluted earnings per share for the year ended December 31, 1998, as their inclusion would be anti-dilutive.

(14) INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31:

	1998	1997	1996
	-----	-----	-----
Current:			
Federal.....	\$102,000	--	--
Foreign.....	18,000	69,000	104,000
State.....	--	--	--
	-----	-----	-----
	120,000	69,000	104,000
Deferred:			
Federal.....	--	--	60,000
State.....	--	--	--
	-----	-----	-----
Total provision for income taxes.....	\$120,000	69,000	164,000
	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

The provision for income tax included in the statement of operations is as follows:

	1998	1997	1996
Continuing operations.....	105,000	--	--
Discontinued operations.....	15,000	69,000	164,000
Total provision for income taxes....	120,000	69,000	164,000

The provision for income taxes differs from the amount of income tax determined by applying the statutory Federal income tax rate to income before provisions for income tax as a result of the following:

	AMOUNT		
	1998	1997	1996
Computed tax at statutory rate.....	\$ 71,000	\$ --	\$ --
Other.....	16,000	--	--
Foreign tax.....	18,000	--	--
	\$ 105,000	\$ --	\$ --

The tax effects of temporary differences that give rise to significant portions of the net deferred tax asset and liability at December 31, 1998, 1997, and 1996 are presented below:

	1998	1997	1996
Deferred tax asset:			
Accrued expenses.....	\$ 1,623,438	\$ 835,086	\$ 246,635
Net operating loss carryforwards.....	2,801,153	3,524,799	1,319,462
Research credit carryforwards.....	241,311	191,311	156,749
Foreign credit carryforwards.....	213,540	195,105	126,000
Alternative minimum tax credit carryforwards.....	101,565	--	--
Gross deferred tax asset.....	4,981,007	4,746,301	1,848,846
Valuation allowance.....	(4,804,975)	(4,634,975)	(1,709,952)
Net deferred tax asset.....	176,032	111,326	138,894
Deferred tax liability:			
Property and equipment, principally due to differences in depreciation methods.....	(114,420)	(79,130)	(75,633)
Other.....	(61,612)	(32,196)	(63,261)
Gross deferred tax liability.....	(176,032)	(111,326)	(138,894)
Net deferred tax asset.....	\$ --	\$ --	\$ --

Of the approximately \$2,801,000 in deferred tax assets related to net operating loss carryforwards, at December 31, 1998, approximately \$378,000 is due to tax deductions for restricted stock vesting and employee exercises of non-qualified stock options which are not expensed for financial reporting purposes. When these tax benefits are realized, additional paid-in capital will be credited.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible and credit carryforwards are available. Management considers scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning

NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

strategies which can be implemented by Telogy Networks in making this assessment. Based upon the level of historical taxable income, scheduled reversal of deferred tax liabilities, and projections for future taxable income over the periods in which the temporary differences are deductible and tax credits are available to reduce taxes payable, Telogy Networks has established a valuation allowance of approximately \$5,271,000 as of December 31, 1998. The net change in the valuation allowances for the years ended December 31, 1998, 1997 and 1996 was approximately \$636,000, \$2,925,000, and \$795,000, respectively. The foreign tax credit carryforwards expire in various amounts through the year ending December 31, 2008. The research credit carryforwards expire in various amounts through the year ending December 31, 2018. Telogy Networks' net operating loss carryforwards of approximately \$2,945,000 expire in various amounts in the years ending December 31, 2007 through 2017. Further, as a result of certain capital transactions there is an annual limitation on the future utilization of the operating loss.

(15) COMMITMENTS

Telogy Networks leases approximately 34,000 square feet of office space under an operating lease, which expires in December 2001. Rent expense for the years ended December 31, 1998, 1997 and 1996 was approximately \$483,000, \$530,000, and \$286,000, respectively. In May 1998, Telogy Networks sublet 10,413 square feet at its headquarters facility to Motorola, Inc. Annual payments to Telogy Networks under the sub-lease agreement total approximately \$166,000.

The minimum future lease obligations, net of sub-lease income, under this agreement as of December 31, 1998 are approximately as follows:

1999.....	\$ 426,000
2000.....	403,000
2001.....	465,000

	\$1,294,000
	=====

(16) SIGNIFICANT CUSTOMERS

Most of Telogy Networks' business activities are with large telecommunications companies. During 1998, three customers accounted for 77% of Telogy Networks' net revenue. Accounts receivable at December 31, 1998 includes approximately \$4,021,000 due from these customers.

(17) SUBSEQUENT EVENTS

On May 29, 1999, Telogy Networks' board of directors approved a merger agreement that would result in Telogy Networks being merged with and into TNI Acquisition Corp., a wholly owned subsidiary of Texas Instruments Incorporated. The merger is subject to the approval of Telogy Networks' stockholders.

TELOGY NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS

	AS OF MARCH 31, 1999	AS OF DECEMBER 31, 1998
	-----	-----
Current assets:		
Cash and cash equivalents.....	\$ 9,086,991	\$12,672,210
Short term investment.....	3,275,414	5,311,217
Accounts receivable, net.....	2,467,782	5,320,819
Unbilled revenue.....	503,806	233,183
Prepaid expenses.....	297,498	159,519
	-----	-----
Total current assets.....	15,631,491	23,696,948
Property and equipment, net.....	1,500,613	1,238,185
Long term investments.....	762,345	759,000
Patents.....	7,628,859	--
Other assets.....	54,414	58,929
	-----	-----
Total assets.....	\$ 25,577,722	\$25,753,062
	=====	=====

LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK
& STOCKHOLDERS' DEFICIT

Current liabilities:		
Bank loan -- current.....	\$ 149,045	\$ 149,045
Accounts payable.....	290,016	430,300
Accrued liabilities.....	1,905,331	2,417,146
Taxes payable.....	--	101,475
Deferred non-compete income.....	800,000	800,000
Deferred revenue.....	799,640	618,583
	-----	-----
Total current liabilities.....	3,944,032	4,516,549
Long term liabilities:		
Bank loan -- non-current.....	850,955	850,955
Deferred non-compete income -- current portion.....	2,504,180	2,704,180
	-----	-----
Total liabilities.....	7,299,167	8,071,684
Redeemable convertible preferred stock.....	36,341,343	28,758,359
Stockholders' deficit:		
Common stock.....	33,054	32,463
Additional paid-in capital.....	--	--
Accumulated deficit.....	(18,095,842)	(11,109,444)
	-----	-----
Total stockholders' deficit.....	(18,062,788)	(11,076,981)
	-----	-----
Total liabilities, redeemable convertible preferred stock and stockholders' deficit.....	\$ 25,577,722	\$25,753,062
	=====	=====

See accompanying notes to unaudited condensed consolidated interim financial statements.

TELOGY NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
Net revenues.....	\$ 4,419,134	\$ 788,306
Cost of revenues.....	423,804	188,362
Gross profit.....	3,995,330	599,944
Operating expenses:		
Sales and marketing.....	1,541,338	997,993
Research and development.....	1,306,486	1,238,738
General and administrative.....	1,153,936	1,074,077
Total operating expenses.....	4,001,760	3,310,808
Operating loss.....	(6,430)	(2,710,864)
Interest income, net.....	215,404	57,469
Other income, net.....	200,000	996
Net income (loss) from continuing operations.....	408,974	(2,652,399)
Loss from discontinued operations.....	--	(135,494)
Net income (loss).....	\$ 408,974	\$(2,787,893)
Preferred stock accretion.....	(7,582,984)	--
Net loss applicable to common stockholders.....	\$(7,174,010)	\$(2,787,893)
Net loss from continuing operations per common share, basic and diluted.....	\$ (2.21)	\$ (0.88)
Net loss per common share, basic and diluted.....	\$ (2.21)	\$ (0.92)
Weighted average common shares outstanding.....	3,247,406	3,019,740

See accompanying notes to unaudited condensed consolidated interim financial statements.

TELOGY NETWORKS, INC.
 STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
Cash flows from operating activities:		
Net income (loss).....	\$ 408,974	\$(2,787,892)
Depreciation and amortization.....	201,088	101,539
Accounts receivable.....	2,853,037	596,628
Non-cash compensation.....	64,000	--
Unbilled revenue.....	(270,623)	81,650
Inventories.....	--	71,535
Prepaid expenses and other assets, net.....	(133,464)	(39,791)
Accounts payable.....	(140,284)	(77,758)
Accrued liabilities.....	(613,290)	167,839
Non-compete.....	(200,000)	--
Deferred revenue.....	181,058	(10,151)
Net cash (used in) provided by operations.....	2,350,496	(1,896,401)
Cash flows from investing activities:		
Purchases of investments.....	(3,345)	--
Sales of investments.....	2,035,803	--
Capital expenditures.....	(8,092,373)	(140,926)
Net cash used in investing activities.....	(6,059,915)	(140,926)
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	124,200	14,899
Net cash provided by financing activities.....	124,200	14,899
Net decrease in cash.....	(3,585,219)	(2,022,428)
Cash at beginning of period.....	12,672,210	6,785,798
Cash at end of period.....	\$ 9,086,991	\$ 4,763,370
	=====	=====

See accompanying notes to unaudited condensed consolidated interim financial statements.

TELOGY NETWORKS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The condensed consolidated balance sheet of Tology Networks, Inc. as of March 31, 1999, the statements of operations for the three months ended March 31, 1999 and 1998, and the statements of cash flows for the three months ended March 31, 1999 and 1998 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows at March 31, 1999, and for all periods presented, have been made. Operating results for the three months ended March 31, 1999 are not necessarily indicative of the operating results for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and the related notes.

(2) SIGNIFICANT ACCOUNTING POLICIES

Investments

Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company's short- and long-term debt securities and marketable equity securities are accounted for at market value. The fair market value of short- and long-term investments is determined based on quoted market prices. The Company's marketable securities have been classified as available for sale and are recorded at current market value with an offsetting adjustment to stockholders' deficit. At March 31, 1999 and 1998, fair market value approximated amortized cost.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

(3) MATERIAL TRANSACTIONS

In April 1998, Tology Networks signed a multi-year license agreement with Motorola the terms of which appointed Motorola as the exclusive licensor of Tology Networks' ActiveAir wireless software product within certain wireless market segments. In exchange for its multi-year exclusive representation, Motorola guaranteed Tology Networks minimum royalty payments of \$25,800,000, payable quarterly, over the four-year life of the agreement. At the agreement's expiration, Motorola can elect to purchase ActiveAir from Tology Networks or continue to license it from Tology Networks on terms to be negotiated at that time. Net revenues for the three month period ended March 31, 1999 and 1998 included \$2,000,000 and \$0 associated with this agreement, respectively.

(4) SIGNIFICANT CUSTOMERS

Most of Tology Networks' business activities are with large telecommunications companies. During the three months ended March 31, 1999, three customers accounted for 88.5% of Tology Networks' net revenue. Accounts receivable at March 31, 1999 includes approximately \$848,000 due from these customers.

(5) BASIC AND DILUTED EARNINGS PER SHARE

The following table presents the computation of basic and diluted earnings per share as defined under SFAS No. 128:

	FOR THE THREE MONTHS ENDED MARCH 31, 1999		
	INCOME	SHARES	PER SHARE
	(NUMERATOR)	(DENOMINATOR)	AMOUNT
Net income from continuing operations.....	\$ 408,974		
Preferred stock accretion.....	(7,582,984)		

Net loss from continuing operations applicable to common stockholders.....	\$(7,174,010)	3,247,406	\$(2.21)
	=====	=====	=====
Net income.....	\$ 408,974		
Preferred stock accretion.....	(7,582,984)		

Net loss from continuing operations applicable to common stockholders.....	\$(7,174,010)	3,247,406	\$(2.21)

	FOR THE THREE MONTHS ENDED MARCH 31, 1998		
	INCOME	SHARES	PER SHARE
	(NUMERATOR)	(DENOMINATOR)	AMOUNT
Net income from continuing operations.....	\$(2,652,399)	3,019,740	\$(0.88)
	=====	=====	=====
Net income.....	\$(2,787,893)	3,019,740	\$(0.92)
	=====	=====	=====

Conversion of redeemable convertible preferred stock and options to purchase common stock options were not included in the computation of diluted earnings per share as their inclusion would be anti-dilutive.

AGREEMENT AND PLAN OF MERGER

DATED AS OF MAY 29, 1999

AMONG

TELOGY NETWORKS, INC.,

TEXAS INSTRUMENTS INCORPORATED

AND

TNI ACQUISITION CORP.

(WITHOUT EXHIBITS)

A-1

TABLE OF CONTENTS

	PAGE

ARTICLE I THE MERGER.....	A-9
SECTION 1.1 The Merger.....	A-9
SECTION 1.2 Effective Time.....	A-9
SECTION 1.3 Closing of the Merger.....	A-9
SECTION 1.4 Effects of the Merger.....	A-9
SECTION 1.5 Certificate of Incorporation and Bylaws.....	A-9
SECTION 1.6 Directors.....	A-9
SECTION 1.7 Officers.....	A-9
ARTICLE II CONVERSION OF SECURITIES.....	A-9
SECTION 2.1 Conversion of Shares.....	A-9
SECTION 2.2 Stock Options.....	A-10
SECTION 2.3 Exchange Fund.....	A-11
SECTION 2.4 Exchange Procedures.....	A-11
SECTION 2.5 Distributions with Respect to Unsurrendered Certificates....	A-12
SECTION 2.6 No Further Ownership Rights in Company Common Stock.....	A-12
SECTION 2.7 No Fractional Shares of Parent Common Stock.....	A-12
SECTION 2.8 Termination of Exchange Fund.....	A-12
SECTION 2.9 No Liability.....	A-12
SECTION 2.10 Investment of the Exchange Fund.....	A-13
SECTION 2.11 Lost Certificates.....	A-13
SECTION 2.12 Withholding Rights.....	A-13
SECTION 2.13 Stock Transfer Books.....	A-13
SECTION 2.14 Affiliates.....	A-13
SECTION 2.15 Appraisal Rights.....	A-13
ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY.....	A-14
SECTION 3.1 Organization and Qualification; Subsidiaries.....	A-14
SECTION 3.2 Capitalization of the Company and Its Subsidiaries.....	A-14
Authority Relative to This Agreement; Consents and	
SECTION 3.3 Approvals.....	A-15
SECTION 3.4 Financial Statements; Accounts Receivable.....	A-16
SECTION 3.5 No Undisclosed Liabilities.....	A-16
SECTION 3.6 Absence of Changes.....	A-16
SECTION 3.7 Information Supplied.....	A-17
SECTION 3.8 Consents and Approvals.....	A-18
SECTION 3.9 No Default.....	A-18
SECTION 3.10 Real Property.....	A-18
SECTION 3.11 Litigation.....	A-19
SECTION 3.12 Permits.....	A-19
SECTION 3.13 Employee Plans.....	A-19
SECTION 3.14 Labor Matters.....	A-21
SECTION 3.15 Environmental Matters.....	A-21
SECTION 3.16 Tax Matters.....	A-22
SECTION 3.17 Absence of Questionable Payments.....	A-24
SECTION 3.18 Material Contracts.....	A-24
SECTION 3.19 Insurance.....	A-25
SECTION 3.20 Subsidies.....	A-25
SECTION 3.21 Intellectual Property.....	A-25
SECTION 3.22 Software.....	A-26
SECTION 3.23 Year 2000.....	A-27
SECTION 3.24 Brokers.....	A-28

	PAGE

SECTION 3.25 Accounting Matters; Tax Treatment.....	A-28
SECTION 3.26 Product Liability; Recalls.....	A-28
SECTION 3.27 Customers, Suppliers and Vendors.....	A-29
SECTION 3.28 Takeover Statute.....	A-29
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB.....	A-29
SECTION 4.1 Organization.....	A-29
SECTION 4.2 Authority Relative to This Agreement.....	A-30
SECTION 4.3 SEC Reports; Financial Statements.....	A-30
SECTION 4.4 Information Supplied.....	A-30
SECTION 4.5 Consents and Approvals; No Violations.....	A-31
SECTION 4.6 No Prior Activities.....	A-31
SECTION 4.7 Brokers.....	A-31
SECTION 4.8 Accounting Matters; Tax Treatment.....	A-31
ARTICLE V COVENANTS RELATED TO CONDUCT OF BUSINESS.....	A-32
SECTION 5.1 Conduct of Business of the Company.....	A-32
SECTION 5.2 Access to Information.....	A-34
SECTION 5.3 Performance Reviews.....	A-34
ARTICLE VI ADDITIONAL AGREEMENTS.....	A-35
SECTION 6.1 Preparation of S-4 and the Proxy Statement.....	A-35
SECTION 6.2 Letters of Accountants.....	A-35
SECTION 6.3 Meeting.....	A-35
SECTION 6.4 Reasonable Best Efforts.....	A-35
SECTION 6.5 Acquisition Proposals.....	A-36
SECTION 6.6 Public Announcements.....	A-37
SECTION 6.7 Indemnification.....	A-37
SECTION 6.8 Notification of Certain Matters.....	A-38
SECTION 6.9 Tax-Free Reorganization Treatment.....	A-38
SECTION 6.10 Employee Matters.....	A-39
SECTION 6.11 Affiliate Letters.....	A-39
SECTION 6.12 SEC and Other Filings.....	A-39
SECTION 6.13 Fees and Expenses.....	A-39
SECTION 6.14 Obligations of Merger Sub.....	A-40
SECTION 6.15 Listing of Stock.....	A-40
SECTION 6.16 Antitakeover Statutes.....	A-40
SECTION 6.17 No Solicitation.....	A-40
ARTICLE VII CONDITIONS TO CONSUMMATION OF THE MERGER.....	A-40
SECTION 7.1 Merger.....	A-40
SECTION 7.2 Conditions to the Obligations of Parent and Merger Sub.....	A-41
SECTION 7.3 Conditions to the Obligations of the Company.....	A-42
ARTICLE VIII SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS; ESCROW PROVISIONS.....	A-42
SECTION 8.1 Survival of Representations, Warranties, Covenants and Agreements.....	A-42
SECTION 8.2 Escrow Provisions.....	A-43
SECTION 8.3 Stockholder Agent of the Stockholders; Power of Attorney....	A-45
SECTION 8.4 Third-Party Claims.....	A-45
SECTION 8.5 Depositary Agent's Duties.....	A-46
ARTICLE IX TERMINATION; AMENDMENT; WAIVER.....	A-47
SECTION 9.1 Termination by Mutual Agreement.....	A-47
SECTION 9.2 Termination by Either Parent or the Company.....	A-47
SECTION 9.3 Termination by the Company.....	A-48

	PAGE

SECTION 9.4 Termination by Parent.....	A-48
SECTION 9.5 Effect of Termination and Abandonment.....	A-48
SECTION 9.6 Amendment.....	A-49
SECTION 9.7 Extension; Waiver.....	A-49
ARTICLE X MISCELLANEOUS.....	A-49
SECTION 10.1 Entire Agreement; Assignment.....	A-49
SECTION 10.2 Notices.....	A-49
SECTION 10.3 Governing Law.....	A-50
SECTION 10.4 Descriptive Headings.....	A-50
SECTION 10.5 Parties in Interest.....	A-51
SECTION 10.6 Severability.....	A-51
SECTION 10.7 Specific Performance.....	A-51
SECTION 10.8 Counterparts.....	A-51
SECTION 10.9 Interpretation.....	A-51
SECTION 10.10 Definitions.....	A-52

GLOSSARY OF DEFINED TERMS

DEFINED TERMS

DEFINED IN SECTION

-----	-----
Acquisition Proposal.....	6.5(a)
Antitrust Law.....	6.4(b)
Assumed Stock Option.....	2.2
Average Parent Stock Price.....	2.1(b)
beneficial ownership.....	10.10(a)
beneficially own.....	10.10(a)
Benefit Plans.....	3.13(a)(i)
Certificate of Merger.....	1.2
Certificates.....	2.4
Closing.....	1.3
Closing Date.....	1.3
Code.....	Recitals
Company.....	Preamble
Company Affiliate Agreements.....	Recitals
Company Board.....	3.3(b)
Company Capital Stock.....	10.10(b)
Company Common Stock.....	2.1(b)
Company Disclosure Schedule.....	Article III
Company Option Plans.....	2.2
Company Permits.....	3.12
Company Requisite Vote.....	3.3(b)
Company Securities.....	3.2(a)
Company Stock Option.....	2.2
Company Stockholder Meeting.....	6.3
Confidentiality Agreement.....	5.2(c)
Defect.....	3.26(b)
Depository Agent.....	8.2(a)
DGCL.....	1.1
Dissenting Shares.....	2.15
Dissenting Stockholders.....	2.15
DOJ.....	6.4(b)
Effective Time.....	1.2
Employee Arrangements.....	3.13(b)
Environmental Costs and Liabilities.....	3.15(a)(i)
Environmental Law.....	3.15(a)(ii)
ERISA.....	3.13(a)(i)
Escrow Amount.....	8.2(a)
Escrow Fund.....	8.2(a)
Escrow Period.....	8.2(c)
Exchange Act.....	2.2
Exchange Agent.....	2.3
Exchange Fund.....	2.3
Exchange Ratio.....	2.1(b)
Expenses.....	6.13
Expiration Date.....	8.1
Financial Statements.....	3.4(a)
FTC.....	6.4(b)
GAAP.....	3.4(a)
Governmental Entity.....	3.8

DEFINED TERMS

Hazardous Material.....
 HSR Act.....
 Indemnified Liabilities.....
 Indemnified Parties.....
 Intellectual Property.....
 Interim Balance Sheet.....
 IRS.....
 know.....
 knowledge.....
 Law.....
 Lien.....
 Losses.....
 Material Adverse Effect.....
 Material Contracts.....
 Merger.....
 Merger Sub.....
 New Shares.....
 Notices.....
 NYSE.....
 Officer's Certificate.....
 Outstanding Shares.....
 Parent.....
 Parent Board.....
 Parent Common Stock.....
 Parent Disclosure Schedule.....
 Parent SEC Reports.....
 Permitted Lien.....
 person.....
 Product.....
 Proxy Statement.....
 Real Property Leases.....
 Recalls.....
 Release.....
 Remedial Action.....
 Representatives.....
 S-4.....
 Scheduled Intellectual Property.....
 SEC.....
 Securities Act.....
 Series A Preferred Stock.....
 Series B Preferred Stock.....
 Share(s).....
 Share Consideration.....
 Software.....
 Stockholder Agent.....
 subsidiary.....
 Surviving Corporation.....
 Systems.....
 Takeover Statutes.....
 Tax(es).....

DEFINED IN SECTION

3.15(a)(iii)
 3.8
 6.7
 6.7
 3.21(a)
 3.4(a)
 3.13(b)
 10.10(c)
 10.10(c)
 3.9
 10.10(d)
 8.2(e)(ii)
 10.10(e)
 3.18(a)
 1.1
 Preamble
 8.2(d)(ii)
 3.26(a)
 2.1(b)
 8.2(e)(i)
 2.1(b)(i)
 Preamble
 4.2(b)
 Recitals
 Article IV
 4.3
 10.10(f)
 10.10(g)
 3.26(b)
 3.7
 3.10(b)
 3.26(a)
 3.15(a)(iv)
 3.15(a)(v)
 8.1
 3.7
 3.21(a)
 2.2
 2.14
 3.2(a)
 3.2(a)
 2.1(b)
 2.1(b)
 3.22(a)
 8.3(a)
 10.10(h)
 1.1
 3.23(e)
 3.28
 3.16(a)

DEFINED TERMS

Tax Returns.....
Termination Date.....
Third Party Claim.....
Voting Agreements.....
WARN.....

DEFINED IN SECTION

3.16(a)
9.2(a)
8.4
Recitals
3.14(d)

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of May 29, 1999, is among Telogy Networks, Inc., a Delaware corporation (the "Company"), Texas Instruments Incorporated, a Delaware corporation ("Parent"), and TNI Acquisition Corp., a Delaware corporation and a direct wholly owned subsidiary of Parent ("Merger Sub"). Certain capitalized and non-capitalized terms used herein are defined in Section 10.10.

RECITALS

WHEREAS, the Boards of Directors of the Company, Parent and Merger Sub each have, in light of and subject to the terms and conditions set forth herein, approved this Agreement and the transactions contemplated hereby, including the Merger, and declared the Merger advisable and fair to, and in the best interests of, their respective stockholders;

WHEREAS, pursuant to the Merger, among other things, and subject to the terms and conditions of this Agreement, all of the issued and outstanding shares of capital stock of the Company shall be converted into the right to receive shares of common stock, par value \$1.00 per share, of Parent (together with any associated right to acquire shares of Cumulative Preferred Stock of Parent pursuant to Parent's Rights Plan) (collectively, "Parent Common Stock");

WHEREAS, a portion of the shares of Parent Common Stock otherwise issuable or reserved for issuance by Parent in connection with the Merger shall be placed in escrow by Parent, the release of which shall be contingent upon the occurrence of certain events and the satisfaction of certain conditions, all as set forth in Article VIII;

WHEREAS, as an inducement to Parent and Merger Sub to enter into this Agreement, certain stockholders of the Company have concurrently herewith entered into (i) a voting agreement in the form attached hereto as Exhibit A ("Voting Agreement") pursuant to which, among other things, such stockholders have agreed to vote all shares of capital stock of the Company owned by them in favor of the Merger and (ii) Company Affiliate Agreements in the form attached hereto as Exhibit B ("Company Affiliate Agreements") pursuant to which, among other things, such stockholders have agreed to refrain from selling shares of Company Capital Stock or Parent Common Stock during a specified period prior to and following consummation of the Merger;

WHEREAS, for federal income Tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, for accounting purposes, it is intended that the Merger shall be accounted for as a "pooling of interests"; and

WHEREAS, the Company, Parent and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with the Merger as set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the Company, Parent and Merger Sub hereby agree as follows:

ARTICLE I

THE MERGER

SECTION 1.1 The Merger. At the Effective Time and upon the terms and subject to the conditions of this Agreement and in accordance with the Delaware General Corporation Law (the "DGCL"), Merger Sub shall be merged with and into the Company (the "Merger"). Following the Merger, the Company shall continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of Merger Sub shall cease.

SECTION 1.2 Effective Time. Subject to the provisions of this Agreement, Parent, Merger Sub and the Company shall cause the Merger to be consummated by filing an appropriate Certificate of Merger or other appropriate documents (the "Certificate of Merger") with the Secretary of State of the State of Delaware in such form as required by, and executed in accordance with, the relevant provisions of the DGCL, as soon as practicable on the Closing Date. The Merger shall become effective upon such filing or at such time thereafter as is provided in the Certificate of Merger (the "Effective Time").

SECTION 1.3 Closing of the Merger. The closing of the Merger (the "Closing") will take place at a time and on a date to be specified by the parties (the "Closing Date"), which shall be no later than the second business day after satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), at the offices of Weil, Gotshal & Manges LLP, 100 Crescent Court, Suite 1300, Dallas, Texas 75201, or at such other time, date or place as agreed to in writing by the parties hereto.

SECTION 1.4 Effects of the Merger. The Merger shall have the effects set forth in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all of the properties, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.5 Certificate of Incorporation and Bylaws. Effective immediately following the Merger, the certificate of incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation until amended in accordance with applicable Law. Effective immediately following the Merger, the bylaws of the Company, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation until amended in accordance with applicable Law.

SECTION 1.6 Directors. The directors of Merger Sub at the Effective Time shall be the initial directors of the Surviving Corporation and shall hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal.

SECTION 1.7 Officers. The officers of Merger Sub at the Effective Time shall be the initial officers of the Surviving Corporation and shall hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal.

ARTICLE II

CONVERSION OF SECURITIES

SECTION 2.1 Conversion of Shares.

(a) At the Effective Time, each outstanding share of the common stock, par value \$.01 per share, of Merger Sub shall, by virtue of the Merger and without any action on the part of Parent, Merger Sub or the Company, be converted into one fully paid and non-assessable share of common stock of the Surviving Corporation.

(b) At the Effective Time, each share of the Company's common stock, par value \$.01 per share ("Company Common Stock"), issued and outstanding immediately prior to the Effective Time (including the shares of Company Common Stock issuable upon conversion of the outstanding Series A Preferred Stock and Series B Preferred Stock) (individually, a "Share" and collectively, the "Shares") (other than (i) Shares held by the Company and (ii) Shares held by Parent or Merger Sub) shall, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or any holder thereof, be converted into and be exchangeable for the right to receive the number (rounded to the nearest ten thousandth) of fully paid and non-assessable shares of Parent Common Stock, equal to the Exchange Ratio. For purposes of this Agreement, the "Exchange Ratio" shall be determined as follows:

(i) if the Average Parent Stock Price is greater than or equal to \$102.44, the Exchange Ratio shall be the quotient derived by dividing (x) 4,100,000 by (y) the aggregate of all Company Common Stock outstanding immediately prior to the Effective Time (including all Company Common Stock issued upon conversion of the Series A Preferred Stock and Series B Preferred Stock) and all Company Common Stock issuable under stock options outstanding immediately prior to the Effective Time, whether vested or unvested (collectively, the "Outstanding Shares");

(ii) if the Average Parent Stock Price is less than \$102.44 but greater than \$84.00, the Exchange Ratio shall be determined by dividing (x) the dollar amount derived by dividing \$420,000,000 by the Outstanding Shares by (y) the Average Parent Stock Price; and

(iii) if the Average Parent Stock Price is equal to or less than \$84.00, the Exchange Ratio shall be the quotient derived by dividing (x) 5,000,000 by (y) the Outstanding Shares.

All such shares of Parent Common Stock issued pursuant to this Section 2.1(b), together with any cash in lieu of fractional shares of Parent Common Stock to be paid pursuant to Section 2.7, are referred to herein as the "Share Consideration". As used herein, the "Average Parent Stock Price" means the average of the daily high and low sales prices, regular way, of one share of Parent Common Stock (rounded to the nearest ten thousandth) on the New York Stock Exchange ("NYSE") (as reported in the New York City edition of the Wall Street Journal or, if not reported thereby, another nationally recognized source) during the ten consecutive trading day period ending on the second trading day prior to the Effective Time.

(c) Each Share of Company Capital Stock owned by the Company shall become one share of treasury stock of the Surviving Corporation. Each Share of Company Capital Stock owned by Parent shall be contributed to Merger Sub immediately prior to the Effective Time and all shares held by Merger Sub, including any shares so contributed, shall become one share of treasury stock of the Surviving Corporation.

(d) If between the date of this Agreement and the Effective Time the outstanding shares of Parent Common Stock shall have been changed into a different number of shares or a different class by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, or any similar event, the calculation of the Exchange Ratio and the Average Parent Stock Price shall be correspondingly adjusted to the extent necessary to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, or such similar event.

SECTION 2.2 Stock Options. As soon as practicable following the date of this Agreement, Parent and the Company (or, if appropriate, any committee of the Board of Directors of the Company administering the Company's Amended and Restated 1990 Stock Option Plan and the Company's 1996 Directors Stock Option Plan (collectively, the "Company Option Plans")) shall take such action as may be required to effect the following provisions of this Section 2.2. Subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the Effective Time each option to purchase shares of Company Common Stock pursuant to the Company Option Plans (a "Company Stock Option") which is then outstanding shall be assumed by Parent and converted into an option (or a new substitute option shall be granted) (an "Assumed Stock Option") to purchase the number of shares of Parent Common Stock (rounded up to the nearest whole share) equal to (x) the number of shares subject to such option multiplied by (y) the Exchange Ratio, at an exercise price per share of Parent Common Stock (rounded down to the nearest penny) equal to (A) the former exercise

price per share of Company Common Stock under such option immediately prior to the Effective Time divided by (B) the Exchange Ratio; provided, however, that in the case of any Company Stock Option to which Section 421 of the Code applies by reason of its qualification under Section 422 of the Code, the conversion formula shall be adjusted, if necessary, to comply with Section 424(a) of the Code. Except as provided above, each Assumed Stock Option shall be subject to the same terms and conditions (including expiration date, vesting and exercise provisions) as were applicable to such converted Company Stock Option immediately prior to the Effective Time. Promptly after the Effective Time, Parent shall use its reasonable best efforts to prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement on Form S-8 or other appropriate form with respect to shares of Parent Common Stock subject to the Assumed Stock Options and to maintain the effectiveness of such registration statement or registration statements covering such Assumed Stock Options (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Assumed Stock Options remain outstanding. Parent shall take all corporate action necessary to reserve for issuance under an appropriate stock option plan of Parent a sufficient number of shares of Parent Common Stock for delivery upon exercise of the options described above.

SECTION 2.3 Exchange Fund. Prior to the Effective Time, Parent shall appoint a commercial bank or trust company reasonably acceptable to the Company to act as exchange agent hereunder for the purpose of exchanging Shares for the Share Consideration (the "Exchange Agent"). At or prior to the Effective Time, Parent shall deposit with the Exchange Agent, in trust for the benefit of holders of Shares, certificates representing the Parent Common Stock issuable pursuant to Section 2.1 in exchange for outstanding Shares less the shares of Parent Common Stock constituting the Escrow Fund (which will be deposited with the Depositary Agent pursuant to the provisions of Article VIII) and an estimated amount of cash sufficient to pay the cash payable in lieu of fractional shares pursuant to Section 2.7. Parent agrees to make available to the Exchange Agent from time to time as needed, cash sufficient to pay cash in lieu of fractional shares pursuant to Section 2.7 and any dividends and other distributions pursuant to Section 2.5. Any cash and certificates of Parent Common Stock deposited with the Exchange Agent shall hereinafter be referred to as the "Exchange Fund."

SECTION 2.4 Exchange Procedures. As soon as reasonably practicable after the Effective Time (and in any event within three business days after the Effective Time), the Surviving Corporation shall use commercially reasonable efforts to cause the Exchange Agent to mail to each holder of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates") (i) a letter of transmittal which shall specify that delivery shall be effective, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, and which letter shall be in customary form and have such other provisions as Parent may reasonably specify; and (ii) instructions for effecting the surrender of such Certificates in exchange for the Share Consideration. Upon surrender of a Certificate to the Exchange Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor (A) shares of Parent Common Stock representing, in the aggregate, the whole number of shares that such holder has the right to receive pursuant to Section 2.1 (after taking into account all Shares then held by such holder) and (B) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of this Article II, including cash in lieu of any dividends and other distributions pursuant to Section 2.5 and cash in lieu of fractional shares pursuant to Section 2.7. No interest will be paid or will accrue on any cash payable pursuant to Section 2.5 or Section 2.7. In the event of a transfer of ownership of Company Capital Stock which is not registered in the transfer records of the Company, shares of Parent Common Stock evidencing, in the aggregate, the proper number of shares of Parent Common Stock, a check in the proper amount of cash in lieu of any fractional shares of Parent Common Stock pursuant to Section 2.7 and any dividends or other distributions to which such holder is entitled pursuant to Section 2.5, may be issued with respect to such Shares to such a transferee if the Certificate representing such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer Taxes have been paid.

SECTION 2.5 Distributions with Respect to Unsurrendered Certificates. No dividends or other distributions declared or made with respect to shares of Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock that such holder would be entitled to receive upon surrender of such Certificate and no cash payment in lieu of fractional shares of Parent Common Stock shall be paid to any such holder pursuant to Section 2.7 until such holder shall surrender such Certificate in accordance with Section 2.4. Subject to the effect of applicable Laws, following surrender of any such Certificate, there shall be paid to such holder of shares of Parent Common Stock issuable in exchange therefor, without interest, (a) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional shares of Parent Common Stock to which such holder is entitled pursuant to Section 2.7 and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such shares of Parent Common Stock.

SECTION 2.6 No Further Ownership Rights in Company Common Stock. All shares of Parent Common Stock issued and cash paid upon conversion of the Shares in accordance with the terms of Article I and this Article II (including any cash paid pursuant to Sections 2.5 and 2.7) shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the Shares.

SECTION 2.7 No Fractional Shares of Parent Common Stock.

(a) No certificates or scrip of shares of Parent Common Stock representing fractional shares of Parent Common Stock or book-entry credit of the same shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of Parent or a holder of shares of Parent Common Stock.

(b) Notwithstanding any other provision of this Agreement, each holder of Shares exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a share of Parent Common Stock multiplied by (ii) the closing price on the NYSE (as reported in the New York City edition of the Wall Street Journal or, if not reported thereby, another nationally recognized source) for a share of Parent Common Stock on the date of the Effective Time. As promptly as practicable after the determination of the aggregate amount of cash to be paid to holders of fractional interests, the Exchange Agent shall notify Parent and Parent shall cause the Surviving Corporation to deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

SECTION 2.8 Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of Certificates for six months after the Effective Time shall be delivered to the Surviving Corporation or otherwise on the instruction of the Surviving Corporation, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation and Parent for the Merger Consideration with respect to the Shares formerly represented thereby to which such holders are entitled pursuant to Section 2.1 and Section 2.4, any cash in lieu of fractional shares of Parent Common Stock to which such holders are entitled pursuant to Section 2.7 and any dividends or distributions with respect to shares of parent Common Stock to which such holders are entitled pursuant to Section 2.5. Any such portion of the Exchange Fund remaining unclaimed by holders of Shares five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by law, become the property of the Surviving Corporation free and clear of any claims or interest of any person previously entitled thereto.

SECTION 2.9 No Liability. None of Parent, Merger Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any person in respect of any Merger Consideration from the

Exchange Fund delivered, in good faith, to a public official pursuant to any applicable abandoned property, escheat or similar Law.

SECTION 2.10 Investment of the Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Parent on a daily basis. Any interest and other income resulting from such investments shall promptly be paid to Parent.

SECTION 2.11 Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity by such person against any claim that may be made against the Surviving Corporation with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Share Consideration with respect to the Shares formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock and unpaid dividends and distributions on shares of Parent Common Stock deliverable in respect thereof, pursuant to this Agreement.

SECTION 2.12 Withholding Rights. Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the Share Consideration otherwise payable pursuant to this Agreement to any holder of Shares such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and the rules and regulations promulgated thereunder, or any provision of a Tax Law. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Shares in respect to which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be.

SECTION 2.13 Stock Transfer Books. The stock transfer books of the Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of Shares thereafter on the records of the Company. On or after the Effective Time, any Certificates presented to the Exchange Agent or Parent for any reason shall be converted into the Share Consideration with respect to the Shares formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock to which the holders thereof are entitled pursuant to Section 2.7 and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.5.

SECTION 2.14 Affiliates. Notwithstanding anything to the contrary herein, no shares of Parent Common Stock or cash shall be delivered to a person who may be deemed an "affiliate" of the Company in accordance with Section 6.11 hereof for purposes of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), or for purposes of qualifying the Merger for "pooling of interests" under APB 16 and the applicable SEC rules and regulations until such person has executed and delivered to Parent the written agreement contemplated by Section 6.11.

SECTION 2.15 Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, Shares that are issued and outstanding immediately prior to the Effective Time and which are held by stockholders who did not vote in favor of the Merger (the "Dissenting Shares"), which stockholders comply with all of the relevant provisions of Section 262 of the DGCL (the "Dissenting Stockholders"), shall not be converted into or be exchangeable for the right to receive the Share Consideration, unless and until such holders shall have failed to perfect or shall have effectively withdrawn or lost their rights to appraisal under the DGCL. If any Dissenting Stockholder shall have failed to perfect or shall have effectively withdrawn or lost such right, such holder's Shares shall thereupon be converted into and become exchangeable for the right to receive, as of the Effective Time, the Share Consideration without any interest thereon. The Company shall give Parent (i) prompt notice of any written demands for appraisal of any Shares, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by the Company relating to stockholders' rights of appraisal, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. Neither the Company nor the Surviving Corporation shall, except with the prior written consent of Parent, voluntarily make any payment with respect to, or settle or offer to settle, any such

demand for payment. If any Dissenting Stockholder shall fail to perfect or shall have effectively withdrawn or lost the right to dissent, the Shares held by such Dissenting Stockholder shall thereupon be treated as though such Shares had been converted into the right to receive the Share Consideration pursuant to Section 2.1(b).

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the disclosure schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), the Company hereby represents and warrants to each of Parent and Merger Sub as follows:

SECTION 3.1 Organization and Qualification; Subsidiaries.

(a) The Company and each of its subsidiaries is a corporation or legal entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization and has all requisite corporate, partnership or similar power and authority to own, lease and operate its properties and to carry on its businesses as now conducted.

(b) Section 3.1 of the Company Disclosure Schedule sets forth a list of all subsidiaries of the Company. The Company does not own, directly or indirectly, beneficially or of record, any shares of capital stock or other securities of any other entity or any other investment in any other entity.

(c) Each of the Company and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing does not have and would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

(d) The Company has heretofore made available to Parent accurate and complete copies of the certificate of incorporation and bylaws (or other similar organizational and governing documents), as currently in effect, of the Company and each of its subsidiaries.

SECTION 3.2 Capitalization of the Company and Its Subsidiaries.

(a) The authorized capital stock of the Company consists of: (i) 30,000,000 shares of Company Common Stock and (ii) 10,000,000 shares of Preferred Stock, par value \$.01 per share, of which 2,500,000 shares are designated Series A Preferred Stock, par value \$.01 per share ("Series A Preferred Stock"), and 850,000 shares are designated Series B Preferred Stock, par value \$.01 per share ("Series B Preferred Stock"). As of the date hereof, there are issued and outstanding 3,647,822 shares of Company Common Stock, 2,468,194 shares of Series A Preferred Stock and 710,282 shares of Series B Preferred Stock, and there are no shares held in the Company's treasury. A true and complete list of record holders of the issued and outstanding Company Common Stock, Series A Preferred Stock and Series B Preferred Stock as of the date hereof is set forth in Section 3.2 of the Company Disclosure Schedule. As of and immediately prior to the Effective Time, all outstanding shares of Series A Preferred Stock will be converted, in accordance with their terms, into shares of Company Common Stock, and all outstanding shares of Series B Preferred Stock will be converted, in accordance with their terms, into shares of Company Common Stock. All of the issued and outstanding Shares have been validly issued, and are duly authorized, fully paid, non-assessable and free of preemptive rights. As of the date hereof, 2,364,858 shares are reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding Company Stock Options issued pursuant to the Company Option Plans. Since December 31, 1998, no shares of the Company's capital stock have been issued other than pursuant to Company Stock Options already in existence on such date. Except as set forth above, as of the date hereof, there are no outstanding (i) shares of capital stock or other voting securities of the Company; (ii) securities of the Company or any of its subsidiaries convertible into or exchangeable for shares of capital stock or voting securities of the Company; (iii) options or other rights to acquire from the Company or any of its

subsidiaries, and no obligations of the Company or any of its subsidiaries to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company; and (iv) equity equivalents, interests in the ownership or earnings of the Company or other similar rights (including, stock appreciation rights) (collectively, "Company Securities"). There are no outstanding obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any Company Securities. There are no stockholder agreements, voting trusts or other agreements to which the Company or any of its subsidiaries is a party or to which it is bound relating to the voting of any shares of capital stock of the Company (other than the Voting Agreement). Section 3.2 of the Company Disclosure Schedule sets forth true and complete information regarding the current exercise price, the date of grant and the number of Company Stock Options granted for each holder of Company Stock Options. Following the Effective Time and conversion of the Company Stock Options into options to acquire shares of Parent Common Stock in accordance with Section 2.2, in accordance with the Company Option Plans, no holder of Company Stock Options will have any right to receive shares of common stock of the Surviving Corporation upon exercise of the Company Stock Options.

(b) All of the outstanding capital stock of the Company's subsidiaries is owned by the Company, directly or indirectly, free and clear of any Lien or any other limitation or restriction (including, any restriction on the right to vote or sell the same, except as may be provided as a matter of Law). There are no securities of the Company or its subsidiaries convertible into or exchangeable for, no options or other rights to acquire from the Company or its subsidiaries, and no other contract, or obligation (whether or not contingent) providing for the issuance or sale, directly or indirectly of, any capital stock or other ownership interests in, or any other securities of, any subsidiary of the Company. There are no outstanding contractual obligations of the Company or its subsidiaries to repurchase, redeem, or otherwise acquire any outstanding shares of capital stock or other ownership interests in any subsidiary of the Company.

SECTION 3.3 Authority Relative to This Agreement; Consents and Approvals.

(a) The Company has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. No other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, in respect of the Merger and this Agreement, the Company Requisite Vote). This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid, legal, and binding agreement of the Company, enforceable against the Company in accordance with its terms, except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) The Board of Directors of the Company (the "Company Board") has, by unanimous vote of those present (who constituted 100% of the directors then in office), duly and validly authorized the execution and delivery of this Agreement and approved the consummation of the transactions contemplated hereby, and taken all corporate actions required to be taken by the Company Board for the consummation of the transactions, including the Merger, contemplated hereby and has resolved (i) this Agreement and the transactions contemplated hereby, including the Merger, taken together, to be advisable and fair to, and in the best interests of, the Company and its stockholders; and (ii) to recommend that the stockholders of the Company approve and adopt this Agreement. The Company Board has directed that this Agreement be submitted to the stockholders of the Company for their approval. The affirmative approval of the holders of (A) Shares representing a majority of the votes that may be cast by the holders of all outstanding Shares (voting as a single class) and (B) Shares representing a majority of the Series A Preferred Stock (voting as a separate class), in each case as of the record date for the Company (the "Company Requisite Vote"), are the only votes of the holders of any class or series of capital stock of the Company necessary to adopt this Agreement and approve the transactions contemplated hereby, including the Merger.

SECTION 3.4 Financial Statements; Accounts Receivable.

(a) The Company has made available to Parent (i) copies of the audited balance sheets of the Company as of December 31, 1998, December 31, 1997 and December 31, 1996, together with the related audited statements of income, stockholders' equity and changes in cash flow for the fiscal years ended December 31, 1998, December 31, 1997 and December 31, 1996, and the notes thereto, and (ii) copies of the unaudited balance sheet of the Company, as of March 31, 1999 (the "Interim Balance Sheet"), together with the related unaudited consolidated statements of income and changes in cash flow for the three-month period ended on such date (such audited financial statements and unaudited interim financial statements being hereinafter referred to as the "Financial Statements"). The Financial Statements, including the notes thereto, (A) were prepared in accordance with generally accepted accounting principles applied on a consistent basis ("GAAP") throughout the periods covered thereby, and (B) present fairly in all material respects the financial position, results of operations and changes in cash flow of the Company as of such dates and for the periods then ended (subject, in the case of the unaudited interim Financial Statements, to normal year-end audit adjustments).

(b) The accounts receivable of the Company and its subsidiaries as set forth on the Interim Balance Sheet or arising since the date thereof have arisen solely out of bona fide sales and deliveries of goods, performance of services and other business transactions in the ordinary course of business consistent with past practice; to the Company's knowledge, are not subject to valid defenses, set-offs or counterclaims; and, to the Company's knowledge, are collectible at the full recorded amount thereof less, in the case of accounts receivable appearing on the Interim Balance Sheet, the recorded allowance for collection of doubtful accounts on the Interim Balance Sheet. The allowance for collection of doubtful accounts on the Interim Balance Sheet has been determined in accordance with GAAP consistent with past practice.

SECTION 3.5 No Undisclosed Liabilities. There are no material liabilities of the Company or any of its subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, other than: (a) liabilities disclosed, provided for or reserved against in the Financial Statements; (b) liabilities arising in the ordinary course of business after the date of the Interim Balance Sheet, which are not material to the financial position of the Company; and (c) liabilities under this Agreement.

SECTION 3.6 Absence of Changes. Since December 31, 1998, the Company and its subsidiaries have conducted their business in the ordinary and usual course consistent with past practice and there has not been:

(a) any event, occurrence or development which has had or would have, individually or in the aggregate, a Material Adverse Effect on the Company;

(b) any declaration, setting aside or payment of any dividend or other distribution in respect of any shares of capital stock of the Company or any subsidiary, or any repurchase, redemption or other acquisition by the Company or any of its subsidiaries of any Company or subsidiary securities;

(c) any amendment of any term of any outstanding security of the Company or any of its subsidiaries that would materially increase the obligations of the Company or any such subsidiary under such security;

(d) (i) any incurrence or assumption by the Company or any subsidiary of any indebtedness for borrowed money (or any renewals, replacements, or extensions that do not increase the aggregate commitments thereunder) except (A) in the ordinary and usual course of business consistent with past practice or (B) in connection with (x) any acquisition or capital expenditure permitted by Section 5.1 or (y) the transactions contemplated hereby, or (ii) any guarantee, endorsement, or other incurrence or assumption of liability (whether directly, contingently or otherwise) by the Company or any of its subsidiaries for the obligations of any other person (other than any wholly owned subsidiary of the Company), other than in the ordinary and usual course of business consistent with past practice;

(e) any creation or assumption by the Company or any of its subsidiaries of any material Lien on any material asset of the Company or any of its subsidiaries other than Permitted Liens or those material Liens created or assumed in the ordinary and usual course of business consistent with past practice;

(f) any making of any loan, advance or capital contribution to or investment in any person by the Company or any of its subsidiaries other than (i) any acquisition permitted by Section 5.1, (ii) loans, advances, or capital contributions to or investments in wholly owned subsidiaries of the Company or (iii) loans or advances to employees of the Company or any of its subsidiaries made in the ordinary and usual course of business consistent with past practice;

(g) (i) any contract or agreement entered into by the Company or any of its subsidiaries on or prior to the date hereof relating to any material acquisition or disposition of any assets or business or (ii) any modification, amendment, assignment, termination or relinquishment by the Company or any of its subsidiaries of any contract, license or other right (including, any insurance policy naming it as a beneficiary or a loss payable payee) that has had or would have, individually or in the aggregate, a Material Adverse Effect on the Company, other than, in the case of (i) and (ii), transactions, commitments, contracts or agreements in the ordinary and usual course of business consistent with past practice and those contemplated by this Agreement;

(h) any material change in any method of accounting or accounting principles or practice by the Company or any of its subsidiaries, except for any such change required by reason of a change in GAAP;

(i) any (i) grant of any severance or termination pay to any director, officer or employee of the Company or any of its subsidiaries; (ii) entering into of any employment, deferred compensation or other similar agreement (or any amendment to any such existing agreement) with any director, officer or employee of the Company or any of its subsidiaries; (iii) increase in benefits payable under any existing severance or termination pay policies or employment agreements; or (iv) increase in compensation, bonus or other benefits payable to directors, officers or employees of the Company or any of its subsidiaries other than, in the case of clause (iv) only, increases prior to the date hereof in compensation, bonus or other benefits payable to employees of the Company or any of its subsidiaries in the ordinary and usual course of business consistent with past practice or merit increases in salaries of employees at regularly scheduled times in customary amounts consistent with past practices;

(j) any adoption, entering into, amendment, alteration or termination of (partially or completely) any Benefit Plan or Employee Arrangement except as contemplated by this Agreement or to the extent required by applicable Law;

(k) any entering into of any contract with an officer, director, employee, agent or other similar representative of the Company or any of its subsidiaries that (i) is not terminable, without penalty or other liability, upon 60 calendar days' or less notice or (ii) involves payments in excess of \$25,000 (or in excess of \$75,000 in the case of executive search firms); or

(l) any (i) making or revoking of any material election relating to Taxes, (ii) settlement or compromise of any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes, or (iii) change to any material methods of reporting income or deductions for federal income tax purposes.

SECTION 3.7 Information Supplied. None of the information supplied or to be supplied by the Company for inclusion in (i) the registration statement on Form S-4 to be filed with the SEC by Parent in connection with the issuance of Parent Common Stock as required by the terms of this Agreement pursuant to the Merger (the "S-4"), at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the proxy statement relating to the Company Stockholder Meeting to be held in connection with the Merger (the "Proxy Statement") will, at the date mailed to stockholders and at the time of the Company

Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event in respect of the Company, its officers and directors or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4, the Company shall promptly so advise Parent and such event shall be so described, and such amendment or supplement (which Parent shall have a reasonable opportunity to review) shall be promptly filed with the SEC and, as required by Law, disseminated to the stockholders of the Company.

SECTION 3.8 Consents and Approvals. Except for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act, state securities or blue sky Laws, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the filing and recordation of the Certificate of Merger as required by the DGCL, no filing with or notice to, and no permit, authorization, consent or approval of, any court or tribunal or administrative, governmental or regulatory body, agency or authority (a "Governmental Entity") is necessary for the execution and delivery by the Company of this Agreement or the consummation by the Company of the transactions contemplated hereby, other than filings, notices, permits, authorizations, consents and approvals, the failure of which to obtain does not have and would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

SECTION 3.9 No Default. Neither the Company nor any of its subsidiaries is in violation of any term of (i) its certificate of incorporation or bylaws (or other similar organizational or governing documents), (ii) any Material Contract, or (iii) any domestic or foreign law, order, writ, injunction, decree, ordinance, award, stipulation, statute, judicial or administrative doctrine, rule or regulation entered by a Governmental Entity ("Law") applicable to the Company, its subsidiaries or any of their respective assets or properties, the consequence of which violation (A) does have or would have, individually or in the aggregate, a Material Adverse Effect on the Company or (B) does or would prevent or materially delay the performance of this Agreement by the Company. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not (A) result in any violation of or conflict with, constitute a default under, require any consent, waiver or notice under any term of, or result in the reduction or loss of any benefit or the creation or acceleration of any right or obligation under, (i) the certificate of incorporation or bylaws (or other similar organizational or governing documents) of the Company or any of its subsidiaries, (ii) any Company Permit or Material Contract, or (iii) any Law applicable to the Company or its subsidiaries, or their respective assets or properties, or (B) result in the creation of (or impose any obligation on the Company or any of its subsidiaries to create) any Lien (other than Permitted Liens) upon any of the assets or properties of the Company or any of its subsidiaries pursuant to any such term, excluding from the clauses (A)(ii) and (iii) and (B) such events as would not have a Material Adverse Effect on the Company.

SECTION 3.10 Real Property.

(a) None of the Company or its subsidiaries owns any real property.

(b) Section 3.10 of the Company Disclosure Schedule sets forth all leases, subleases and other agreements (the "Real Property Leases") under which the Company or any of its subsidiaries is a party or pursuant to which the Company or any of its subsidiaries uses or occupies or has the right to use or occupy, now or in the future, any real property. The Company has heretofore made available to Parent true, correct and complete copies of all Real Property Leases (and all modifications, amendments and supplements thereto and all side letters to which the Company or any of its subsidiaries is a party affecting the obligations of any party thereunder). Each Real Property Lease constitutes the valid and legally binding obligation of the Company or its subsidiaries, enforceable in accordance with its terms, and is in full force and effect except that (a) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before

which any proceeding therefor may be brought. To the knowledge of the Company, no termination event or condition or uncured default of a material nature on the part of the Company or any such subsidiary or the landlord exists under any Real Property Lease. Each of the Company and its subsidiaries has a good and valid leasehold interest in each parcel of real property leased by it free and clear of all Liens, except (i) Taxes and general and special assessments not in default and payable without penalty and interest, and (ii) Permitted Liens. No party to any such Real Property Lease has given written notice to the Company or any of its subsidiaries of or made a claim in writing against the Company or any of its subsidiaries in respect of any breach or default thereunder.

SECTION 3.11 Litigation. There is no suit, claim, action, proceeding or investigation pending or, to the Company's knowledge, threatened against the Company or any of its subsidiaries or any of their respective assets or properties which (a) has or would have, individually or in the aggregate, a Material Adverse Effect on the Company or (b) questions the validity of this Agreement or any action to be taken by the Company in connection with the consummation of the transactions contemplated hereby or could otherwise prevent or materially delay the consummation of the transactions contemplated by this Agreement. None of the Company or its subsidiaries is subject to any outstanding order, writ, injunction or decree which has or would have, individually or in the aggregate, a Material Adverse Effect on the Company. To the knowledge of the Company, there is no action, suit, proceeding or investigation pending or threatened against any current or former officer, director, employee or agent of the Company or any of its subsidiaries (in his or her capacity as such) which does or would give rise to a claim for contribution or indemnification against the Company or any of its subsidiaries.

SECTION 3.12 Permits. The Company and its subsidiaries hold all permits, licenses, variances, exemptions, orders, and approvals of all Governmental Entities necessary for the lawful conduct of their respective businesses, other than such permits, licenses, variances, exemptions, orders, or approvals the failure to hold which does not have and would not have, individually or in the aggregate, a Material Adverse Effect on the Company (the "Company Permits"). The Company and its subsidiaries are in material compliance with the terms of the Company Permits. To the Company's knowledge, no investigation or review by any Governmental Entity in respect of the Company or its subsidiaries is pending or threatened, and the Company has not received written notice from any Governmental Entity of its intention to conduct the same.

SECTION 3.13 Employee Plans.

(a) Section 3.13(a) of the Company Disclosure Schedule sets forth a true, correct and complete list of:

(i) all "employee benefit plans," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which the Company or any of its subsidiaries has any obligation or liability, contingent or otherwise (the "Benefit Plans");

(ii) all employees and consultants of the Company and its subsidiaries, including the base salary for each such person; and

(iii) all stock option plans or bonus plans or other plans or arrangements with any employee or consultant of the Company or its subsidiaries which is non-standard.

Benefit Plans and Employee Arrangements which cover current or former employees, officers, or directors (or their equivalent) of the Company or any of its subsidiaries are separately identified, by the applicable country, on Section 3.13(a) of the Company Disclosure Schedule.

(b) In respect of each Benefit Plan and each employment, consulting, termination, profit sharing, severance, change of control, individual compensation or indemnification agreements, and all bonus or other incentive compensation, deferred compensation, salary continuation, stock award, stock option, stock purchase, educational assistance or employee loan agreement under which the Company or any of its subsidiaries has any obligation or liability (contingent or otherwise) (the "Employee Arrangements"), a complete and correct copy of each of the following documents (if applicable) has been made available to Parent: (i) the most recent plan and related trust documents, and all amendments thereto; (ii) the most

recent summary plan description, and all related summaries of material modifications thereto; (iii) the most recent Form 5500 (including, schedules and attachments); (iv) the most recent Internal Revenue Service ("IRS") determination letter; (v) the forms of stock option grant agreements used to make grants under the Company Option Plans; (vi) each written employment, consulting or individual severance or other compensation agreement, and all amendments thereto; and (vii) the most recent actuarial reports (including for purposes of Financial Accounting Standards Board report nos. 87, 106 and 112). The Company has no stock purchase plans.

(c) None of the Benefit Plans is subject to Title IV of ERISA, constitutes a defined benefit retirement plan or is a multi-employer plan described in Section 3(37) of ERISA, and the Company and its subsidiaries do not have any obligation or liability (contingent or otherwise) in respect of any such plans. The Company and its subsidiaries are not members of a group of trades or businesses (other than the Company and its subsidiaries) under common control or treated as a single employer pursuant to Section 414 of the Code.

(d) The Benefit Plans and their related trusts intended to qualify under Sections 401 and 501(a) of the Code, respectively, so qualify. Any voluntary employee benefit association which provides benefits to current or former employees of the Company and its subsidiaries, or their beneficiaries, is and has been qualified under Section 501(c)(9) of the Code.

(e) All contributions or other payments required to have been made by the Company and its subsidiaries to or under any Benefit Plan or Employee Arrangement by applicable Law or the terms of such Benefit Plan or Employee Arrangement (or any agreement relating thereto) have been timely and properly made.

(f) The Benefit Plans and Employee Arrangements have been maintained and administered in all material respects in accordance with their terms and applicable Laws. The Company believes that no individual who has performed services for the Company or any of its subsidiaries has been improperly excluded from participation in any Benefit Plan or Employee Arrangement.

(g) There are no pending or, to the Company's knowledge, threatened actions, claims, or proceedings against or relating to any Benefit Plan or Employee Arrangement (other than routine benefit claims by persons entitled to benefits thereunder), and, to the knowledge of the Company, there are no facts or circumstances which could form the basis for any of the foregoing.

(h) The Company and its subsidiaries do not have any obligation or liability (contingent or otherwise) to provide post-retirement life insurance or health benefits coverage for current or former officers, directors, or employees of the Company or any of its subsidiaries except (i) as may be required under Part 6 of Title I of ERISA but which are being paid solely by the participant or the participant's beneficiary, (ii) a medical expense reimbursement account plan pursuant to Section 125 of the Code, or (iii) through the last day of the calendar month in which the participant terminates employment with the Company or any subsidiary of the Company.

(i) None of the assets of any Benefit Plan is stock of the Company or any of its affiliates, or property leased to or jointly owned by the Company or any of its affiliates.

(j) Except in connection with equity compensation, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment becoming due to any employee (current, former, or retired) of the Company or any of its subsidiaries, (ii) increase any benefits under any Benefit Plan or Employee Arrangement, or (iii) result in the acceleration of the time of payment of, vesting of, or other rights in respect of any such benefits.

(k) Each of the Benefit Plans covering employees outside of the United States is fully funded through adequate reserves on the financial statements of the Company or its subsidiaries, insurance contracts, annuity contracts, trust funds or similar arrangements or the liabilities of such Benefit Plans are fairly reflected on such financial statements.

SECTION 3.14 Labor Matters.

(a) The Company and its subsidiaries are not a party to any labor or collective bargaining agreement, and no employees of the Company or any of its subsidiaries are represented by any labor organization. Within the preceding three years, there have been no representation or certification proceedings, or petitions seeking a representation proceeding, pending or, to the Company's knowledge, threatened in writing to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority. Within the preceding three years, to the Company's knowledge, there have been no organizing activities involving the Company or any of its subsidiaries in respect of any group of employees of the Company or any of its subsidiaries.

(b) There are no strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances or other material labor disputes pending or threatened in writing against or involving the Company or any of its subsidiaries. There are no unfair labor practice charges, grievances or complaints pending or, to the Company's knowledge, threatened by or on behalf of any employee or group of employees of the Company or any of its subsidiaries which, if individually or collectively resolved against the Company or any of its subsidiaries, would have a Material Adverse Effect on the Company.

(c) There are no complaints, charges or claims against the Company or any of its subsidiaries pending or, to the Company's knowledge, threatened to be brought or filed with any Governmental Entity or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any individual by the Company or any of its subsidiaries.

(d) There has been no "mass layoff" or "plant closing" as defined by the Worker Adjustment and Retraining Notification Act, as amended ("WARN"), in respect of the Company or any of its subsidiaries within the six months prior to the date hereof.

(e) To the knowledge of the Company, all employees of the Company and its subsidiaries who are not U.S. citizens but who are assigned to the U.S. operations of the Company or any of its subsidiaries or otherwise travel, from time to time, to the United States on behalf of the Company or any of its subsidiaries possess all applicable passports, visas and other authorizations required by the Laws of the United States and have otherwise complied with all applicable immigration and similar Laws of the United States.

SECTION 3.15 Environmental Matters.

(a) For purposes of this Agreement:

(i) "Environmental Costs and Liabilities" means any and all losses, liabilities, obligations, damages (including, compensatory and punitive damages), fines, penalties, judgments, actions, claims, costs, and expenses (including, fees, disbursements and expenses of legal counsel, experts, engineers and consultants and the costs of investigation and feasibility studies and clean up, remedial, removal or treatment activities, or in any other way addressing any Hazardous Materials) arising from, under or pursuant to any Environmental Law;

(ii) "Environmental Law" means any applicable federal, state or local Law (including common Law), statute, rule, regulation, ordinance, decree or other legal requirement relating to the protection of natural resources, the environment and the public, or to pollution or the release or exposure to Hazardous Materials as such Laws have been and may be amended or supplemented through the Closing Date;

(iii) "Hazardous Material" means any substance, material or waste which is classified or otherwise regulated pursuant to any Environmental Law, including petroleum, petroleum by-products and wastes, asbestos and polychlorinated biphenyls;

(iv) "Release" means any release, spill, effluent, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching, or migration into the environment, or into or out of any property owned, operated or leased by the applicable party or its subsidiaries; and

(v) "Remedial Action" means all actions required under or taken pursuant to any Environmental Law to (A) clean up, remove, treat or in any other way ameliorate or address any Hazardous Materials or other substance in the environment; (B) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Material so it does not endanger or threaten to endanger the public health or welfare or the environment; (C) perform pre-remedial studies and investigations or post-remedial monitoring and care pertaining or relating to a Release; or (D) bring the applicable party into compliance with any Environmental Law;

(b) The operations of the Company and its subsidiaries have been and, as of the Closing Date, will be, in material compliance with all Environmental Laws, and the Company is not aware of any facts, circumstances or conditions, which would require significant capital expenditures to materially comply in the future;

(c) The Company and its subsidiaries are not subject to any outstanding written orders pursuant to any Environmental Law respecting (A) Environmental Laws, (B) Remedial Action or (C) any Release or threatened Release of a Hazardous Material;

(d) The Company and its subsidiaries have not received any written communication alleging, in respect of any such party, the violation of or liability (real or potential) under any Environmental Law;

(e) To the Company's knowledge, neither the Company nor any of its subsidiaries has any contingent liability in connection with the Release of any Hazardous Material (whether on-site or off-site);

(f) There is not now, nor to the Company's knowledge, has there been in the past, on or in any property owned, leased or operated the Company or its subsidiaries any of the following: (A) any regulated underground storage tanks or regulated surface impoundments, (B) except as disclosed in the LVI-697158 Final Report, any asbestos-containing materials or (C) any polychlorinated biphenyls;

(g) No judicial or administrative proceedings are pending or, to the Company's knowledge, threatened against the Company or its subsidiaries alleging the violation of or seeking to impose liability pursuant to any Environmental Law and there are no investigations pending or, to the Company's knowledge, threatened against the Company or any of its subsidiaries under Environmental Laws; and

(h) The Company has provided Parent with copies of all environmentally related assessments, audits, investigations, sampling or similar reports in its possession relating to the Company or its subsidiaries or any real property currently by or formerly owned, operated or leased by or for the Company or its subsidiaries.

SECTION 3.16 Tax Matters.

(a) The Company and each of its subsidiaries, and each affiliated group (within the meaning of Section 1504 of the Code) of which the Company or any of its subsidiaries is or has been a member, has timely filed all federal income Tax Returns and all other material Tax Returns and reports required to be filed by it. All such Tax Returns are complete and correct in all material respects. The Company and each of its subsidiaries has paid (or the Company has paid on its subsidiaries' behalf) all Taxes due for the periods covered by such Tax Returns. The most recent consolidated Financial Statements reflect an adequate reserve for all Taxes payable by the Company and its subsidiaries for all Taxable periods and portions thereof through the date of such Financial Statements. The Company has previously made available to Parent copies of (i) all federal, state, local and foreign income and franchise Tax Returns filed by the Company and each of its subsidiaries for their Taxable years ended in 1998; and (ii) any audit report issued within the last five years (or otherwise in respect of any audit or investigation in progress) relating to Taxes due from or in respect of the Company or any of its subsidiaries. For purposes of this Agreement, "Tax" or "Taxes" means all Taxes, charges, fees, imposts, levies, gaming or other assessments, including, all net income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property, and estimated Taxes, customs duties, fees, assessments and charges of any kind whatsoever, together with any interest and any penalties, fines,

additions to Tax or additional amounts imposed by any taxing authority (domestic or foreign) and shall include any transferee liability in respect of Taxes, any liability in respect of Taxes imposed by contract, Tax sharing agreement, Tax indemnity agreement or any similar agreement. "Tax Returns" means any report, return, document, declaration, or any other information or filing required to be supplied to any taxing authority or jurisdiction (domestic or foreign) in respect of Taxes, including, information returns, any document in respect of or accompanying payments or estimated Taxes, or in respect of or accompanying requests for the extension of time in which to file any such report, return document, declaration, or other information.

(b) No material deficiencies for any Taxes have been proposed, asserted, or assessed against the Company or any of its subsidiaries that have not been fully paid or adequately provided for in the appropriate financial statements of the Company and its subsidiaries, no requests for waivers of the time to assess any Taxes are pending, and no power of attorney in respect of any Taxes has been executed or filed with any taxing authority. No material issues relating to Taxes have been raised by the relevant taxing authority during any presently pending audit or examination.

(c) No material liens for Taxes exist in respect of any assets or properties of the Company or any of its subsidiaries, except for statutory liens for Taxes not yet due.

(d) None of the Company or any of its subsidiaries is a party to or is bound by any Tax sharing agreement, Tax indemnity obligation, or similar agreement, arrangement, or practice in respect of Taxes (including any advance pricing agreement, closing agreement, or other agreement relating to Taxes with any taxing authority).

(e) None of the Company or any of its subsidiaries has taken or agreed to take any action that would prevent the Merger from constituting a reorganization qualifying under the provisions of Section 368(a) of the Code.

(f) There are no employment, severance or termination agreements, other compensation arrangements, or Employee Benefit Plans currently in effect which provide for the payment of any amount (whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement that would give rise to a payment which is nondeductible by reason of Section 280G of the Code.

(g) The Company and its subsidiaries have complied in all material respects with all Laws applicable to the payment and withholding of Taxes.

(h) No federal, state, local, or foreign audits or other administrative proceedings or court proceedings are presently pending in respect of any federal income or material state, local, or foreign Taxes or Tax Returns of the Company or its subsidiaries and neither the Company nor any of its subsidiaries has received a written notice of any pending audit or proceeding.

(i) Neither the Company nor any of its subsidiaries has agreed to or is required to make any adjustment under Section 481(a) of the Code for any taxable year ending after 1998.

(j) Neither the Company nor any of its subsidiaries has (i) in respect of any assets or property held or acquired by any of them, filed a consent to the application of Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by the Company or any of its subsidiaries; (ii) executed or entered into a closing agreement pursuant to Section 7121 of the Code or any similar provision of state, local, or foreign Tax Law; (iii) filed with any Governmental Entity any requests for rulings or determinations in respect of any Taxes within the last five years; or (iv) extended the time within which to file any Tax Return, which Tax Return has since not been filed, or extended or waived the statute of limitations for the assessment or collection of Taxes, which Taxes have not since been paid.

(k) No property owned by the Company or any of its subsidiaries (i) is property required to be treated as being owned by another person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform

Act of 1986; (ii) constitutes "Tax exempt use property" within the meaning of Section 168(h)(1) of the Code; or (iii) is "Tax exempt bond financed property" within the meaning of Section 168(g) of the Code.

(l) The Company and each of its subsidiaries are not currently, have not been within the last five years, and do not anticipate becoming a "United States real property holding company" within the meaning of Section 897(c) of the Code.

(m) No subsidiary of the Company owns any Shares.

(n) Section 3.16(n) of the Company Disclosure Schedule sets forth a list of all material types of Taxes paid and material types of Tax Returns filed by or on behalf of the Company and each of its subsidiaries. To the Company's knowledge, neither the Company nor any of its subsidiaries has received written notice, within the past two years, from a taxing authority in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns to the effect that the Company or any of its subsidiaries is or may be subject to Taxation by that jurisdiction.

(o) Neither the Company nor any of its subsidiaries is a party to any contract, agreement, or other arrangement which could result in the payment of amounts that could be nondeductible by reason of Section 162(m) of the Code.

(p) Neither the Company nor any of its subsidiaries has received any private letter rulings from the IRS or comparable rulings from other taxing authorities.

(q) Neither the Company nor any subsidiary has constituted either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

SECTION 3.17 Absence of Questionable Payments. Neither the Company nor any of its subsidiaries nor, to the Company's knowledge, any director, officer, agent, employee or other person acting on behalf of the Company or any of its subsidiaries, has used any corporate or other funds for unlawful contributions, payments, gifts, or entertainment, or made any unlawful expenditures relating to political activity to government officials or others or established or maintained any unlawful or unrecorded funds in violation of the Foreign Corrupt Practices Act of 1977, as amended, or any other domestic or foreign Law. Neither the Company nor any of its subsidiaries nor, to the Company's knowledge, any director, officer, agent, employee or other person acting on behalf of the Company or any of its subsidiaries, has accepted or received any unlawful contributions, payments, gifts or expenditures.

SECTION 3.18 Material Contracts.

(a) Section 3.18 of the Company Disclosure Schedule sets forth a list of all Material Contracts. The Company has heretofore made available to Parent true, correct and complete copies (or if oral, written summaries) of all written or oral contracts and agreements (and all amendments, modifications and supplements thereto and all side letters to which the Company or any of its subsidiaries is a party affecting the obligations of any party thereunder) to which the Company or any of its subsidiaries is a party or by which any of its assets or properties are bound that are material to the business, assets or properties of the Company and its subsidiaries taken as a whole, including, only to the extent any of the following are, individually or in the aggregate, material to the business, assets or properties of the Company and its subsidiaries taken as a whole, all: (i) employment, severance, product design or development, personal services, consulting, non-competition or indemnification contracts (including, any contract to which the Company or any of its subsidiaries is a party involving employees of the Company); (ii) licensing, merchandising or distribution agreements; (iii) contracts granting a right of first refusal or first negotiation; (iv) partnership or joint venture agreements; (v) agreements for the acquisition, sale or lease of material assets or properties of the Company (by merger, purchase or sale of assets or stock or otherwise) entered into since January 1, 1996; (vi) contracts or agreements with any Governmental Entity; (vii) loan or credit agreements, mortgages, indentures or other agreements or instruments evidencing indebtedness for

borrowed money by the Company or any of its subsidiaries or any such agreement pursuant to which indebtedness for borrowed money may be incurred; (viii) agreements that purport to limit, curtail or restrict the ability of the Company or any of its subsidiaries to compete in any geographic area or line of business; and (ix) commitments and agreements to enter into any of the foregoing (collectively, together with any such contracts entered into in accordance with Section 5.1, the "Material Contracts"). Neither the Company nor any of its subsidiaries is a party to or bound by any severance or other agreement with any employee or consultant pursuant to which such person would be entitled to receive any additional compensation or an accelerated payment of compensation as a result of the consummation of the transactions contemplated hereby.

(b) Each of the Material Contracts constitutes the valid and legally binding obligation of the Company or its subsidiaries, enforceable in accordance with its terms, and is in full force and effect except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. There is no material default under any Material Contract so listed either by the Company (or its subsidiaries) or, to the Company's knowledge, by any other party thereto, and, to the Company's knowledge, no event has occurred that with the giving of notice, the lapse of time, or both would constitute a material default thereunder by the Company (or its subsidiaries) or, to the Company's knowledge, any other party.

(c) No party to any such Material Contract has given written notice to the Company of or made a written claim (or, to the Company's knowledge, an oral claim) against the Company in respect of any breach or default thereunder.

SECTION 3.19 Insurance. Section 3.19 of the Company Disclosure Schedule sets forth a true and complete list of directors and officers liability and general liability insurance policies maintained by the Company or any of its subsidiaries. Such policies provide coverage for the operations conducted by the Company and its subsidiaries of a scope and coverage consistent with customary industry practice.

SECTION 3.20 Subsidiaries. No grants, subsidies or similar arrangements exist directly or indirectly between or among the Company or any of its subsidiaries, on the one hand, and any domestic or foreign Governmental Entity or any other person, on the other hand.

SECTION 3.21 Intellectual Property.

(a) As used herein, the term "Scheduled Intellectual Property" means domestic and foreign letters patent, patents, patent applications, patent licenses, software licenses, know-how licenses, trade names, trademarks, trademark registrations and applications, service mark registrations and applications and copyright registrations and applications. Section 3.21(a) of the Company Disclosure Schedule sets forth all of the Scheduled Intellectual Property owned or used by the Company and its subsidiaries in the operation of their respective businesses. The Company owns all right, title and interest in and to all Scheduled Intellectual Property identified in Section 3.21(a) of the Company Disclosure Schedule as being owned by the Company. Such Scheduled Intellectual Property and the goodwill of the Company's and its subsidiaries' respective businesses associated therewith, together with all copyrights (including, copyrights in Software), Systems, service marks, trade secrets, technical knowledge, know-how, confidential information, proprietary processes, formulae, "semiconductor chip product" and "mask works" (as such terms are defined in 17 U.S.C. 901), and related ownership, use and other rights (including rights of renewal and rights to sue for past, present and future infringements or misappropriations thereof), shall be collectively referred to herein as the "Intellectual Property."

(b) The Company and its subsidiaries own or have the right to use pursuant to license, sublicense, agreement or permission, free and clear of all claims or rights of others, all Intellectual Property necessary for the operation of the businesses of the Company and its subsidiaries as presently conducted. Each material item of Intellectual Property owned or used by the Company and its subsidiaries immediately

prior to the Effective Time will be owned or available for use by Parent and the Surviving Corporation immediately subsequent to the Effective Time. The Company and its subsidiaries have taken not less than reasonable actions to protect and preserve the confidentiality of all technical Intellectual Property not otherwise protected by patents, patent applications or copyrights. Each employee of the Company and its subsidiaries has executed a non-disclosure agreement which included an agreement to assign to the Company or its subsidiaries all rights to Intellectual Property originated or invented by such employee developed in the course of such employee's employment by the Company relating to the business of the Company and its subsidiaries. No trade secret or confidential know-how material to the business of the Company or any of its subsidiaries as currently operated has been disclosed or authorized to be disclosed to any third party, other than pursuant to a non-disclosure agreement that protects the Company's or such subsidiary's proprietary interests in and to such trade secrets and confidential know-how or under circumstances in which the third party is under a legal duty not to disclose such trade secrets and confidential know-how.

(c) To the Company's knowledge, neither the Company nor any of its subsidiaries has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of third parties, and neither the Company nor any of its subsidiaries has received any charge, complaint, claim or notice alleging any such interference, infringement, misappropriation or violation. No third party has, to the Company's knowledge, interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of the Company or its subsidiaries.

(d) Section 3.21(d) of the Company Disclosure Schedule identifies each material item of Intellectual Property that any third party owns and that any of the Company or any of its subsidiaries uses pursuant to license, sublicense, agreement or permission. To the Company's knowledge, in respect of each such item of used Intellectual Property:

(i) the license, sublicense, agreement or permission covering the item is legal, valid, binding, enforceable and in full force and effect;

(ii) the license, sublicense, agreement or permission will continue to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Effective Time;

(iii) no party to the license, sublicense, agreement or permission is in breach or default in any material respect, and no event has occurred which with notice or lapse of time would constitute a material breach or default or permit termination, modification or acceleration thereunder; and

(iv) no party to the license, sublicense, agreement or permission has repudiated any provision thereof.

(e) Neither the Company nor any of its subsidiaries has granted any licenses or other rights to use any of the Intellectual Property of the Company or any of its subsidiaries to any third party.

(f) Neither the Company nor any of its subsidiaries has entered into any agreement to indemnify any other person against any charge of infringement or misappropriation of any Intellectual Property.

(g) The Company owns all rights in the Company's existing websites.

SECTION 3.22 Software.

(a) The computer software owned by the Company or its subsidiaries or developed for the Company or its subsidiaries (the "Software") performs substantially in accordance with the documentation and other written material used in connection with the Software, is in machine readable form and includes all computer programs, Systems, materials, storage media, know-how, object and source codes, other written materials, know-how and processes related to the Software.

(b) To the Company's knowledge, no employee of the Company or any of its subsidiaries is, or is now expected to be, in default under any term of any employment contract, agreement or arrangement relating to the Software or noncompetition arrangement, or any other Material Contract or any restrictive

covenant relating to the Software or its development or exploitation. The Software was developed entirely by the employees of the Company or its subsidiaries during the time they were employees only of the Company or its subsidiaries, and the Company has made reasonable efforts to ensure that such Software does not include any (i) inventions, works of authorship, derivatives or contributions of such employees made prior to the time such employees became employees of the Company or its subsidiaries or (ii) intellectual property of any previous employer of such employee.

(c) All right, title and interest in and to the Software is owned by the Company or its subsidiaries, free and clear of all Liens (other than Permitted Liens), is fully transferable to Parent or the Surviving Corporation, as the case may be, and no person other than the Company or its subsidiaries has any interest in the Software, including, any security interest, license, contingent interest or otherwise. To the Company's knowledge, the Company's and its subsidiaries' development, use, sale or exploitation of the Software does not violate any rights of any other person. Neither the Company nor any of its subsidiaries has received any communication alleging such a violation. Neither the Company nor any of its subsidiaries has any obligation to compensate any other person for the development, use, sale or exploitation of the Software nor has the Company or any of its subsidiaries granted to any other person any license, option or other rights to develop, use, sell or exploit in any manner the Software whether requiring the payment of royalties or not.

(d) The Company and its subsidiaries have kept secret and have not disclosed the source code for the Software to any person other than certain employees of the Company and its subsidiaries who are subject to the terms of a binding confidentiality agreement in respect thereof. Each of the Company and its subsidiaries has taken appropriate measures to protect the confidential and proprietary nature of the Software, including the use of confidentiality agreements with all of its employees having access to the Software source and object code. There have been no patents applied for and no copyrights registered for any part of the Software, except for those owned by the Company or its subsidiaries. There are no trademark rights of any person in the Software, except for those owned by the Company or its subsidiaries.

(e) A complete copy of the Software, in both source code and object code form, will be delivered to Parent at the Closing.

SECTION 3.23 Year 2000.

(a) Based on an assessment of the Systems that are used or relied on by the Company or by any of its subsidiaries in the conduct of their respective businesses, the Company believes that no such System will malfunction, will cease to function, will generate incorrect data or will provide incorrect results when processing, providing and/or receiving (i) date-related data in, into or between the twentieth and twenty-first centuries or (ii) date-related data in connection with any valid date in the twentieth or twenty-first centuries.

(b) Based on an assessment of the products and services that are or have been sold, licensed, rendered or otherwise provided or offered by the Company or by any of its subsidiaries in the conduct of their respective businesses, the Company believes that no such products or services will malfunction, will cease to function, will generate incorrect data or will produce incorrect results when processing, providing and/or receiving (i) date-related data in, into or between the twentieth and twenty-first centuries or (ii) date-related data in connection with any valid date in the twentieth or twenty-first centuries; and, to the knowledge of the Company or any of its subsidiaries, neither the Company nor any of its subsidiaries is or will be subject to claims or liabilities arising from any such malfunction, cessation of function, generation of incorrect data or production of incorrect results.

(c) Neither the Company nor any of its subsidiaries has made representations or warranties concerning the ability of any product or service that is or has been sold, licensed, rendered or otherwise provided or offered by a person other than the Company or any of its subsidiaries, and no other representations and warranties concerning the Systems used or relied on by the Company or any of its subsidiaries, in the conduct of their respective businesses to operate without malfunction, to operate without ceasing to function, to generate correct data or to produce correct results when processing,

providing and/or receiving (i) date-related data in, into and between the twentieth and twenty-first centuries or (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. The Company has made available to Parent copies of (i) all customer agreements containing representations and warranties concerning the Year 2000 Compliance of the Company's products and services and (ii) the Company's standard memorandum to customers regarding Year 2000 Compliance of the Company's products and services, and the Company has made good faith efforts to make available to Parent other materials containing representations and warranties regarding the Year 2000 Compliance of the Company's products, services and Systems.

(d) Based on an inquiry of material suppliers and service providers of the Company and its subsidiaries, the Company believes that such suppliers and service providers will be able to timely ensure that its own (and its material suppliers' and service providers') Systems continue to operate without malfunction, to operate without ceasing to function, to generate correct data and to produce correct results when processing, providing and/or receiving (i) date-related data in, into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. The Company has not received notice that normal business operations of any customer will be disrupted in any material respects as a result of similar Year 2000 Compliance issues.

(e) For the purposes of this Agreement, "Systems" means, with respect to a person, any and all hardware, software and firmware used by the Company or any of its subsidiaries in the course of their respective businesses, including (i) any and all source and object code; (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise; (iii) billing, reporting and other management information systems; (iv) all descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing; (v) all content contained on any Internet site(s) maintained by such person or any of its subsidiaries; and (vi) all documentation, including user manuals and training materials, relating to any of the foregoing.

SECTION 3.24 Brokers. Other than BT Alex. Brown, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission or expense reimbursement in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company or any of its subsidiaries. A true and complete copy of the engagement agreement between the Company and BT Alex. Brown has been provided to Parent.

SECTION 3.25 Accounting Matters; Tax Treatment. Neither the Company nor, to the Company's knowledge, any of its affiliates or stockholders, has taken or agreed to take any action or is aware of any fact or circumstance that would (i) be reasonably likely to prevent the Merger from qualifying as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations or (ii) cause any representation contained in the certificates relating to tax-free reorganization treatment attached hereto as Exhibits C and D to be untrue.

SECTION 3.26 Product Liability; Recalls.

(a) (i) None of the Company or any of its subsidiaries has received any written notice, demand, claim, or inquiry and there is no action, suit, hearing, proceeding or investigation, of a civil, criminal or administrative nature (collectively, "Notices") pending, or to the Company's knowledge, threatened before any Governmental Entity in which a Product is alleged to have a Defect or relating to or resulting from any alleged failure to warn or from any alleged breach of express or implied warranties or representations, nor, to the Company's knowledge, is there any valid basis for any such demand, claim, action, suit, inquiry, hearing, proceeding, notice of violation or investigation; (ii) no Notice would, if adversely determined, have, individually or in the aggregate, a Material Adverse Effect on the Company; (iii) there has not been any recall, rework, retrofit or post-sale general consumer warning since December 31, 1998 (collectively, "Recalls") of any Product, or, to the knowledge of the Company, any investigation or consideration of or decision made by any person concerning whether to undertake or not to undertake any Recalls and the Company has received no Notices from any Governmental Entity or any other person in respect of the foregoing; and (iv) to the knowledge of the Company, there are currently no material defects in design, manufacturing, materials or workmanship, including, any failure to warn, or any breach of express or

implied warranties or representations, which involve any Product that accounts for a material portion of the Company's sales.

(b) As used herein, (i) "Defect" means a defect or impurity of any kind, whether in design, manufacture, processing, or otherwise, including, any dangerous propensity associated with any reasonably foreseeable use of a Product, or the failure to warn of the existence of any defect, impurity or dangerous propensity; and (ii) "Product" means any product designed, manufactured, shipped, sold, marketed, distributed and/or otherwise introduced into the stream of commerce by or on behalf of the Company or any of its past or present subsidiaries.

SECTION 3.27 Customers, Suppliers and Vendors. Section 3.27 of the Company Disclosure Schedule sets forth (a) a list of the ten largest customers of the Company and its subsidiaries (taken as a whole) based on sales during the fiscal year ended December 31, 1998, and the three months ended March 31, 1999, showing the approximate total sales by the Company and its subsidiaries to each such customer during such periods, and (b) a list of the ten largest suppliers and vendors of the Company and its subsidiaries (taken as a whole) based on purchases during the fiscal year ended December 31, 1998, and the three months ended March 31, 1999, showing the approximate total purchases by the Company and its subsidiaries from each such supplier or vendor during such periods. Since December 31, 1998, there has not been any material adverse change in the business relationship of the Company or any of its subsidiaries with any customer, supplier or vendor named in Section 3.27 of the Company Disclosure Schedule, and the Company has no reason to believe that there will be any such material adverse change in the future either as a result of the consummation of the transactions contemplated by this Agreement or otherwise.

SECTION 3.28 Takeover Statute. The Company has taken all action required to be taken by it in order to exempt this Agreement and the transactions contemplated hereby from, and this Agreement and the transactions contemplated hereby are exempt from, the requirements of any "moratorium," "control share," "fair price," "affiliate transaction," "business combination" or other antitakeover Laws of Maryland or Delaware (collectively, "Takeover Statutes"). Section 203 of the DGCL is not applicable, by virtue of paragraph (b)(4) thereof, to the Company or the transactions contemplated hereby.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Except as set forth in the disclosure schedule delivered by Parent to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule"), Parent and Merger Sub hereby represent and warrant to the Company as follows:

SECTION 4.1 Organization.

(a) Each of Parent and Merger Sub is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its businesses as now conducted.

(b) Each of Parent and Merger Sub is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing does not have and would not have, individually or in the aggregate, a Material Adverse Effect on Parent or Merger Sub.

(c) Parent has heretofore made available to the Company accurate and complete copies of the certificate of incorporation and bylaws of Parent and Merger Sub as currently in effect.

(d) Parent directly owns all of the issued and outstanding shares of capital stock of Merger Sub.

SECTION 4.2 Authority Relative to This Agreement.

(a) Each of Parent and Merger Sub has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. No other corporate proceedings on the part of Parent or Merger Sub are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Merger Sub and constitutes a valid, legal and binding agreement of each of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with its terms, except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) The Board of Directors of Parent (the "Parent Board"), the Board of Directors of Merger Sub and Parent as the sole stockholder of Merger Sub have duly and validly authorized the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and taken all corporate actions required to be taken by such Boards of Directors and Parent as the sole stockholder of Merger Sub for the consummation of the transactions.

SECTION 4.3 SEC Reports; Financial Statements. Parent has filed all required forms, reports and documents with the SEC since December 31, 1997, each of which has complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the dates such forms, reports, and documents were filed. Parent has heretofore made available to the Company, in the form filed with the SEC (including, any amendments thereto), (i) its Annual Report on Form 10-K for the fiscal year ended December 31, 1998, (ii) all definitive proxy statements relating to Parent's meetings of stockholders (whether annual or special) held since December 31, 1997 and (iii) all other reports or registration statements filed by Parent with the SEC since December 31, 1997 (the "Parent SEC Reports"). None of such Parent SEC Reports, including, any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of Parent included in the Parent SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC in respect thereof and fairly present, in conformity with GAAP on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments). Except as and to the extent disclosed in the Parent SEC Reports, since December 31, 1998, there has not been any event, occurrence or development which does or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Parent.

SECTION 4.4 Information Supplied. None of the information supplied or to be supplied by Parent or Merger Sub for inclusion or incorporation by reference in (i) the S-4 will, at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Proxy Statement will, at the date mailed to stockholders of the Company and at the time of the Company Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event in respect of Parent, its officers and directors, or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4 or the Proxy Statement, Parent shall promptly so advise the Company and such event shall be so described, and any such amendment or supplement to the S-4 (which the Company shall have a

reasonable opportunity to review) shall be promptly filed with the SEC. The S-4 will comply as to form in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

SECTION 4.5 Consents and Approvals; No Violations. Except for filings, permits, authorizations, consents, and approvals as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, state securities or blue sky Laws, the HSR Act, the filing and recordation of the Certificate of Merger as required by the DGCL, no filing with or notice to, and no permit, authorization, consent, or approval of, any Governmental Entity is necessary for the execution and delivery by Parent or Merger Sub of this Agreement or the consummation by Parent or Merger Sub of the transactions contemplated hereby, except where the failure to obtain such permits, authorizations, consents, or approvals or to make such filings or give such notice do not or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent. Neither the execution, delivery, and performance of this Agreement by Parent or Merger Sub nor the consummation by Parent or Merger Sub of the transactions contemplated hereby will result in any violation of or conflicts with, constitute a default under, require any consent, waiver or notice under any term of, or result in the reduction or loss of any benefit or the creation or acceleration of any right or obligation under, (i) the respective certificate of incorporation or bylaws of Parent or Merger Sub, (ii) any of the terms, conditions, or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or Merger Sub is a party or by which any of them or any of their respective assets or properties may be bound, or (iii) any Law applicable to Parent or Merger Sub or any of their respective assets or properties, except in the case of (ii) or (iii) for violations, breaches or defaults which do not or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent.

SECTION 4.6 No Prior Activities. Except for obligations incurred in connection with its incorporation or organization or the negotiation and consummation of this Agreement and the transactions contemplated hereby, Merger Sub has neither incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any person.

SECTION 4.7 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent or any of its subsidiaries.

SECTION 4.8 Accounting Matters; Tax Treatment. Neither Parent nor, to Parent's knowledge, any of its affiliates, has taken or agreed to take any action or is aware of any fact or circumstance that would (a) be reasonably likely to prevent the Merger from qualifying as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations, or (b) cause any representation contained in the certificates relating to tax-free reorganization treatment attached hereto as Exhibits C and D to be untrue.

ARTICLE V

COVENANTS RELATED TO CONDUCT OF BUSINESS

SECTION 5.1 Conduct of Business of the Company. Except as contemplated by this Agreement, during the period from the date hereof to the Effective Time, the Company will, and will cause each of its subsidiaries to, conduct its operations in the ordinary and usual course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, use commercially reasonable efforts to preserve intact its current business organizations, keep available the service of its current officers and employees, preserve its relationships with customers, suppliers and others having business dealings with it and preserve the goodwill of the Company and its subsidiaries through the Effective Time. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement or in Section 5.1 of the Company Disclosure Schedule, prior to the Effective Time, neither the Company nor any of its subsidiaries will, without the prior written consent of Parent:

(a) amend its certificate of incorporation or bylaws (or other similar organizational or governing instruments);

(b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities convertible into or exchangeable for any stock or any equity equivalents (including, any stock options or stock appreciation rights), except for the issuance or sale of Shares pursuant to outstanding Company Stock Options and the issuance of up to 50,000 Company Stock Options to new employees of the Company or existing employees through ordinary course performance reviews as contemplated by Section 5.3;

(c) (i) split, combine or reclassify any shares of its capital stock; (ii) declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock; (iii) make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to stockholders in their capacity as such; or (iv) redeem, repurchase or otherwise acquire any of its securities or any securities of any of its subsidiaries;

(d) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries (other than the Merger);

(e) alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary of Company;

(f) (i) incur or assume any long-term or short-term debt or issue any debt securities, except for borrowings under existing lines of credit in the ordinary and usual course of business consistent with past practice; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, except in the ordinary and usual course of business consistent with past practice; (iii) make any loans, advances or capital contributions to, or investments in, any other person (other than to the wholly owned subsidiaries of the Company or customary loans or advances to employees in the ordinary and usual course of business consistent with past practice and in amounts not material to the maker of such loan or advance); (iv) pledge or otherwise encumber shares of capital stock of the Company or its subsidiaries; or (v) mortgage or pledge any of its material assets, tangible or intangible, or create or suffer to exist any Lien thereupon, other than as disclosed in the Company Disclosure Schedule and Permitted Liens;

(g) (i) except as may be required by Law or as contemplated by this Agreement, enter into, adopt or amend or terminate (partially or completely) any Benefit Plan, Employee Arrangement (including, the repricing of any stock options or the acceleration or vesting of any stock options),

stock appreciation right, restricted stock, performance unit, stock equivalent or stock purchase agreement for the benefit or welfare of any director, officer or employee in any manner, (ii) except as contemplated by Section 5.3 or as required under existing agreements, increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (including, the granting of stock appreciation rights or performance units) or grant any completion bonuses or change of control payments in respect of the Merger or that will be affected thereby; or (iii) hire, promote or change the classification or status in respect of any employee or individual; provided, however, that Parent shall not unreasonably withhold or delay any consent sought to hire, promote or change the classification or status of any employee or individual;

(h) acquire, sell, lease or dispose of any assets outside the ordinary and usual course of business consistent with past practice or any assets which in the aggregate are material to the Company and its subsidiaries taken as a whole, enter into any commitment or transaction outside the ordinary and usual course of business consistent with past practice or grant any exclusive distribution rights;

(i) except as may be required as a result of a change in Law or in GAAP, change any of the accounting principles or practices used by it;

(j) revalue in any material respect any of its assets, including, writing down the value of inventory or writing-off notes or accounts receivable other than in the ordinary and usual course of business consistent with past practice or as required by GAAP;

(k) (i) acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or any equity interest therein; (ii) enter into any material contract or agreement, other than in the ordinary and usual course of business consistent with past practice, or amend in any material respect any of the Material Contracts; (iii) authorize any new capital expenditure or expenditures which, individually, is in excess of \$100,000 or, in the aggregate, are in excess of \$200,000; or (iv) enter into or amend any contract, agreement, commitment or arrangement providing for the taking of any action that would be prohibited hereunder;

(l) make or revoke any Tax election, or settle or compromise any Tax liability, or change (or make a request to any taxing authority to change) any aspect of its method of accounting for Tax purposes;

(m) pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in excess of \$100,000 individually or \$200,000 in the aggregate, or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which the Company or any of its subsidiaries is a party;

(n) settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated hereby;

(o) take any action (including, any action otherwise permitted by this Section 5.1) that would prevent or impede the Merger from qualifying as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations or as a reorganization under Section 368 of the Code;

(p) enter into any agreement that limits or otherwise restricts the Company or any of its subsidiaries or any successor thereto (including the Surviving Corporation and its affiliates) from engaging or competing in any line of business or in any geographic area;

(q) fail to comply in any material respect with any Law applicable to the Company, its subsidiaries, or their respective assets which would, individually or in the aggregate, have a Material Adverse Effect on the Company;

(r) enter into any direct or indirect arrangements for financial subsidies;

(s) effect a "mass layoff" or "plant closing" as defined in WARN;

(t) enter into any contract with an officer, director, employee, agent, or other similar representative of the Company or any of its subsidiaries that is not terminable, without penalty or other liability, upon not more than 60 calendar days' notice, other than standard confidentiality and inventions agreements;

(u) enter into any contract, agreement or arrangement to port Software to any digital signal processor of any vendor other than Parent or its subsidiaries; or

(v) take, propose to take, or agree in writing or otherwise to take, any of the actions described in Sections 5.1(a) through 5.1(u) or any action which would make any of the representations or warranties of the Company contained in this Agreement untrue, incomplete or incorrect.

SECTION 5.2 Access to Information.

(a) Between the date hereof and the Effective Time, the Company will give Parent and Merger Sub and their authorized representatives (including, counsel, financial advisors and auditors) reasonable access at all reasonable times to all employees, plants, offices, warehouses and other facilities and to all books and records of the Company and its subsidiaries, will permit Parent and Merger Sub to make such inspections as Parent and Merger Sub may reasonably require and will cause the Company's officers and those of its subsidiaries to furnish Parent and Merger Sub with such financial and operating data and other information in respect of the business, properties and personnel of the Company and its subsidiaries as Parent or Merger Sub may from time to time reasonably request.

(b) Between the date hereof and the Effective Time, the Company shall furnish to Parent and Merger Sub (i) within five business days after the delivery thereof to management, such monthly financial statements and data as may be prepared for distribution to Company management and (ii) at the earliest time they are available, such quarterly and annual financial statements as may be prepared for the Company Board.

(c) Each of Parent and Merger Sub will hold and will cause its authorized representatives to hold in confidence all documents and information concerning the Company and its subsidiaries furnished to Parent or Merger Sub in connection with the transactions contemplated by this Agreement pursuant to the terms of that certain Confidentiality Agreement entered into between the Company and Parent dated April 14, 1999 (the "Confidentiality Agreement").

SECTION 5.3 Performance Reviews. Section 5.3 of the Company Disclosure Schedule sets forth a list of all employees of the Company scheduled to receive a performance review and associated standard salary and option adjustment between the date hereof and August 31, 1999. To the extent that this Agreement shall be extended beyond August 31, 1999 pursuant to Section 9.2(a) or the Company otherwise determines that it is in the best interest of the Surviving Corporation to conduct performance reviews in addition to those set forth in Section 5.3 of the Company Disclosure Schedule, the Company shall so notify Parent and Parent shall not unreasonably withhold or delay its consent to such additional performance reviews.

ARTICLE VI

ADDITIONAL AGREEMENTS

SECTION 6.1 Preparation of S-4 and the Proxy Statement. Parent and the Company will, as promptly as practicable, jointly prepare the Proxy Statement in connection with the vote of the stockholders of the Company in respect of the Merger. Parent will, as promptly as practicable, prepare and file with the SEC the S-4 in connection with the registration under the Securities Act of the shares of Parent Common Stock issuable upon conversion of the Shares and the other transactions contemplated hereby. Parent and the Company will, and will cause their accountants and lawyers to, use all reasonable best efforts to have or cause the S-4 declared effective as promptly as practicable after filing with the SEC, including causing their accountants to deliver necessary or required instruments such as opinions, consents and certificates, and will take any other action required or necessary to be taken under federal or state securities Laws or otherwise in connection with the registration process (other than qualifying to do business in any jurisdiction which it is not now so qualified or to file a general consent to service of process in any jurisdiction). Parent shall, as promptly as practicable after the receipt thereof, provide to the other party copies of any written comments and advise the other party of any oral comments, in respect of the S-4 received from the staff of the SEC. The Company will provide Parent with a reasonable opportunity to review and comment on any amendment or supplement to the Proxy Statement. The Company will use its reasonable best efforts to cause the Proxy Statement to be mailed to its stockholders at the earliest practicable date following effectiveness of the S-4.

SECTION 6.2 Letters of Accountants.

(a) The Company shall use reasonable best efforts to cause to be delivered to Parent a letter of KPMG LLP, the Company's independent auditors, dated a date within two business days before the date on which the S-4 shall become effective and addressed to Parent, in the form as contemplated under Section 7.1(f).

(b) Parent shall use reasonable best efforts to cause to be delivered to the Company a letter of Ernst & Young LLP, Parent's independent auditors, dated a date within two business days before the date on which the S-4 shall become effective and addressed to the Company, in the form as contemplated under Section 7.1(f).

SECTION 6.3 Meeting. The Company shall take all lawful action to (i) cause a special meeting of its stockholders (the "Company Stockholder Meeting") to be duly called and held as soon as practicable after the date of this Agreement for the purpose of voting on the approval and adoption of this Agreement and (ii) solicit proxies from its stockholders to obtain the Company Requisite Vote for the approval and adoption of this Agreement. The Company Board shall recommend approval and adoption of this Agreement and the Merger by the Company's stockholders and, except as permitted by Section 6.5(b), the Company Board shall not withdraw, amend, or modify in a manner adverse to Parent such recommendation (or announce publicly its intention to do so). Notwithstanding the foregoing, regardless of whether the Company Board has withdrawn, amended or modified its recommendation that its stockholders approve and adopt this Agreement, unless this Agreement has been terminated pursuant to the provisions of Article IX, the Company shall be required to hold the Company Stockholder Meeting.

SECTION 6.4 Reasonable Best Efforts.

(a) Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the Merger and the other transactions contemplated by this Agreement. In furtherance and not in limitation of the foregoing, each party hereto shall make an appropriate filing of a Notification and Report Form pursuant to the HSR Act in respect of the transactions contemplated hereby as promptly as practicable and in any event within ten business days of the date hereof and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and use its reasonable best efforts to take, or

cause to be taken, all other actions consistent with this Section 6.4 necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) Each of Parent and the Company shall, in connection with the efforts referenced in Section 6.4(a) to obtain all requisite approvals and authorizations for the transactions contemplated by this Agreement under the HSR Act, or any other Antitrust Law, use its reasonable best efforts to (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party; (ii) keep the other party informed in all material respects of any material communication received by such party from, or given by such party to, the Federal Trade Commission (the "FTC"), the Antitrust Division of the Department of Justice (the "DOJ") or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby; and (iii) permit the other party to review any material communication given by it to, and consult with each other in advance of any meeting or conference with, the FTC, the DOJ or any such other domestic or foreign Governmental Entity or, in connection with any proceeding by a private party, with any other person, and to the extent permitted by the FTC, the DOJ or such other applicable domestic or foreign Governmental Entity or other person, give the other party the opportunity to attend and participate in such meetings and conferences. For purposes of this Agreement, "Antitrust Law" means the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition.

(c) In furtherance and not in limitation of the covenants of the parties contained in Sections 6.4(a) and (b), each of Parent and the Company shall use its reasonable best efforts to resolve such objections if any, as may be asserted by a Governmental Entity or other person in respect of the transactions contemplated hereby under any Antitrust Law. In connection with the foregoing, if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as violative of any Antitrust Law, each of Parent and the Company shall cooperate in all respects with each other and use its respective reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction, or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 6.4 shall (i) limit a party's right to terminate this Agreement pursuant to Section 9.2 so long as such party has up to then complied in all material respects with its obligations under this Section 6.4, or (ii) require Parent to dispose or hold separate any part of its or the Company's business or operations (or a combination of Parent's and the Company's business or operations), or comply with any other material restriction affecting its business or operations.

(d) The Company agrees that in connection with any litigation which may be brought against the Company or its directors relating to the transactions contemplated hereby, the Company will keep Parent, and any counsel which Parent may retain at its own expense, informed of the course of such litigation, to the extent Parent is not otherwise a party thereto. The Company agrees that it will consult with Parent prior to entering into any settlement or compromise of any such litigation, and that no such settlement or compromise will be entered into without Parent's prior written consent, which consent shall not be unreasonably withheld.

SECTION 6.5 Acquisition Proposals.

(a) The Company will not, nor will it permit any of its subsidiaries to, nor will it authorize or permit any officer, director or employee of or any investment banker, attorney, accountant or other advisor or representative of, the Company or any of its subsidiaries to, directly or indirectly, (i) solicit, initiate or encourage the submission of any Acquisition Proposal or (ii) participate in any discussions or negotiations regarding, or furnish to any person any information in respect of, or take any other action to facilitate, any

Acquisition Proposal or any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal. The Company shall notify Parent of any Acquisition Proposal (including the material terms and conditions thereof (subject to confidentiality agreements existing as of the date hereof between the Company and any third party) and the identity of the person making it) as promptly as practicable after its receipt thereof, and shall provide Parent with a copy of any written Acquisition Proposal or amendments or supplements thereto (subject to confidentiality agreements existing as of the date hereof between the Company and any third party), and shall thereafter inform Parent on a prompt basis of the status of any discussions or negotiations with such a third party, and any material changes to the terms and conditions of such Acquisition Proposal, and shall promptly give Parent a copy of any information delivered to such person which has not previously been reviewed by Parent. Immediately after the execution and delivery of this Agreement, the Company will, and will cause its subsidiaries and will use its reasonable best efforts to cause its affiliates, and their respective officers, directors, employees, investment bankers, attorneys, accountants and other agents and representatives to, cease and terminate any existing activities, discussions or negotiations with any parties conducted heretofore in respect of any possible Acquisition Proposal and shall notify each party that it, or any officer, director, investment advisor, financial advisor, attorney or other agent or representative retained by it, has had discussions with during the 30 days prior to the date of this Agreement that the Company Board no longer seeks the making of any Acquisition Proposal. The Company shall take all necessary steps to promptly inform the individuals or entities referred to in the first sentence of this Section 6.5 of the obligations undertaken in this Section 6.5. "Acquisition Proposal" means an inquiry, offer or proposal regarding any of the following (other than the transactions contemplated by this Agreement) involving the Company or any of its subsidiaries: (w) any merger, consolidation, share exchange, recapitalization, business combination or other similar transaction; (x) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all the assets of the Company and its subsidiaries, taken as a whole, in a single transaction or series of related transactions; (y) any tender offer or exchange offer for 20% or more of the outstanding Shares or the filing of a registration statement under the Securities Act in connection therewith; or (z) any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

(b) The Company Board will not withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent, its approval or recommendation of this Agreement or the Merger unless the Company Board, after consultation with independent legal counsel, determines in good faith that such action is necessary to avoid a breach by the Company Board of its fiduciary duties to the Company's stockholders under applicable Law. Nothing contained in this Section 6.5(b) shall prohibit the Company from making any disclosure to the Company's stockholders which, in the good faith reasonable judgment of the Company Board, after consultation with independent legal counsel, is required under applicable Law; provided, that except as otherwise permitted in this Section 6.5(b), the Company may not withdraw or modify, or propose to withdraw or modify, its position with respect to the Merger or approve or recommend, or propose to approve or recommend, an Acquisition Proposal. Notwithstanding anything contained in this Agreement to the contrary, any action by the Company Board permitted by, and taken in accordance with, this Section 6.5(b) shall not constitute a breach of this Agreement by the Company. Nothing in this Section 6.5(b) shall (i) permit the Company to terminate this Agreement (except as provided in Article IX hereof) or (ii) affect any other obligations of the Company under this Agreement.

SECTION 6.6 Public Announcements. Each of Parent, Merger Sub and the Company will consult with one another before issuing any press release or otherwise making any public statements in respect of the transactions contemplated by this Agreement, including, the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable Law or by obligations pursuant to any listing agreement with the NYSE, as determined by Parent, Merger Sub or the Company, as the case may be.

SECTION 6.7 Indemnification. The Company shall, and from and after the Effective Time, the Surviving Corporation and Parent shall, indemnify, defend and hold harmless the present and former directors and officers of the Company or any of the subsidiaries of the Company (the "Indemnified

Parties") against all losses, claims, damages, costs, expenses (including reasonable attorneys' fees and expenses), liabilities or judgments or amounts that are paid in settlement with the approval of the indemnifying party of or in connection with any threatened or actual claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of or pertaining to the fact that such person is or was a director or officer of the Company or any of the subsidiaries of the Company whether pertaining to any matter existing at or prior to the Effective Time and whether asserted or claimed prior to, at or after the Effective Time ("Indemnified Liabilities"), including all Indemnified Liabilities based in whole or in part on, or arising in whole or in part out of, or pertaining to this Agreement or the transactions contemplated hereby, in each case to the fullest extent a corporation is permitted under the DGCL as the same exists or may hereafter be amended (but, in the case of any amendment, only to the extent that such amendment permits broader rights than such law permitted prior to such amendment and only to the extent such amendment is not retroactively applicable) to indemnify its own directors or officers, as the case may be. Without limiting the foregoing, in the event any such claim, action, suit, proceeding or investigation is brought against any Indemnified Parties (whether arising before or after the Effective Time), (i) the Indemnified Parties may retain counsel satisfactory to them and the Surviving Corporation, and the Company or the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of reasonable documented expenses incurred, in either case to the fullest extent and in the manner permitted by the DGCL; and (ii) the Company or the Surviving Corporation will use all reasonable efforts to assist in the vigorous defense of any such matter, provided that neither the Company nor the Surviving Corporation shall be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld). Any Indemnified Party wishing to claim indemnification under this Section 6.7, upon learning of any such claim, action, suit, proceeding or investigation, shall promptly notify the Company (or after the Effective Time, the Surviving Corporation) (but the failure so to notify shall not relieve a party from any liability which it may have under this Section 6.7 except to the extent such failure materially prejudices such party), and shall to the extent required by the DGCL deliver to the Company (or after the Effective Time, the Surviving Corporation) the undertaking contemplated by Section 145(e) of the DGCL. The Indemnified Parties as a group may retain only one law firm to represent them with respect to each such matter unless there is, under applicable standards of professional conduct, a conflict on any significant issue between the positions of any two or more Indemnified Parties. The Company, Parent and Merger Sub agree that all rights to indemnification, including provisions relating to advances of expenses incurred in defense of any action or suit, existing in favor of the Indemnified Parties with respect to matters occurring through the Effective Time, shall survive the Merger and shall continue in full force and effect for a period of not less than seven years from the Effective Time; provided, however, that all rights to indemnification in respect of any Indemnified Liabilities asserted or made within such period shall continue until the disposition of such Indemnified Liabilities.

SECTION 6.8 Notification of Certain Matters. The Company shall give prompt notice to Parent and Merger Sub, and Parent and Merger Sub shall give prompt notice to the Company, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time, (ii) any material failure of the Company, Parent or Merger Sub, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, (iii) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, or (iv) any facts or circumstances arise that could reasonably be expected to result in a Material Adverse Effect; provided, however, that the delivery of any notice pursuant to this Section 6.8 shall not cure such breach or non-compliance or limit or otherwise affect the rights, obligations or remedies available hereunder to the party receiving such notice.

SECTION 6.9 Tax-Free Reorganization Treatment. The Company, Parent and Merger Sub shall execute and deliver to King & Spalding, counsel to the Company, and Weil, Gotshal & Manges LLP, counsel to Parent, certificates substantially in the forms attached hereto as Exhibits C and D at such time

or times as reasonably requested by such law firms in connection with their respective deliveries of opinions in respect of the transactions contemplated hereby. Prior to the Effective Time, none of the Company, Parent or Merger Sub shall take or cause to be taken any action which would cause to be untrue (or fail to take or cause not to be taken any action which would cause to be untrue) any of the representations in such previously-agreed certificates.

SECTION 6.10 Employee Matters.

(a) Parent will cause the Surviving Corporation to honor the obligations of the Company or any of its subsidiaries under the provisions of all Benefit Plans and Employee Arrangements. After the Effective Time, the employees of the Company will be eligible to participate in the Benefit Plans or Parent's applicable employee benefit plans, as such plans may be in effect from time to time, and at Parent's sole discretion, will become employees of Parent. With respect to each such employee of the Company, service with the Company or any of its subsidiaries shall be counted for purposes of determining any period of eligibility to participate or to vest in benefits under any applicable benefit plan of Parent.

(b) The Company shall, not less than five days prior to the scheduled Closing Date, terminate its 401(k) retirement plan and completely distribute all participants' accounts thereunder.

(c) At or prior to the Effective Time, the Company shall enter into employment agreements in substantially the form attached as Exhibit E with each of the persons listed in Section 6.10(c) of the Company Disclosure Schedule.

(d) Employees of the Surviving Corporation shall not be required to pay any co-payments or deductibles on the TI health plan for the period beginning at the Closing Date and ending on December 31, 1999. To receive such treatment, the employee must be enrolled in the TI health plan and shall be required to pay any required premiums of the plan. Beginning January 1, 2000, employees of the Surviving Corporation enrolled in the TI health plan will be subject to the normal rules of the TI health plan.

SECTION 6.11 Affiliate Letters. Section 6.11 of the Company Disclosure Schedule sets forth a list of all persons who are, and all persons who to the Company's knowledge will be at the Closing Date, "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company will cause such list to be updated promptly through the Closing Date. As soon as practicable after the date hereof, but prior to the date of the Company Stockholder Meeting, the Company shall use commercially reasonable efforts to cause its "affiliates" to deliver to Parent a written agreement substantially in the form attached as Exhibit B.

SECTION 6.12 SEC and Other Filings. Each of Parent and the Company shall promptly provide the other party (or its counsel) with copies of all filings made by the other party or any of its subsidiaries with the SEC or any other state, federal or foreign Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

SECTION 6.13 Fees and Expenses. Whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except (a) Expenses incurred in connection with the filing, printing and mailing of the Proxy Statement and the S-4, which shall be shared equally by the Company and Parent, (b) the filing fees required under the HSR Act, which shall be shared equally by the Company and Parent and (c) if applicable, as provided in Section 9.5. As used in this Agreement, "Expenses" includes all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with, or related to, the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation, filing, printing and mailing of the Proxy Statement and the S-4 and the solicitation of stockholder approvals and all other matters related to the transactions contemplated hereby.

SECTION 6.14 Obligations of Merger Sub. Parent will take all action necessary to cause Merger Sub to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

SECTION 6.15 Listing of Stock. Parent shall use its reasonable best efforts to cause the shares of Parent Common Stock to be issued in connection with the Merger to be approved for listing on the NYSE on or prior to the Closing Date, subject to official notice of issuance.

SECTION 6.16 Antitakeover Statutes. If any Takeover Statute becomes applicable to the Merger, each of Parent and the Company shall take such actions as are commercially reasonable so that the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of any Takeover Statute on the Merger.

SECTION 6.17 No Solicitation. For a period of eighteen months following the date hereof, if this Agreement is terminated for any reason pursuant to Article IX, neither Parent nor any affiliates which it controls shall, directly or indirectly, actively solicit or induce any employee of the Company to leave such employment and become an employee of Parent or any of its affiliates if Parent was apprised of or had contact with such employee in connection with the transactions contemplated herein; provided, however, that nothing in this Section 6.17 shall prohibit (i) Parent or any of its affiliates from employing any person who initiates contact with them on his or her own initiative; (ii) any advertisement or general solicitation (or any hiring pursuant thereto) that is not specifically targeted at such employees; or (iii) the solicitation or hiring of any person who is not so employed by the Company on the date Parent or its affiliates first solicit such person.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE MERGER

SECTION 7.1 Conditions to Each Party's Obligations to Effect the Merger. The respective obligations of each party to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by the party being benefited thereby, to the extent permitted by applicable Law:

(a) This Agreement shall have been approved and adopted by the Company Requisite Vote.

(b) Any waiting periods applicable to the Merger under the HSR Act shall have expired or early termination thereof shall have been granted without limitation, restriction or condition.

(c) There shall not be in effect any Law of any Governmental Entity of competent jurisdiction restraining, enjoining or otherwise preventing consummation of the transactions contemplated by this Agreement.

(d) The S-4 shall have been declared effective by the SEC and shall be effective at the Effective Time, and no stop order suspending effectiveness shall have been issued; no action, suit, proceeding or investigation by the SEC to suspend the effectiveness thereof shall have been initiated and be continuing; and all necessary approvals under state securities Laws or the Securities Act or Exchange Act relating to the issuance or trading of the Parent Common Stock shall have been received.

(e) The Parent Common Stock required to be issued hereunder shall have been approved for listing on the NYSE, subject only to official notice of issuance.

(f) The Company shall have received and delivered to Parent a letter from KPMG LLP dated as of the date the S-4 is declared effective and dated as of the Closing Date, stating that the accounting of the Merger as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations is appropriate if the Merger is consummated as contemplated by this Agreement. Parent

shall have received and delivered to the Company a letter from Ernst & Young LLP, dated as of the date the S-4 is declared effective and dated as of the Closing Date, stating that accounting of the Merger as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations is appropriate if the Merger is consummated as contemplated by this Agreement. Notwithstanding the foregoing, the satisfaction of this Section 7.1(f) shall not be a condition to the obligations of a party to effect the Merger if the failure to satisfy this condition results from any action taken or agreed to be taken by or on behalf of such party.

SECTION 7.2 Conditions to the Obligations of Parent and Merger Sub. The respective obligations of Parent and Merger Sub to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following additional conditions, any or all of which may be waived in whole or part by Parent and Merger Sub, as the case may be, to the extent permitted by applicable Law:

(a) The representations and warranties of the Company contained herein, to the extent qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true and, to the extent not qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true in all material respects, in each case when made and on and as of the Closing Date as though made on and as of the Closing Date (except for representations and warranties made as of a specified date, which need be true, or true in all material respects, as the case may be, only as of the specified date).

(b) The Company shall have performed or complied in all material respects with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the time of the Closing.

(c) The Company shall have delivered to Parent a certificate, dated the date of the Closing, signed by the President or any Vice President of the Company (but without personal liability thereto), certifying as to the fulfillment of the conditions specified in Sections 7.2(a) and 7.2(b).

(d) Parent shall have received an opinion of Weil, Gotshal & Manges LLP, dated the Effective Time, based on the representations of Parent and the Company substantially in the forms attached hereto as Exhibits C and D, to the effect that (i) the Merger will be treated for federal income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code; (ii) each of Parent, Merger Sub and the Company will be a party to the reorganization within the meaning of Section 368(b) of the Code; and (iii) no gain or loss will be recognized by the Company, Parent or Merger Sub as a result of the Merger.

(e) All authorizations, consents or approvals of a Governmental Entity (other than those specified in Section 7.1(b)) required in connection with the execution and delivery of this Agreement and the performance of the obligations hereunder shall have been made or obtained, without any limitation, restriction or condition that has or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company (or an effect on Parent and its subsidiaries that, were such effect applied to the Company and its subsidiaries, could have or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company), except for such authorizations, consents or approvals, the failure of which to have been made or obtained does not and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company (or an effect on Parent and its subsidiaries that, were such effect applied to the Company and its subsidiaries, has or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company).

(f) The Company shall have obtained the consent or approval of each person whose consent or approval shall be required under any of the Material Contracts listed in Section 3.9 of the Company Disclosure Schedule.

(g) Prior to the date of the Company Stockholder Meeting, Parent shall have received from the Company's "affiliates" a written agreement substantially in the form attached as Exhibit B.

(h) Holders of no more than that number of outstanding Shares of Company Capital Stock that, when taken together with all other relevant factors, could reasonably be expected to impair or compromise "pooling of interest" treatment, shall have exercised and not withdrawn, forfeited or otherwise permitted to lapse appraisal, dissenter's or similar rights under applicable Law with respect to their Shares in connection with the Merger.

(i) All outstanding shares of Series A Preferred Stock and Series B Preferred Stock shall have been converted into shares of Company Common Stock.

SECTION 7.3 Conditions to the Obligations of the Company. The obligations of the Company to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by the Company to the extent permitted by applicable Law:

(a) The representations and warranties of Parent and Merger Sub contained herein, to the extent qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true and, to the extent not qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true in all material respects, in each case when made and on and as of the Closing Date as though made on and as of the Closing Date (except for representations and warranties made as of a specified date, which need be true, or true in all material respects, as the case may be, only as of the specified date).

(b) Parent shall have performed or complied in all material respects with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the time of the Closing.

(c) Parent shall have delivered to the Company a certificate, dated the date of the Closing, signed by the President or any Vice President of Parent (but without personal liability thereto), certifying as to the fulfillment of the conditions specified in Sections 7.3(a) and 7.3(b).

(d) The Company shall have received an opinion of King & Spalding, dated the Effective Time, based on the representations of Parent and the Company substantially in the forms attached hereto as Exhibits C and D, to the effect that (i) the Merger will be treated for federal income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code; (ii) each of Parent, Merger Sub, and the Company will be a party to the reorganization within the meaning of Section 368(b) of the Code; and (iii) no gain or loss will be recognized by a stockholder of the Company as a result of the Merger (except with respect to cash received in lieu of fractional shares of Parent Common Stock).

ARTICLE VIII

SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS; ESCROW PROVISIONS

SECTION 8.1 Survival of Representations, Warranties, Covenants and Agreements. Notwithstanding any right of Parent, Merger Sub or the Company (whether or not exercised) to investigate the affairs of Parent, Merger Sub or the Company, each party shall have the right to rely fully upon the representations, warranties, covenants and agreements of the other party contained in this Agreement or in any instrument required to be delivered pursuant to Article VII of this Agreement; provided, however, that, except in the case of fraud (i.e., an intentional breach of a representation, warranty, covenant or agreement, but excluding any negligent or reckless breach), no reliance can be made on, or claim made in respect of, any representation, warranty, covenant or agreement specific compliance with which was waived in writing, including the waiver of any related closing condition contained in Article VII. The covenants and agreements of the Company, Parent and Merger Sub contained in this Agreement or in any instrument delivered pursuant to this Agreement that by their terms apply or are to be performed in whole or in part after the Effective Time shall survive the Effective Time. The representations and warranties of the Company, Parent and Merger Sub contained in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Merger and continue until the filing of Parent's Annual

Report on Form 10-K for the fiscal year ending December 31, 1999, except for the representations and warranties set forth in Sections 3.11, 3.13, 3.15, 3.16, 3.18, 3.21, 3.22, 3.23 and 3.26, which shall continue until the first anniversary of the Closing Date (the "Expiration Date"). Each of the parties hereto agrees that, except for the representations and warranties contained in this Agreement, none of Parent, Merger Sub or the Company has made any representations or warranties, and except for the representations and warranties contained in this Agreement, each of Parent, Merger Sub and the Company acknowledges that no representations or warranties have been made by, and it has not relied upon any representations or warranties made by, any of the parties hereto or any of their respective officers, directors, employees, agents, financial and legal advisors or other representatives (collectively, "Representatives") with respect to this Agreement and the transactions contemplated hereby, and the documents and instruments referred to herein, notwithstanding the delivery or disclosure to such party or its Representatives of any documentation or other information with respect to any one or more of the foregoing. The inclusion of any entry on the Company Disclosure Schedule shall not constitute an admission by, or agreement of, the Company that such matter is material to the Company.

SECTION 8.2 Escrow Provisions.

(a) Establishment of the Escrow Fund. "Escrow Amount" and "Escrow Fund" means the number of shares of Parent Common Stock obtained by multiplying (i) the aggregate number of shares of Parent Common Stock issuable by Parent at the Effective Time to holders of Company Capital Stock in accordance with Sections 2.1(b) by (ii) 5%. As soon as practicable after the Effective Time, the Escrow Amount, without any act of any stockholder, will be deposited with Harris Trust and Savings Bank (the "Depositary Agent") (plus a proportionate share of any additional shares of Parent Common Stock as may be issued upon any stock splits, stock dividends or recapitalizations effected by Parent following the Effective Time). The Escrow Fund will be governed by the terms set forth herein and shall be maintained at Parent's sole cost and expense. The portion of the Escrow Amount contributed on behalf of each stockholder of the Company shall be in proportion to the aggregate number of shares of Parent Common Stock which such holder would otherwise be entitled under Section 2.1.

(b) Recourse to the Escrow Fund. The Escrow Fund shall be available (and shall be the sole and exclusive remedy after the Effective Time) to compensate Parent and the Surviving Corporation, and their respective officers, directors, employees, agents and affiliates, for any and all Losses (whether or not involving a Third Party Claim), incurred or sustained by Parent or the Surviving Corporation, their respective officers, directors, employees, agents or affiliates, directly or indirectly, as a result of any inaccuracy or breach of any representation, warranty, covenant or agreement of the Company contained herein which survived the Effective Time in accordance with this Agreement; provided, however, that Parent and the Surviving Corporation may not make any claims against the Escrow Fund unless the aggregate Losses incurred or sustained exceed \$100,000 (at which such time claims may be made for all such Losses incurred or sustained in excess of such amount). The stockholders of the Company shall not have any liability under this Agreement of any sort whatsoever in excess of the Escrow Fund.

(c) Escrow Period; Distribution of Escrow Fund upon Termination of Escrow Period. Subject to the following requirements, the Escrow Fund shall be in existence immediately following the Effective Time and shall terminate at 5:00 p.m., Dallas Time, on the Expiration Date (the period of time from the Effective Time through and including the Expiration Date is referred to herein as the "Escrow Period"); and all shares of Parent Common Stock remaining in the Escrow Fund shall be distributed as set forth in the last sentence of this Section 8.2(c); provided, however, that the Escrow Period shall not terminate with respect to such amount (or some portion thereof) that is necessary in the reasonable judgment of Parent, subject to the objection of the Stockholder Agent and the subsequent resolution of the matter in the manner as provided in Section 8.2(g) hereof, to satisfy any unsatisfied written claims under this Section 8.2 concerning facts and circumstances existing prior to the termination of such Escrow Period which claims are specified in any Officer's Certificate delivered to the Depositary Agent prior to termination of such Escrow Period. As soon as all such claims, if any, have been resolved, the Depositary Agent shall deliver to the stockholders the remaining portion of the Escrow Fund not required to satisfy such claims. Deliveries of shares of Parent Common Stock remaining in the Escrow Fund to the

stockholders pursuant to this Section 8.2(c) shall be made ratably in proportion to their respective contributions to the Escrow Fund and Parent shall use all its commercially reasonable efforts to have such shares delivered within five (5) Business Days of such resolution.

(d) Protection of Escrow Fund.

(i) The Depositary Agent shall hold and safeguard the Escrow Fund during the Escrow Period, shall treat such fund as a trust fund in accordance with the terms of this Agreement and not as the property of Parent and shall hold and dispose of the Escrow Fund only in accordance with the terms hereof.

(ii) Any shares of Parent Common Stock, or other securities which, by their terms, are or may be exercisable, convertible or exchangeable for or into Parent Common Stock, that are issued or distributed by Parent ("New Shares") in respect of Parent Common Stock in the Escrow Fund which have not been released from the Escrow Fund shall be added to the Escrow Fund. New Shares issued in respect of shares of Parent Common Stock which have been released from the Escrow Fund shall not be added to the Escrow Fund, but shall be distributed to the record holders thereof. Cash dividends on Parent Common Stock shall not be added to the Escrow Fund, but shall be distributed to the record holders of the Parent Common Stock on the record date set for any such dividend.

(iii) Each stockholder shall have voting rights with respect to the shares of Parent Common Stock contributed to the account of such stockholder within the Escrow Fund (and on any voting securities added to the Escrow Fund in respect of such shares of Parent Common Stock).

(e) Claims Upon Escrow Fund.

(i) Upon receipt by the Depositary Agent, at any time on or before the last day of the Escrow Period, but in each case prior to the expiration of the survival period for the applicable representation, warranty, covenant or agreement as set forth in Section 8.1, of a certificate signed by any officer of Parent (an "Officer's Certificate"): (A) stating that Parent has paid or properly accrued or reasonably anticipates that it will have to pay or accrue Losses, directly or indirectly, as a result of any inaccuracy or breach of any representation, warranty, covenant or agreement of the Company contained herein, and (B) specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid or properly accrued, or the basis for such anticipated liability, and the nature of the misrepresentation or breach of warranty, agreement or covenant to which such item is related (including the specific provision breached), the Depositary Agent shall, subject to the provisions of Section 8.2(f) hereof, deliver to Parent out of the Escrow Fund, as promptly as practicable, shares of Parent Common Stock held in the Escrow Fund in an amount equal to such Losses.

(ii) For purposes of this Agreement, "Losses" shall mean all losses, expenses (including reasonable attorneys' fees and expenses), damages, liabilities, fines, penalties, judgments, actions, claims and costs.

(iii) For the purposes of determining the number of shares of Parent Common Stock to be delivered to Parent out of the Escrow Fund pursuant to Section 8.2(e)(i), the shares of Parent Common Stock shall be valued on a per share basis at the Average Parent Stock Price.

(f) Objections to Claims. At the time of delivery of any Officer's Certificate to the Depositary Agent, a duplicate copy of such certificate shall be delivered to the Stockholder Agent and for a period of thirty (30) days after such delivery, the Depositary Agent shall make no delivery to Parent of any Escrow Amounts pursuant to Section 8.2(e) hereof unless the Depositary Agent shall have received written authorization from the Stockholder Agent to make such delivery. After the expiration of such thirty (30) day period, the Depositary Agent shall make delivery of shares of Parent Common Stock from the Escrow Fund in accordance with Section 8.2(e) hereof, provided that no such payment or delivery may be made if the Stockholder Agent shall object in a written statement to the claim made in the Officer's

Certificate, and such statement shall have been delivered to the Depositary Agent prior to the expiration of such thirty (30) day period.

(g) Resolution of Conflicts. In case the Stockholder Agent shall object in writing to any claim or claims made in any Officer's Certificate, the Stockholder Agent and Parent shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Stockholder Agent and Parent should so agree, joint written instructions setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Depositary Agent. The Depositary Agent shall be entitled to rely on any such instructions and distribute shares of Parent Common Stock from the Escrow Fund in accordance with the terms thereof. If no such agreement can be reached after good faith negotiation, either Parent or the Stockholder Agent may commence litigation or, upon written consent of Parent and the Stockholder Agent, binding arbitration to resolve the dispute.

SECTION 8.3 Stockholder Agent of the Stockholders; Power of Attorney.

(a) Stockholder Agent. In the event that the Merger is approved by the stockholders of the Company, effective upon such vote, and without further act of any stockholder, John Puente and John Nehra shall be appointed as agents and attorneys-in-fact (the "Stockholder Agent"), either of which may take actions as Stockholder Agent without the joinder of the other, for each stockholder of the Company (except such stockholders, if any, as shall have perfected their dissenters' rights under Delaware Law), for and on behalf of stockholders of the Company, to give and receive notices and communications, to authorize delivery to Parent of shares of Parent Common Stock from the Escrow Fund in satisfaction of claims by Parent, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand litigation or arbitration and comply with orders and awards of courts and arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the Stockholder Agent for the accomplishment of the foregoing. Such agency may be changed by the stockholders of the Company from time to time upon not less than thirty (30) days prior written notice to Parent; provided, however, that the Stockholder Agent may not be removed unless holders of a two-thirds interest in the Escrow Fund agree to such removal and to the identity of the substituted stockholder agent. Any vacancy in the position of Stockholder Agent may be filled by approval of the holders of a majority in interest of the Escrow Fund. No bond shall be required of the Stockholder Agent, and the Stockholder Agent shall not receive compensation for his services. Notices or communications to or from the Stockholder Agent shall constitute notice to or from each of the stockholders of the Company.

(b) Exculpation. The Stockholder Agent shall not be liable for any act done or omitted hereunder as Stockholder Agent while acting in good faith and in the exercise of reasonable judgment.

(c) Actions of the Stockholder Agent. A decision, act, consent or instruction of the Stockholder Agent shall constitute a decision for all of the stockholders for whom a portion of the Escrow Amount otherwise issuable to them are deposited in the Escrow Fund, and shall be final, binding and conclusive upon each of such stockholders, and the Depositary Agent and Parent may rely upon any such decision, act, consent or instruction of the Stockholder Agent as being the decision, act, consent or instruction of every such stockholder of the Company. The Depositary Agent and Parent are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholder Agent.

SECTION 8.4 Third-Party Claims. In the event Parent or the Surviving Corporation receives written notice of a third-party claim (a "Third Party Claim") which Parent reasonably expects may result in a demand against the Escrow Fund, Parent shall provide the Stockholder Agent with reasonably prompt written notice thereof. The Stockholder Agent, as representative for the stockholders of the Company, shall have the right to participate in or, by giving written notice to Parent, to assume the defense of any Third Party Claim at the expense of the Escrow Fund and by counsel selected by the Stockholder Agent (which counsel must be reasonably satisfactory to Parent), and Parent will cooperate in good faith (and shall be permitted to participate at Parent's expense) in such defense; provided, however, that the Stockholder Agent shall not be entitled to assume control of the defense of any Third Party Claim that (i) could reasonably be expected to have any impact on the ongoing operations or goodwill of the

Surviving Corporation or Parent, the Intellectual Property or the Software or (ii) could reasonably be expected to result in Losses in excess of the Escrow Fund. Parent shall have the right in its sole discretion to settle any Third Party Claim contemplated by clause (i) or (ii) above; provided, however, that if Parent settles any such Third Party Claim without the Stockholder Agent's written consent (which consent shall not be unreasonably withheld or delayed), Parent may not make a claim against the Escrow Fund with respect to the amount of Losses incurred by Parent in such settlement; provided, further, that if the Stockholder Agent settles any Third Party Claim without Parent's written consent (which consent shall not be unreasonably withheld or delayed), such settlement shall be null and void. In the event that the Stockholder Agent has consented to any such settlement, the Stockholder Agent shall have no power or authority to object under any provision of this Article VIII to the amount of any claim by Parent against the Escrow Fund with respect to the amount of Losses incurred by Parent in such settlement as consented to by the Stockholder Agent.

SECTION 8.5 Depositary Agent's Duties.

(a) Limitation on Duties of Depositary Agent. The Depositary Agent shall be obligated only for the performance of such duties as are specifically set forth herein, and as set forth in any additional written escrow instructions which the Depositary Agent may receive after the date of this Agreement which are signed by an officer of Parent and the Stockholder Agent, and may rely and shall be protected in relying or refraining from acting, in good faith, on any instrument reasonably believed to be genuine and to have been signed or presented by the proper party or parties. The Depositary Agent shall not be liable for any act done or omitted hereunder as Depositary Agent while acting in good faith and in the exercise of reasonable judgment, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith.

(b) Compliance with Orders. The Depositary Agent is hereby expressly authorized to comply with and obey orders of any court of law or Governmental Entity or regulatory authority, notwithstanding any notices, warnings or other communications from any party or any other person to the contrary. In case the Depositary Agent obeys or complies with any such order, the Depositary Agent shall not be liable to any of the parties hereto or to any other person by reason of such compliance, notwithstanding any such order being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction or proper authority.

(c) Limitations on Liability of Depositary Agent. The Depositary Agent shall not be liable:

(i) in any respect on account of the identity, authority or rights of the parties executing or delivering or purporting to execute or deliver this Agreement or any documents or papers deposited or called for hereunder; or

(ii) for the expiration of any rights under any statute of limitations with respect to this Agreement or any documents deposited with the Depositary Agent.

(d) Good Faith of Depositary Agent. In performing any duties under the Agreement, the Depositary Agent shall not be liable to any party for damages, losses or expenses, except for damages, losses or expenses attributable to the gross negligence or willful misconduct of the Depositary Agent. The Depositary Agent shall not incur any such liability for (i) any act or failure to act made or omitted in good faith, or (ii) any action taken or omitted in reliance upon any instrument, including any written statement or affidavit provided for in this Agreement that the Depositary Agent shall in good faith believe to be genuine, nor will the Depositary Agent be liable or responsible for forgeries, fraud, impersonations or determining the scope of any representative authority. In addition, the Depositary Agent may consult with legal counsel in connection with the Depositary Agent's duties under this Agreement and shall be fully protected in any act taken, suffered or permitted by the Depositary Agent in good faith in accordance with the advice of counsel. The Depositary Agent is not responsible for determining and verifying the authority of any person acting or purporting to act on behalf of any party to this Agreement.

(e) Non-responsibility of Depositary Agent. If any controversy arises between the parties to this Agreement, or with any other party, concerning the subject matter of this Agreement, its terms or

conditions, the Depositary Agent will not be required to determine the controversy or to take any action regarding it. The Depositary Agent may hold all documents and shares of Parent Common Stock and may wait for settlement of any such controversy by final appropriate legal proceedings or other means as, in the Depositary Agent's discretion, the Depositary Agent may be required, despite what may be set forth elsewhere in this Agreement. In such event, the Depositary Agent will not be liable for any damages. Furthermore, the Depositary Agent may at its option, file an action of interpleader requiring the parties to answer and litigate any claims and rights among themselves. The Depositary Agent is authorized to deposit with the clerk of the court all documents and shares of Parent Common Stock held in escrow, except all costs, expenses, charges and reasonable attorneys' fees incurred by the Depositary Agent due to the interpleader action and which Parent and the Stockholder Agent, on behalf of the Stockholders, jointly and severally agree to pay. Upon initiating such action, the Depositary Agent shall be fully released and discharged of and from all obligations and liability imposed by the terms of this Agreement.

(f) Indemnification of Depositary Agent. Parent agrees to indemnify and hold the Depositary Agent harmless against any and all Losses incurred by the Depositary Agent in connection with the performance of the Depositary Agent's duties under this Agreement, including but not limited to any litigation from this Agreement or involving its subject matter.

(g) Resignation of Depositary Agent. The Depositary Agent may resign at any time upon giving at least thirty (30) days' written notice to the parties; provided, however, that no such resignation shall become effective until the appointment of a successor Depositary Agent which shall be accomplished as follows: the parties shall use their best efforts to mutually agree on a successor Depositary Agent within thirty (30) days after receiving such notice. If the parties fail to agree upon a successor Depositary Agent within such time, the Depositary Agent shall have the right to appoint a successor Depositary Agent authorized to do business in the State of Delaware. The successor Depositary Agent shall execute and deliver an instrument accepting such appointment and it shall, without further acts, be vested with all the estates, properties, rights, powers and duties of the predecessor Depositary Agent as if originally named as Depositary Agent. Upon such succession, the original Depositary Agent shall be discharged from any further duties and liability under this Agreement.

(h) Fees. All fees of the Depositary Agent for performance of its duties hereunder shall be paid by Parent. In the event that the conditions of this Agreement are not promptly fulfilled, or if the Depositary Agent renders any service not provided for in this Agreement, or if the parties request a substantial modification of its terms, or if any controversy arises, or if the Depositary Agent is made a party to, or intervenes in, any action or proceeding pertaining to the Escrow Fund or its subject matter, the Depositary Agent shall be reasonably compensated for such extraordinary services and reimbursed for all costs, attorneys' fees and expenses occasioned by such default, delay, controversy or action or proceeding.

ARTICLE IX

TERMINATION; AMENDMENT; WAIVER

SECTION 9.1 Termination by Mutual Agreement. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Merger by the Company Requisite Vote referred to in Section 7.1(a), by mutual written consent of the Company and Parent by action of their respective Boards of Directors.

SECTION 9.2 Termination by Either Parent or the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the Board of Directors of either Parent or the Company if:

(a) the Merger shall not have been consummated by August 31, 1999, whether such date is before or after the date of approval of the Merger by the Company Requisite Vote (the "Termination Date"); provided, however, that if any condition of Closing set forth in Section 7.1 that remains reasonably capable of satisfaction has not been fulfilled or waived prior to August 31, 1999, the Termination Date shall be automatically extended to September 30, 1999; provided further that if any

such condition has not been fulfilled or waived prior to the Termination Date, as so extended, the Company and Parent shall negotiate in good faith an additional extension of the Termination Date, taking into consideration all relevant factors;

(b) the Company Requisite Vote shall not have been obtained at the Company Stockholder Meeting or at any adjournment or postponement thereof; or

(c) any Law permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable (whether before or after the approval of the Merger by the Company Requisite Vote);

provided, however, that the right to terminate this Agreement pursuant to this Section 9.2 shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the occurrence of the failure of the Merger to be consummated.

SECTION 9.3 Termination by the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Merger by the Company Requisite Vote referred to in Section 7.1(a), by action of the Company Board if there is a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in Section 7.3(a) or 7.3(b) to be incapable of being satisfied as of the Termination Date.

SECTION 9.4 Termination by Parent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by Parent, if:

(a) there is a breach by the Company of any representation, warranty, covenant or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in Section 7.2(a) or 7.2(b) to be incapable of being satisfied as of the Termination Date; or

(b) the condition regarding appraisal rights set forth in Section 7.2(h) is not satisfied.

SECTION 9.5 Effect of Termination and Abandonment.

(a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article IX, this Agreement (other than this Section 9.5, Sections 5.2(c) and 6.13, and Article X) shall become void and of no effect with no liability on the part of any party hereto (or of any of its directors, officers, employees, agents, legal and financial advisors, or other representatives); provided, however, that except as otherwise provided herein, no such termination shall relieve any party hereto of any liability or damages resulting from any willful breach of this Agreement.

(b) In the event that within 12 months of the termination of this Agreement pursuant to Section 9.2(a) (but only if terminated by the Company), 9.2(b), 9.4(a) (but only if terminated by reason of a breach of covenant or agreement) or 9.4(b) any Acquisition Proposal by a third party is entered into, agreed to or consummated by the Company, then the Company shall pay Parent a termination fee of \$22,500,000, in same-day funds, on the earlier of the date an agreement is entered into in respect of an Acquisition Proposal or an Acquisition Proposal is consummated.

(c) The Company acknowledges that the agreements contained in Section 9.5(b) are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty, and that, without these agreements, Parent and Merger Sub would not have entered into this Agreement. If the Company fails to promptly pay the amount due pursuant to Section 9.5(b), and, in order to obtain such payment, Parent commences a suit which results in a judgment against the Company for the fee set forth in this Section 9.5, the Company shall pay to Parent its costs and expenses (including attorneys' fees) in connection with such suit, together with interest from the date of termination of this Agreement on the amounts owed at the prime rate of Bank of America, N.A., in effect from time to time during such period plus two percent.

SECTION 9.6 Amendment. This Agreement may be amended by action taken by the Company, Parent and Merger Sub at any time before or after approval of the Merger by the Company Requisite Vote but, after any such approval, no amendment shall be made which changes the amount or form of the Share Consideration. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties hereto.

SECTION 9.7 Extension; Waiver. At any time prior to the Effective Time, each party hereto (for these purposes, Parent and Merger Sub shall together be deemed one party and the Company shall be deemed the other party) may (i) extend the time for the performance of any of the obligations or other acts of the other party, (ii) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document, certificate or writing delivered pursuant hereto, or (iii) waive compliance by the other party with any of the agreements or conditions contained herein. Any agreement on the part of either party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of such rights.

ARTICLE X

MISCELLANEOUS

SECTION 10.1 Entire Agreement; Assignment.

(a) This Agreement constitutes the entire agreement between the parties hereto in respect of the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties in respect of the subject matter hereof, other than the Confidentiality Agreement (which shall remain in effect).

(b) Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by operation of Law (including, by merger or consolidation) or otherwise; provided, however, that Merger Sub may assign, in its sole discretion, any or all of its rights, interests and obligations under this Agreement to any direct wholly owned subsidiary of Parent, but no such assignment shall relieve Parent or Merger Sub of its obligations hereunder if such assignee does not perform such obligations. Any assignment in violation of the preceding sentence shall be void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and permitted assigns.

SECTION 10.2 Notices. All notices, requests, instructions or other documents to be given under this Agreement shall be in writing and shall be deemed given, (i) five business days following sending by registered or certified mail, postage prepaid, (ii) when sent if sent by facsimile; provided, however, that the facsimile is promptly confirmed by telephone confirmation thereof, (iii) when delivered, if delivered personally to the intended recipient, and (iv) one business day following sending by overnight delivery via a national courier service, and in each case, addressed to a party at the following address for such party:

if to Merger Sub or to Parent, to: Texas Instruments Incorporated
7839 Churchill Way, M/S 3995
Dallas, Texas 75251

-or -

P.O. Box 650311, M/S 3995
Dallas, Texas 75265
Attention: Charles D. Tobin
Facsimile No.: (972) 917-3804

with copies to: Texas Instruments Incorporated
8505 Forest Lane, M/S 8658
Dallas, Texas 75243

- or -

P.O. Box 660199, M/S 8658
Dallas, Texas 75266
Attention: Richard J. Agnich
Facsimile No.: (972) 480-5061

and

Weil, Gotshal & Manges LLP
100 Crescent Court, Suite 1300
Dallas, Texas 75201-6950
Attention: R. Scott Cohen
Facsimile: (214) 746-7777

if to the Company, to: Telogy Networks, Inc.
20250 Century Blvd.
Germantown, Maryland 20874
Attention: Timothy Carlson
Facsimile: (301) 515-7687

with a copy to: King & Spalding
191 Peachtree Street, N.E.
Atlanta, Georgia 30303
Attention: William Roche
Facsimile: (404) 572-5100

if to the Stockholder
Agent, to: John Puente
Telogy Networks, Inc.
20250 Century Blvd.
Germantown, Maryland 20874
(301) 299-9691

and

John Nehra
Catalyst Ventures
1119 St. Paul Street
Baltimore, Maryland 21202
(410) 752-0795

or to such other address or facsimile number as the person to whom notice is given may have previously furnished to the other in writing in the manner set forth above.

SECTION 10.3 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware, without giving effect to the choice of Law principles thereof.

SECTION 10.4 Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

SECTION 10.5 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and its successors and permitted assigns, and, except as provided in Section 6.7, nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 10.6 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

SECTION 10.7 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in Delaware state court, this being in addition to any other remedy to which they are entitled at Law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of Delaware or any Delaware state court in the event any dispute arises out of this Agreement or any of the transactions contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated hereby in any court other than a federal or state court sitting in the State of Delaware.

SECTION 10.8 Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 10.9 Interpretation.

(a) The words "hereof," "herein," "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit, and schedule references are to the articles, sections, paragraphs, exhibits, and schedules of this Agreement unless otherwise specified. Whenever the words "include," "includes," or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." All terms defined in this Agreement shall have the defined meanings contained herein when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms. Any agreement, instrument, or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, or statute as from time to time, amended, qualified or supplemented, including (in the case of agreements and instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns.

(b) The phrases "the date of this Agreement," "the date hereof," and terms of similar import, unless the context otherwise requires, shall be deemed to refer to May 29, 1999.

(c) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if

drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

SECTION 10.10 Definitions. As used herein,

(a) "beneficial ownership" or "beneficially own" has the meaning provided in Section 13(d) of the Exchange Act and the rules and regulations thereunder.

(b) "Company Capital Stock" means, collectively, shares of Company Common Stock, Series A Preferred Stock and Series B Preferred Stock.

(c) "know" or "knowledge" means, (i) in respect of Parent, the knowledge of Parent's executive officers and (ii) in respect of the Company, the knowledge of Joe Crupi, Tim Carlson, William Simmelink, William Witowsky, Phillip Swan, Carolyn Linthicum, Edward Morgan and Nancy Goguen, after due inquiry of Mary Gaughan, Julie Svoboda and the audit partner of KPMG LLP with respect to financial matters.

(d) "Lien" means, in respect of any asset (including, any security) any mortgage, lien, pledge, charge, security interest, or encumbrance of any kind in respect of such asset.

(e) "Material Adverse Effect" means in respect of any entity, any change, circumstance or effect that, individually or in the aggregate with all other changes, circumstances and effects, is or would be reasonably likely to be materially adverse to (i) the assets, properties, condition (financial or otherwise) or results of operations of such entity and its subsidiaries taken as a whole, or (ii) the ability of such party to consummate the transactions contemplated by this Agreement; provided, however, that in respect of the Company, none of the following shall be deemed by itself or themselves, either alone or in combination, to constitute a Material Adverse Effect: (a) a failure by the Company to meet internal earnings or revenue projections (provided, that the foregoing shall not prevent Parent or Merger Sub from asserting that any underlying cause of such failure independently constitutes such a Material Adverse Effect); (b) conditions affecting the semiconductor industry as a whole, the telecommunications industry as a whole or the U.S. economy as a whole; or (c) any disruption of customer relationship arising directly out of or resulting directly from actions contemplated by the parties hereto in connection with, or which is directly attributable to, the announcement of this Agreement and the transactions contemplated hereby.

(f) "Permitted Lien" means a statutory Lien not yet delinquent; a purchase money Lien arising in the ordinary course of business consistent with past practices; a Lien reflected in the financial statements of the applicable party; or a Lien which does not materially detract from the value or impair the use of the asset or property in question.

(g) "person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(h) "subsidiary" means, in respect of any party, any corporation, partnership or other entity or organization, whether incorporated or unincorporated, of which (i) such other party or any other subsidiary of such party is a general partner (excluding such partnerships where such party or any subsidiary of such party does not have a majority of the voting interest in such partnership) or (ii) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions in respect of such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its subsidiaries, or by such party and one or more of its subsidiaries.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the date first above written.

TELOGY NETWORKS, INC.

By: /s/ JOSEPH A. CRUPI

Name: Joseph A. Crupi
Title: President and CEO

TEXAS INSTRUMENTS INCORPORATED

By: /s/ WILLIAM A. AYLESWORTH

Name: William A. Aylesworth
Title: Senior Vice President,
Treasurer
and Chief Financial
Officer

TNI ACQUISITION CORP.

By: /s/ MICHAEL J. HAMES

Name: Michael J. Hames
Title: President

This Agreement is countersigned by the undersigned Depositary Agent as of the date first above written to acknowledge and agree to the provisions of Article VIII that pertain to the Depositary Agent.

HARRIS TRUST AND SAVINGS BANK,
as Depositary Agent

By: -----

Name:
Title:

FORM OF VOTING AGREEMENT

In consideration of Texas Instruments Incorporated, a Delaware corporation ("Parent"), TNI Acquisition Corp., a Delaware corporation ("Merger Sub"), and Telogy Networks, Inc., a Delaware corporation (the "Company"), entering into on the date hereof an Agreement and Plan of Merger dated as of the date hereof (the "Merger Agreement") which provides, among other things, that Merger Sub, upon the terms and subject to the conditions thereof, will be merged with and into the Company (the "Merger") and each outstanding share of Company Capital Stock (as defined in the Merger Agreement) will be converted into the right to receive the Share Consideration (as defined in the Merger Agreement) in accordance with the terms of the Merger Agreement, each of the undersigned holders (each, a "Stockholder") of shares of Company Capital Stock agrees with each of Parent, Merger Sub and the Company as follows:

1. During the period (the "Agreement Period") beginning on the date hereof and ending on the earlier of (i) the Effective Time (as defined in the Merger Agreement), (ii) 90 days after the termination of the Merger Agreement in accordance with Section 9.4(a), if the termination resulted from a breach of a covenant or agreement by the Company, or 9.4(b) and payment in full of all amounts (if any) payable to Parent or Merger Sub pursuant to Section 9.5 of the Merger Agreement, and (iii) the date of the termination of the Merger Agreement for any other reason, each Stockholder hereby agrees to vote the shares of Company Capital Stock set forth opposite its name in Schedule A hereto (the "Schedule A Securities") to approve and adopt the Merger Agreement and the Merger (provided that the Stockholder shall not be required to vote in favor of the Merger Agreement or the Merger if the Merger Agreement has, without the consent of the Stockholder, been amended in any manner that is material and adverse to such Stockholder) and any actions directly and reasonably related thereto at any meeting or meetings of the stockholders of the Company, and at any adjournment thereof or pursuant to action by written consent, at or by which such Merger Agreement, or such other actions, are submitted for the consideration and vote of the stockholders of the Company so long as such meeting is held (including, any adjournment thereof) or written consent adopted prior to the termination of the Agreement Period.

2. During the Agreement Period, each Stockholder who owns shares of Series A Preferred Stock, par value \$.01 per share, of the Company or Series B Preferred Stock, par value \$.01 per share, of the Company (collectively, "Preferred Stock") hereby elects, and agrees to participate in any further required election, to effect the automatic conversion of the Preferred Stock into common stock of the Company pursuant to paragraph 4(m) of the Preferred Stock certificate of designation, such conversion to be effective immediately prior to the Effective Time (as defined in the Merger Agreement). The foregoing election shall automatically expire upon the termination of the Merger Agreement pursuant to Article IX thereof.

3. During the Agreement Period, each Stockholder hereby agrees that such Stockholder shall not enter into any voting agreement or grant a proxy or power of attorney with respect to the Schedule A Securities in any manner inconsistent with the obligations of such Stockholder under this Agreement or take any other action that is inconsistent with the obligations of such Stockholder under this Agreement, including any action that would prevent, or materially delay the consummation of, the transactions contemplated by the Merger Agreement.

4. During the Agreement Period, each Stockholder will not, directly or indirectly, (i) take any action to solicit, initiate or encourage any Acquisition Proposal (as defined in the Merger Agreement) or (ii) engage in negotiations or discussions with, or disclose any nonpublic information relating to the Company or any of its subsidiaries or afford access to the properties, books or records of the Company or any of its subsidiaries to, or otherwise assist, facilitate or encourage, any person that the Stockholder reasonably believes may be considering making, or has made, an Acquisition Proposal.

5. Each Stockholder hereby represents and warrants to Parent and Merger Sub that as of the date hereof:

(a) Such Stockholder (i) owns beneficially all of the shares of Company Capital Stock set forth opposite the Stockholder's name in Schedule A hereto, (ii) has the full and unrestricted legal power, authority and right to enter into, execute and deliver this Voting Agreement without the consent or approval of any other person, and (iii) has not entered into any voting agreement or other similar agreement with or granted any person any proxy (revocable or irrevocable) in respect of such shares (other than this Voting Agreement).

(b) This Voting Agreement is the valid and binding agreement of such Stockholder.

(c) No investment banker, broker or finder is entitled to a commission or fee from such Stockholder or the Company in respect of this Voting Agreement based upon any arrangement or agreement made by or on behalf of the Stockholder.

6. If any provision of this Voting Agreement shall be invalid or unenforceable under applicable law, such provision shall be ineffective to the extent of such invalidity or unenforceability only, without in any way affecting the remaining provisions of this Voting Agreement.

7. This Voting Agreement may be executed in two or more counterparts each of which shall be an original with the same effect as if the signatures hereto and thereto were upon the same instrument.

8. The parties hereto agree that if for any reason any party hereto shall have failed to perform its obligations under this Voting Agreement, then the party seeking to enforce this Voting Agreement against such non-performing party shall be entitled to specific performance and injunctive and other equitable relief, and the parties hereto further agree to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive relief. This provision is without prejudice to any other rights or remedies, whether at law or in equity, that any party hereto may have against any other party hereto for any failure to perform its obligations under this Voting Agreement.

9. This Voting Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

10. Each Stockholder will, upon request, execute and deliver any additional documents deemed by Parent to be reasonably necessary or desirable to complete and effectuate the covenants contained herein.

11. This Agreement shall terminate upon the termination of the Agreement Period.

12. Except pursuant to the terms of this Agreement, no Stockholder shall, without the prior written consent of Parent, directly or indirectly, (i) grant any proxies or enter into any voting trust or other agreement or arrangement in respect of the voting of any Schedule A Securities in respect of the matters described in Section 1 above or (ii) acquire, sell, assign, encumber or otherwise dispose of, or enter into any contract, option or other arrangement or understanding in respect of the direct or indirect acquisition or sale, assignment, transfer, encumbrance or other disposition of, any Schedule A Securities during the term of this Agreement. In the event any Stockholder desires to transfer any Schedule A Securities, such Stockholder must first obtain a written agreement from the proposed transferee pursuant to which the proposed transferee agrees to be bound by the terms of this Agreement. No Stockholder shall seek or solicit any such acquisition or sale, assignment, encumbrance or other disposition of the Schedule A Securities or any such contract, option or other arrangement or understanding with respect to such securities, and each Stockholder agrees to notify Parent promptly if such Stockholder shall be approached or solicited, directly or indirectly, by any person in respect of any of the foregoing.

13. Each Stockholder agrees not to exercise any rights (including, without limitation, under Section 262 of the DGCL) to demand appraisal of any Schedule A Securities which may arise in respect of the Merger.

14. Parent, Merger Sub and the Company understand and agree that this Agreement pertains only to each Stockholder and not to any of its affiliates, if any, or advisers.

15. Parent, Merger Sub and the Company severally and not jointly represent and warrant to each Stockholder that there is no agreement, understanding or commitment, written or oral, to pay any consideration directly or indirectly in connection with the Merger or otherwise to or for the benefit of any holder of Company Capital Stock or options thereon other than as set forth in the Merger Agreement (except, in the case of directors, employees, agents, customers, suppliers or contractors of the Company who are also holders, such consideration as is payable by the Company in the ordinary course of business, and except for amounts payable to officers, directors or employees in connection with or pursuant to any options or option, stock purchase, stock ownership or other employee benefit plans). All other voting agreements signed with existing stockholders of the Company prior to or concurrently herewith are substantially identical to this Voting Agreement.

16. Neither Parent, Merger Sub nor the Company will enter into any agreement with any other stockholder of the Company having a purpose or effect substantially similar to that of this Voting Agreement on financial terms (in respect of such other stockholder) more favorable than the terms of this Voting Agreement.

17. Any Stockholder who is also a director of the Company will not, by execution of this Agreement, be precluded from exercising his fiduciary duties under applicable Law in his capacity as a director with respect to the Company.

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IN WITNESS WHEREOF, the parties hereto have executed this Voting Agreement as of May 29, 1999.

TEXAS INSTRUMENTS INCORPORATED

By: _____
Name:
Title:

TNI ACQUISITION CORP.

By: _____
Name:
Title:

TELOGY NETWORKS, INC.

By: _____
Name:
Title:

[STOCKHOLDERS]

By: _____
Name:
Title:

By: _____
Name:
Title:

SECTION 262
GENERAL CORPORATION LAW OF THE STATE OF DELAWARE

Appraisal Rights. (a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to sec.228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to sec.251 (other than a merger effected pursuant to sec.251(g) of this title), sec.252, sec.254, sec.257, sec.258, sec.263 or sec.264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of sec.251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to sec.sec.251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof:

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under sec.253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsections (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to sec.228 or sec.253 of this title, each constituent corporation, either before the effective date of the merger or consolidation or within ten days thereafter, shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section; provided that, if the notice is given on or after the effective date of the merger or consolidation, such notice shall be given by the surviving or resulting corporation to all such holders of any class or series of stock of a constituent corporation that are entitled to appraisal rights. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated

therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholder who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has

submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

PART II

INFORMATION NOT REQUIRED IN PROXY STATEMENT/PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The General Corporation Law of the State of Delaware, at Section 145, provides, in pertinent part, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as the director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. In addition, the indemnification of expenses, including attorneys' fees, is allowed in derivative actions, except no indemnification is allowed in respect to any claim, issue or matter as to which any such person has been adjudged to be liable to the corporation, unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought decides that indemnification is proper. To the extent that any such person succeeds on the merits or otherwise, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith. The determination that the person to be indemnified met the applicable standard of conduct, if not made by a court, is made by the directors of the corporation by a majority vote of the directors not party to such an action, suit or proceeding even though less than a quorum, by a committee of such directors designated by majority vote of such directors even though less than a quorum, or, if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion or by the stockholders. Expenses may be paid in advance upon the receipt, in the case of officers and directors, of undertakings to repay such amount if it shall ultimately be determined that the person is not entitled to be indemnified by the corporation as authorized in this section. A corporation may purchase indemnity insurance.

The above described indemnification and advancement of expenses, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and inure to the benefit of such person's heirs, executors and administrators. Article VI, Section 2 of the Texas Instruments' By-laws provides that Texas Instruments shall indemnify its officers and directors for such expenses, judgments, fines and amounts paid in settlement to the full extent permitted by the laws of the State of Delaware. Section 102(b)(7) of the General Corporation Law of the State of Delaware, as amended, permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. Article Seventh of Texas Instruments' Restated Certificate of Incorporation contains such a provision.

Under insurance policies of Texas Instruments, directors and officers of Texas Instruments may be indemnified against certain losses arising from certain claims, including claims under the Securities Act of 1933, which may be made against such persons by reason of their being such directors or officers.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

EXHIBIT LIST

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
2	-- Agreement and Plan of Merger, dated as of May 29, 1999, by and among Texas Instruments, Telego Networks and TNI Acquisition Corp.*
3(a)	-- Restated Certificate of Incorporation of Texas Instruments.(1)
3(b)	-- Certificate of Amendment to Restated Certificate of Incorporation of Texas Instruments.(1)
3(c)	-- Certificate of Amendment to Restated Certificate of Incorporation of Texas Instruments.(1)
3(d)	-- Certificate of Amendment to Restated Certificate of Incorporation of Texas Instruments.(2)
3(e)	-- Certificate of Ownership and Merger Merging Texas Instruments Automation Controls, Inc. into Texas Instruments.(1)
3(f)	-- Certificate of Elimination of Designations of Preferred Stock of Texas Instruments.(1)
3(g)	-- Certificate of Ownership and Merger Merging Tiburon Systems, Inc. into Texas Instruments.(3)
3(h)	-- Certificate of Ownership and Merger Merging Tartan, Inc. into Texas Instruments.(3)
3(i)	-- Certificate of Designation relating to Texas Instruments' Participating Cumulative Preferred Stock.(4)
3(j)	-- Certificate of Elimination of Designation of Preferred Stock of Texas Instruments.(5)
3(k)	-- Bylaws of Texas Instruments.(6)
4(a)(i)	-- Rights Agreement, dated as of June 18, 1998, between Texas Instruments and Harris Trust and Savings Bank as Rights Agent, which includes as Exhibit B the form of Rights Certificate.(7)
4(a)(ii)	-- Amendment, dated as of September 18, 1998, to the Rights Agreement.(8)
4(b)	-- Texas Instruments agrees to provide the Commission, upon request, copies of instruments defining the rights of holders of long-term debt of Texas Instruments and its subsidiaries.
5	-- Opinion of Weil, Gotshal & Manges, LLP.*
8(a)	-- Opinion of Weil, Gotshal & Manges LLP regarding certain tax matters.+
8(b)	-- Opinion of King & Spalding regarding certain tax matters.+
10(a)(i)	-- Texas Instruments' Deferred Compensation Plan.(9)
10(a)(ii)	-- Amendment No. 1 to Texas Instruments' Deferred Compensation Plan.(9)
10(a)(iii)	-- Amendment No. 2 to Texas Instruments' Deferred Compensation Plan.(10)
10(a)(iv)	-- Amendment No. 3 to Texas Instruments' Deferred Compensation Plan.(11)
10(b)	-- Texas Instruments' Long-term Incentive Plan.(1)
10(c)	-- Texas Instruments' 1996 Long-term Incentive Plan.(2)
10(d)	-- Texas Instruments' Executive Officer Performance Plan.(12)
10(e)	-- Texas Instruments' Restricted Stock Unit Plan for Directors.(13)
10(f)	-- Texas Instruments' Directors Deferred Compensation Plan.(13)

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
10(g)	-- Texas Instruments' Stock Option Plan for Non-Employee Directors.(5)
10(h)	-- Asset Purchase Agreement dated as of January 4, 1997 between Texas Instruments and Raytheon Company (exhibits and schedules omitted).(14)
10(i)	-- Acquisition Agreement dated as of June 18, 1998 between Texas Instruments and Micron Technology, Inc. (exhibit C omitted).(15)
10(j)	-- Second Amendment to Acquisition Agreement dated as of September 30, 1998 between Texas Instruments and Micron Technology, Inc.(16)
10(k)	-- Securities Rights and Restrictions Agreement dated as of September 30, 1998 between Texas Instruments and Micron Technology, Inc.(5)
10(l)	-- Form of Voting Agreement, dated as of May 29, 1999, by and among Texas Instruments, Telogy Networks, TNI Acquisition and the stockholders party thereto.*
10(m)	-- Form of Employment Agreement, dated as of May 29, 1999, by and among Texas Instruments and the employees party thereto.*
23(a)	-- Consent of Ernst & Young LLP.*
23(b)	-- Consent of KPMG LLP.*
23(c)	-- Consent of Weil, Gotshal & Manges LLP (included in exhibits 5 and 8(a)).
23(d)	-- Consent of King & Spalding (included in exhibit 8(b)).
24(a)	-- Powers of Attorney (included on the signature pages to this registration statement).

* Filed herewith.

+ To be filed by amendment.

- (1) Incorporated by reference to the Exhibits filed with Texas Instruments' Annual Report on Form 10-K for 1993.
- (2) Incorporated by reference to the Exhibits filed with Texas Instruments' Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
- (3) Incorporated by reference to the Exhibits filed with Texas Instruments' Registration Statement No. 333-41919 on Form S-8.
- (4) Incorporated by reference to the Exhibits filed with Texas Instruments' Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- (5) Incorporated by reference to the Exhibits filed with Texas Instruments' Annual Report on Form 10-K for 1998.
- (6) Incorporated by reference to the Exhibits filed with Texas Instruments' Current Report on Form 8-K dated December 4, 1997.
- (7) Incorporated by reference to the Exhibits filed with Texas Instruments' Registration Statement on Form 8-A dated June 23, 1998.
- (8) Incorporated by reference to the Exhibit filed with Texas Instruments' Amendment No. 1 to Form 8-A, dated September 23, 1998.
- (9) Incorporated by reference to the Exhibits filed with Texas Instruments' Annual Report on Form 10-K for 1994.
- (10) Incorporated by reference to the Exhibits filed with Texas Instruments' Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (11) Incorporated by reference to the Exhibits filed with Texas Instruments' Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

- (12) Incorporated by reference to the Exhibits filed with Texas Instruments' Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.
- (13) Incorporated by reference to the Exhibits filed with Texas Instruments' Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
- (14) Incorporated by reference to the Exhibits filed with Texas Instruments' Current Report on Form 8-K dated January 4, 1997.
- (15) Incorporated by reference to the Exhibits filed with Texas Instruments' Current Report on Form 8-K dated June 18, 1998.
- (16) Incorporated by reference to the Exhibits filed with Texas Instruments' Current Report on Form 8-K dated October 15, 1998.

ITEM 22. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) (1) The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The registrant undertakes that every prospectus: (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the provisions described under Item 20 above, or otherwise, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expense incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11, or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

II-5

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Dallas, Texas, on June 7, 1999.

TEXAS INSTRUMENTS INCORPORATED

By: /s/ WILLIAM A. AYLESWORTH

 William A. Aylesworth
 Senior Vice President, Treasurer
 and Chief Financial Officer

POWER OF ATTORNEY

Know all those by these presents, that each person whose signature appears below constitutes and appoints each of Thomas J. Engibous, Richard J. Agnich, William A. Aylesworth and M. Samuel Self, or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for such person and in his name, place and stead, in any and all capacities, in connection with the Registration Statement on Form S-4 of Texas Instruments Incorporated under the Securities Act of 1933, as amended, including, without limitation of the generality of the foregoing, to sign the Registration Statement in the name and on behalf of Texas Instruments Incorporated, or on behalf of the undersigned as a director or officer of Texas Instruments Incorporated, and any and all amendments or supplements to the Registration Statement, including any and all stickers and post-effective amendments to the Registration Statement, and to sign any and all additional Registration Statements relating to the same offering of Securities as the Registration Statement that are filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC and any applicable securities exchange or securities self-regulatory body, 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 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 Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
/s/ JAMES R. ADAMS ----- James R. Adams	Director	June 7, 1999
/s/ DAVID L. BOREN ----- David L. Boren	Director	June 7, 1999
/s/ JAMES B. BUSEY IV ----- James B. Busey IV	Director	June 7, 1999
/s/ DANIEL A. CARP ----- Daniel A. Carp	Director	June 7, 1999

SIGNATURE

TITLE

DATE

/s/ THOMAS J. ENGIBOUS

Thomas J. EngibousChairman of the Board; President;
Chief Executive Officer;
Director

June 7, 1999

/s/ GERALD W. FRONTERHOUSE

Gerald W. Fronterhouse

Director

June 7, 1999

/s/ DAVID R. GOODE

David R. Goode

Director

June 7, 1999

/s/ WAYNE R. SANDERS

Wayne R. Sanders

Director

June 7, 1999

/s/ GLORIA M. SHATTO

Gloria M. Shatto

Director

June 7, 1999

/s/ CLAYTON K. YEUTTER

Clayton K. Yeutter

Director

June 7, 1999

/s/ WILLIAM A. AYLESWORTH

William A. AylesworthSenior Vice President; Treasurer;
Chief Financial Officer

June 7, 1999

/s/ M. SAMUEL SELF

M. Samuel SelfSenior Vice President;
Controller; Chief Accounting
Officer

June 7, 1999

INDEX TO EXHIBITS

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10(m)	-- Form of Employment Agreement
23(a)	-- Consent of Ernst & Young LLP
23(b)	-- Consent of KPMG LLP
23(c)	-- Consent of Weil, Gotshal & Manges LLP (included in exhibit 5)
24(a)	-- Powers of Attorney (included on the signature pages to this registration statement).

AGREEMENT AND PLAN OF MERGER

DATED AS OF MAY 29, 1999

AMONG

TELOGY NETWORKS, INC.,

TEXAS INSTRUMENTS INCORPORATED

AND

TNI ACQUISITION CORP.

TABLE OF CONTENTS

	PAGE

ARTICLE I THE MERGER.....	2
SECTION 1.1 The Merger.....	2
SECTION 1.2 Effective Time.....	2
SECTION 1.3 Closing of the Merger.....	2
SECTION 1.4 Effects of the Merger.....	2
SECTION 1.5 Certificate of Incorporation and Bylaws.....	2
SECTION 1.6 Directors.....	2
SECTION 1.7 Officers.....	3
ARTICLE II CONVERSION OF SECURITIES.....	3
SECTION 2.1 Conversion of Shares.....	3
SECTION 2.2 Stock Options.....	4
SECTION 2.3 Exchange Fund.....	5
SECTION 2.4 Exchange Procedures.....	5
SECTION 2.5 Distributions with Respect to Unsurrendered Certificates....	6
SECTION 2.6 No Further Ownership Rights in Company Common Stock.....	6
SECTION 2.7 No Fractional Shares of Parent Common Stock.....	6
SECTION 2.8 Termination of Exchange Fund.....	7
SECTION 2.9 No Liability.....	7
SECTION 2.10 Investment of the Exchange Fund.....	7
SECTION 2.11 Lost Certificates.....	7
SECTION 2.12 Withholding Rights.....	7
SECTION 2.13 Stock Transfer Books.....	8
SECTION 2.14 Affiliates.....	8
SECTION 2.15 Appraisal Rights.....	8
ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY.....	8
SECTION 3.1 Organization and Qualification; Subsidiaries.....	9
SECTION 3.2 Capitalization of the Company and Its Subsidiaries.....	9
SECTION 3.3 Authority Relative to This Agreement; Consents and Approvals.....	10
SECTION 3.4 Financial Statements; Accounts Receivable.....	11
SECTION 3.5 No Undisclosed Liabilities.....	11
SECTION 3.6 Absence of Changes.....	12
SECTION 3.7 Information Supplied.....	13
SECTION 3.8 Consents and Approvals.....	14
SECTION 3.9 No Default.....	14
SECTION 3.10 Real Property.....	15
SECTION 3.11 Litigation.....	15
SECTION 3.12 Permits.....	15
SECTION 3.13 Employee Plans.....	16
SECTION 3.14 Labor Matters.....	18
SECTION 3.15 Environmental Matters.....	19
SECTION 3.16 Tax Matters.....	20
SECTION 3.17 Absence of Questionable Payments.....	23
SECTION 3.18 Material Contracts.....	23
SECTION 3.19 Insurance.....	24
SECTION 3.20 Subsidies.....	24
SECTION 3.21 Intellectual Property.....	24
SECTION 3.22 Software.....	26
SECTION 3.23 Year 2000.....	27
SECTION 3.24 Brokers.....	28

	PAGE

SECTION 3.25 Accounting Matters; Tax Treatment.....	28
SECTION 3.26 Product Liability; Recalls.....	28
SECTION 3.27 Customers, Suppliers and Vendors.....	29
SECTION 3.28 Takeover Statute.....	29
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB.....	29
SECTION 4.1 Organization.....	30
SECTION 4.2 Authority Relative to This Agreement.....	30
SECTION 4.3 SEC Reports; Financial Statements.....	30
SECTION 4.4 Information Supplied.....	31
SECTION 4.5 Consents and Approvals; No Violations.....	31
SECTION 4.6 No Prior Activities.....	32
SECTION 4.7 Brokers.....	32
SECTION 4.8 Accounting Matters; Tax Treatment.....	32
ARTICLE V COVENANTS RELATED TO CONDUCT OF BUSINESS.....	32
SECTION 5.1 Conduct of Business of the Company.....	32
SECTION 5.2 Access to Information.....	35
SECTION 5.3 Performance Reviews.....	36
ARTICLE VI ADDITIONAL AGREEMENTS.....	36
SECTION 6.1 Preparation of S-4 and the Proxy Statement.....	36
SECTION 6.2 Letters of Accountants.....	37
SECTION 6.3 Meeting.....	37
SECTION 6.4 Reasonable Best Efforts.....	37
SECTION 6.5 Acquisition Proposals.....	38
SECTION 6.6 Public Announcements.....	40
SECTION 6.7 Indemnification.....	40
SECTION 6.8 Notification of Certain Matters.....	41
SECTION 6.9 Tax-Free Reorganization Treatment.....	41
SECTION 6.10 Employee Matters.....	41
SECTION 6.11 Affiliate Letters.....	42
SECTION 6.12 SEC and Other Filings.....	42
SECTION 6.13 Fees and Expenses.....	42
SECTION 6.14 Obligations of Merger Sub.....	43
SECTION 6.15 Listing of Stock.....	43
SECTION 6.16 Antitakeover Statutes.....	43
SECTION 6.17 No Solicitation.....	43
ARTICLE VII CONDITIONS TO CONSUMMATION OF THE MERGER.....	43
Conditions to Each Party's Obligations to Effect the	
SECTION 7.1 Merger.....	43
SECTION 7.2 Conditions to the Obligations of Parent and Merger Sub.....	44
SECTION 7.3 Conditions to the Obligations of the Company.....	45
ARTICLE VIII SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND	
AGREEMENTS; ESCROW PROVISIONS.....	46
Survival of Representations, Warranties, Covenants and	
SECTION 8.1 Agreements.....	46
SECTION 8.2 Escrow Provisions.....	47
SECTION 8.3 Stockholder Agent of the Stockholders; Power of Attorney....	50
SECTION 8.4 Third-Party Claims.....	50
SECTION 8.5 Depositary Agent's Duties.....	51
ARTICLE IX TERMINATION; AMENDMENT; WAIVER.....	53
SECTION 9.1 Termination by Mutual Agreement.....	53
SECTION 9.2 Termination by Either Parent or the Company.....	53
SECTION 9.3 Termination by the Company.....	54

	PAGE

SECTION 9.4 Termination by Parent.....	54
SECTION 9.5 Effect of Termination and Abandonment.....	54
SECTION 9.6 Amendment.....	55
SECTION 9.7 Extension; Waiver.....	55
ARTICLE X MISCELLANEOUS.....	55
SECTION 10.1 Entire Agreement; Assignment.....	55
SECTION 10.2 Notices.....	56
SECTION 10.3 Governing Law.....	57
SECTION 10.4 Descriptive Headings.....	57
SECTION 10.5 Parties in Interest.....	57
SECTION 10.6 Severability.....	57
SECTION 10.7 Specific Performance.....	58
SECTION 10.8 Counterparts.....	58
SECTION 10.9 Interpretation.....	58
SECTION 10.10 Definitions.....	59

EXHIBITS	
Voting Agreement	A
Affiliate Letter	B
Company Certificate	C
Parent Certificate	D
Employment Agreement	E

GLOSSARY OF DEFINED TERMS

DEFINED TERMS

DEFINED IN SECTION

-----	-----
Acquisition Proposal.....	6.5(a)
Antitrust Law.....	6.4(b)
Assumed Stock Option.....	2.2
Average Parent Stock Price.....	2.1(b)
beneficial ownership.....	10.10(a)
beneficially own.....	10.10(a)
Benefit Plans.....	3.13(a)(i)
Certificate of Merger.....	1.2
Certificates.....	2.4
Closing.....	1.3
Closing Date.....	1.3
Code.....	Recitals
Company.....	Preamble
Company Affiliate Agreements.....	Recitals
Company Board.....	3.3(b)
Company Capital Stock.....	10.10(b)
Company Common Stock.....	2.1(b)
Company Disclosure Schedule.....	Article III
Company Option Plans.....	2.2
Company Permits.....	3.12
Company Requisite Vote.....	3.3(b)
Company Securities.....	3.2(a)
Company Stock Option.....	2.2
Company Stockholder Meeting.....	6.3
Confidentiality Agreement.....	5.2(c)
Defect.....	3.26(b)
Depository Agent.....	8.2(a)
DGCL.....	1.1
Dissenting Shares.....	2.15
Dissenting Stockholders.....	2.15
DOJ.....	6.4(b)
Effective Time.....	1.2
Employee Arrangements.....	3.13(b)
Environmental Costs and Liabilities.....	3.15(a)(i)
Environmental Law.....	3.15(a)(ii)
ERISA.....	3.13(a)(i)
Escrow Amount.....	8.2(a)
Escrow Fund.....	8.2(a)
Escrow Period.....	8.2(c)
Exchange Act.....	2.2
Exchange Agent.....	2.3
Exchange Fund.....	2.3
Exchange Ratio.....	2.1(b)
Expenses.....	6.13
Expiration Date.....	8.1
Financial Statements.....	3.4(a)
FTC.....	6.4(b)
GAAP.....	3.4(a)
Governmental Entity.....	3.8

DEFINED TERMS

Hazardous Material.....
 HSR Act.....
 Indemnified Liabilities.....
 Indemnified Parties.....
 Intellectual Property.....
 Interim Balance Sheet.....
 IRS.....
 know.....
 knowledge.....
 Law.....
 Lien.....
 Losses.....
 Material Adverse Effect.....
 Material Contracts.....
 Merger.....
 Merger Sub.....
 New Shares.....
 Notices.....
 NYSE.....
 Officer's Certificate.....
 Outstanding Shares.....
 Parent.....
 Parent Board.....
 Parent Common Stock.....
 Parent Disclosure Schedule.....
 Parent SEC Reports.....
 Permitted Lien.....
 person.....
 Product.....
 Proxy Statement.....
 Real Property Leases.....
 Recalls.....
 Release.....
 Remedial Action.....
 Representatives.....
 S-4.....
 Scheduled Intellectual Property.....
 SEC.....
 Securities Act.....
 Series A Preferred Stock.....
 Series B Preferred Stock.....
 Share(s).....
 Share Consideration.....
 Software.....
 Stockholder Agent.....
 subsidiary.....
 Surviving Corporation.....
 Systems.....
 Takeover Statutes.....
 Tax(es).....

DEFINED IN SECTION

3.15(a)(iii)
 3.8
 6.7
 6.7
 3.21(a)
 3.4(a)
 3.13(b)
 10.10(c)
 10.10(c)
 3.9
 10.10(d)
 8.2(e)(ii)
 10.10(e)
 3.18(a)
 1.1
 Preamble
 8.2(d)(ii)
 3.26(a)
 2.1(b)
 8.2(e)(i)
 2.1(b)(i)
 Preamble
 4.2(b)
 Recitals
 Article IV
 4.3
 10.10(f)
 10.10(g)
 3.26(b)
 3.7
 3.10(b)
 3.26(a)
 3.15(a)(iv)
 3.15(a)(v)
 8.1
 3.7
 3.21(a)
 2.2
 2.14
 3.2(a)
 3.2(a)
 2.1(b)
 2.1(b)
 3.22(a)
 8.3(a)
 10.10(h)
 1.1
 3.23(e)
 3.28
 3.16(a)

DEFINED TERMS

Tax Returns.....
Termination Date.....
Third Party Claim.....
Voting Agreements.....
WARN.....

DEFINED IN SECTION

3.16(a)
9.2(a)
8.4
Recitals
3.14(d)

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER, dated as of May 29, 1999, is among Telogy Networks, Inc., a Delaware corporation (the "Company"), Texas Instruments Incorporated, a Delaware corporation ("Parent"), and TNI Acquisition Corp., a Delaware corporation and a direct wholly owned subsidiary of Parent ("Merger Sub"). Certain capitalized and non-capitalized terms used herein are defined in Section 10.10.

RECITALS

WHEREAS, the Boards of Directors of the Company, Parent and Merger Sub each have, in light of and subject to the terms and conditions set forth herein, approved this Agreement and the transactions contemplated hereby, including the Merger, and declared the Merger advisable and fair to, and in the best interests of, their respective stockholders;

WHEREAS, pursuant to the Merger, among other things, and subject to the terms and conditions of this Agreement, all of the issued and outstanding shares of capital stock of the Company shall be converted into the right to receive shares of common stock, par value \$1.00 per share, of Parent (together with any associated right to acquire shares of Cumulative Preferred Stock of Parent pursuant to Parent's Rights Plan) (collectively, "Parent Common Stock");

WHEREAS, a portion of the shares of Parent Common Stock otherwise issuable or reserved for issuance by Parent in connection with the Merger shall be placed in escrow by Parent, the release of which shall be contingent upon the occurrence of certain events and the satisfaction of certain conditions, all as set forth in Article VIII;

WHEREAS, as an inducement to Parent and Merger Sub to enter into this Agreement, certain stockholders of the Company have concurrently herewith entered into (i) a voting agreement in the form attached hereto as Exhibit A ("Voting Agreement") pursuant to which, among other things, such stockholders have agreed to vote all shares of capital stock of the Company owned by them in favor of the Merger and (ii) Company Affiliate Agreements in the form attached hereto as Exhibit B ("Company Affiliate Agreements") pursuant to which, among other things, such stockholders have agreed to refrain from selling shares of Company Capital Stock or Parent Common Stock during a specified period prior to and following consummation of the Merger;

WHEREAS, for federal income Tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, for accounting purposes, it is intended that the Merger shall be accounted for as a "pooling of interests"; and

WHEREAS, the Company, Parent and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with the Merger as set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the Company, Parent and Merger Sub hereby agree as follows:

ARTICLE I

THE MERGER

SECTION 1.1 The Merger. At the Effective Time and upon the terms and subject to the conditions of this Agreement and in accordance with the Delaware General Corporation Law (the "DGCL"), Merger Sub shall be merged with and into the Company (the "Merger"). Following the

Merger, the Company shall continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of Merger Sub shall cease.

SECTION 1.2 Effective Time. Subject to the provisions of this Agreement, Parent, Merger Sub and the Company shall cause the Merger to be consummated by filing an appropriate Certificate of Merger or other appropriate documents (the "Certificate of Merger") with the Secretary of State of the State of Delaware in such form as required by, and executed in accordance with, the relevant provisions of the DGCL, as soon as practicable on the Closing Date. The Merger shall become effective upon such filing or at such time thereafter as is provided in the Certificate of Merger (the "Effective Time").

SECTION 1.3 Closing of the Merger. The closing of the Merger (the "Closing") will take place at a time and on a date to be specified by the parties (the "Closing Date"), which shall be no later than the second business day after satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), at the offices of Weil, Gotshal & Manges LLP, 100 Crescent Court, Suite 1300, Dallas, Texas 75201, or at such other time, date or place as agreed to in writing by the parties hereto.

SECTION 1.4 Effects of the Merger. The Merger shall have the effects set forth in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all of the properties, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.5 Certificate of Incorporation and Bylaws. Effective immediately following the Merger, the certificate of incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation until amended in accordance with applicable Law. Effective immediately following the Merger, the bylaws of the Company, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation until amended in accordance with applicable Law.

SECTION 1.6 Directors. The directors of Merger Sub at the Effective Time shall be the initial directors of the Surviving Corporation and shall hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal.

SECTION 1.7 Officers. The officers of Merger Sub at the Effective Time shall be the initial officers of the Surviving Corporation and shall hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal.

ARTICLE II

CONVERSION OF SECURITIES

SECTION 2.1 Conversion of Shares.

(a) At the Effective Time, each outstanding share of the common stock, par value \$.01 per share, of Merger Sub shall, by virtue of the Merger and without any action on the part of Parent, Merger Sub or the Company, be converted into one fully paid and non-assessable share of common stock of the Surviving Corporation.

(b) At the Effective Time, each share of the Company's common stock, par value \$.01 per share ("Company Common Stock"), issued and outstanding immediately prior to the Effective Time (including the shares of Company Common Stock issuable upon conversion of the outstanding Series A Preferred Stock and Series B Preferred Stock) (individually, a "Share" and collectively, the "Shares") (other than (i) Shares held by the Company and (ii) Shares held by Parent or Merger Sub) shall, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or any holder thereof, be

converted into and be exchangeable for the right to receive the number (rounded to the nearest ten thousandth) of fully paid and non-assessable shares of Parent Common Stock, equal to the Exchange Ratio. For purposes of this Agreement, the "Exchange Ratio" shall be determined as follows:

(i) if the Average Parent Stock Price is greater than or equal to \$102.44, the Exchange Ratio shall be the quotient derived by dividing (x) 4,100,000 by (y) the aggregate of all Company Common Stock outstanding immediately prior to the Effective Time (including all Company Common Stock issued upon conversion of the Series A Preferred Stock and Series B Preferred Stock) and all Company Common Stock issuable under stock options outstanding immediately prior to the Effective Time, whether vested or unvested (collectively, the "Outstanding Shares");

(ii) if the Average Parent Stock Price is less than \$102.44 but greater than \$84.00, the Exchange Ratio shall be determined by dividing (x) the dollar amount derived by dividing \$420,000,000 by the Outstanding Shares by (y) the Average Parent Stock Price; and

(iii) if the Average Parent Stock Price is equal to or less than \$84.00, the Exchange Ratio shall be the quotient derived by dividing (x) 5,000,000 by (y) the Outstanding Shares.

All such shares of Parent Common Stock issued pursuant to this Section 2.1(b), together with any cash in lieu of fractional shares of Parent Common Stock to be paid pursuant to Section 2.7, are referred to herein as the "Share Consideration". As used herein, the "Average Parent Stock Price" means the average of the daily high and low sales prices, regular way, of one share of Parent Common Stock (rounded to the nearest ten thousandth) on the New York Stock Exchange ("NYSE") (as reported in the New York City edition of the Wall Street Journal or, if not reported thereby, another nationally recognized source) during the ten consecutive trading day period ending on the second trading day prior to the Effective Time.

(c) Each Share of Company Capital Stock owned by the Company shall become one share of treasury stock of the Surviving Corporation. Each Share of Company Capital Stock owned by Parent shall be contributed to Merger Sub immediately prior to the Effective Time and all shares held by Merger Sub, including any shares so contributed, shall become one share of treasury stock of the Surviving Corporation.

(d) If between the date of this Agreement and the Effective Time the outstanding shares of Parent Common Stock shall have been changed into a different number of shares or a different class by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, or any similar event, the calculation of the Exchange Ratio and the Average Parent Stock Price shall be correspondingly adjusted to the extent necessary to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, or such similar event.

SECTION 2.2. Stock Options. As soon as practicable following the date of this Agreement, Parent and the Company (or, if appropriate, any committee of the Board of Directors of the Company administering the Company's Amended and Restated 1990 Stock Option Plan and the Company's 1996 Directors Stock Option Plan (collectively, the "Company Option Plans")) shall take such action as may be required to effect the following provisions of this Section 2.2. Subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the Effective Time each option to purchase shares of Company Common Stock pursuant to the Company Option Plans (a "Company Stock Option") which is then outstanding shall be assumed by Parent and converted into an option (or a new substitute option shall be granted) (an "Assumed Stock Option") to purchase the number of shares of Parent Common Stock (rounded up to the nearest whole share) equal to (x) the number of shares subject to such option multiplied by (y) the Exchange Ratio, at an exercise price per share of Parent Common Stock (rounded down to the nearest penny) equal to (A) the former exercise price per share of Company Common Stock under such option immediately prior to the Effective Time divided by (B) the Exchange Ratio; provided, however, that in the case of any Company Stock Option to which Section 421 of the Code applies by reason of its qualification under Section 422 of the Code, the conversion formula shall be adjusted, if necessary, to comply with Section 424(a) of the Code. Except as provided above, each Assumed Stock Option shall be subject to the same terms and conditions (including expiration date, vesting and exercise provisions) as were applicable to such converted Company Stock

Option immediately prior to the Effective Time. Promptly after the Effective Time, Parent shall use its reasonable best efforts to prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement on Form S-8 or other appropriate form with respect to shares of Parent Common Stock subject to the Assumed Stock Options and to maintain the effectiveness of such registration statement or registration statements covering such Assumed Stock Options (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Assumed Stock Options remain outstanding. Parent shall take all corporate action necessary to reserve for issuance under an appropriate stock option plan of Parent a sufficient number of shares of Parent Common Stock for delivery upon exercise of the options described above.

SECTION 2.3 Exchange Fund. Prior to the Effective Time, Parent shall appoint a commercial bank or trust company reasonably acceptable to the Company to act as exchange agent hereunder for the purpose of exchanging Shares for the Share Consideration (the "Exchange Agent"). At or prior to the Effective Time, Parent shall deposit with the Exchange Agent, in trust for the benefit of holders of Shares, certificates representing the Parent Common Stock issuable pursuant to Section 2.1 in exchange for outstanding Shares less the shares of Parent Common Stock constituting the Escrow Fund (which will be deposited with the Depositary Agent pursuant to the provisions of Article VIII) and an estimated amount of cash sufficient to pay the cash payable in lieu of fractional shares pursuant to Section 2.7. Parent agrees to make available to the Exchange Agent from time to time as needed, cash sufficient to pay cash in lieu of fractional shares pursuant to Section 2.7 and any dividends and other distributions pursuant to Section 2.5. Any cash and certificates of Parent Common Stock deposited with the Exchange Agent shall hereinafter be referred to as the "Exchange Fund."

SECTION 2.4 Exchange Procedures. As soon as reasonably practicable after the Effective Time (and in any event within three business days after the Effective Time), the Surviving Corporation shall use commercially reasonable efforts to cause the Exchange Agent to mail to each holder of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates") (i) a letter of transmittal which shall specify that delivery shall be effective, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, and which letter shall be in customary form and have such other provisions as Parent may reasonably specify; and (ii) instructions for effecting the surrender of such Certificates in exchange for the Share Consideration. Upon surrender of a Certificate to the Exchange Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor (A) shares of Parent Common Stock representing, in the aggregate, the whole number of shares that such holder has the right to receive pursuant to Section 2.1 (after taking into account all Shares then held by such holder) and (B) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of this Article II, including cash in lieu of any dividends and other distributions pursuant to Section 2.5 and cash in lieu of fractional shares pursuant to Section 2.7. No interest will be paid or will accrue on any cash payable pursuant to Section 2.5 or Section 2.7. In the event of a transfer of ownership of Company Capital Stock which is not registered in the transfer records of the Company, shares of Parent Common Stock evidencing, in the aggregate, the proper number of shares of Parent Common Stock, a check in the proper amount of cash in lieu of any fractional shares of Parent Common Stock pursuant to Section 2.7 and any dividends or other distributions to which such holder is entitled pursuant to Section 2.5, may be issued with respect to such Shares to such a transferee if the Certificate representing such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer Taxes have been paid.

SECTION 2.5 Distributions with Respect to Unsurrendered Certificates. No dividends or other distributions declared or made with respect to shares of Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock that such holder would be entitled to receive upon surrender of such Certificate and no cash payment in lieu of fractional shares of Parent Common Stock shall be paid to any such holder

pursuant to Section 2.7 until such holder shall surrender such Certificate in accordance with Section 2.4. Subject to the effect of applicable Laws, following surrender of any such Certificate, there shall be paid to such holder of shares of Parent Common Stock issuable in exchange therefor, without interest, (a) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional shares of Parent Common Stock to which such holder is entitled pursuant to Section 2.7 and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such shares of Parent Common Stock.

SECTION 2.6 No Further Ownership Rights in Company Common Stock. All shares of Parent Common Stock issued and cash paid upon conversion of the Shares in accordance with the terms of Article I and this Article II (including any cash paid pursuant to Sections 2.5 and 2.7) shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the Shares.

SECTION 2.7 No Fractional Shares of Parent Common Stock.

(a) No certificates or scrip of shares of Parent Common Stock representing fractional shares of Parent Common Stock or book-entry credit of the same shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of Parent or a holder of shares of Parent Common Stock.

(b) Notwithstanding any other provision of this Agreement, each holder of Shares exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a share of Parent Common Stock multiplied by (ii) the closing price on the NYSE (as reported in the New York City edition of the Wall Street Journal or, if not reported thereby, another nationally recognized source) for a share of Parent Common Stock on the date of the Effective Time. As promptly as practicable after the determination of the aggregate amount of cash to be paid to holders of fractional interests, the Exchange Agent shall notify Parent and Parent shall cause the Surviving Corporation to deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

SECTION 2.8 Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of Certificates for six months after the Effective Time shall be delivered to the Surviving Corporation or otherwise on the instruction of the Surviving Corporation, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation and Parent for the Merger Consideration with respect to the Shares formerly represented thereby to which such holders are entitled pursuant to Section 2.1 and Section 2.4, any cash in lieu of fractional shares of Parent Common Stock to which such holders are entitled pursuant to Section 2.7 and any dividends or distributions with respect to shares of parent Common Stock to which such holders are entitled pursuant to Section 2.5. Any such portion of the Exchange Fund remaining unclaimed by holders of Shares five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by law, become the property of the Surviving Corporation free and clear of any claims or interest of any person previously entitled thereto.

SECTION 2.9 No Liability. None of Parent, Merger Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any person in respect of any Merger Consideration from the Exchange Fund delivered, in good faith, to a public official pursuant to any applicable abandoned property, escheat or similar Law.

SECTION 2.10 Investment of the Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Parent on a daily basis. Any interest and other income resulting from such investments shall promptly be paid to Parent.

SECTION 2.11 Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity by such person against any claim that may be made against the Surviving Corporation with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Share Consideration with respect to the Shares formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock and unpaid dividends and distributions on shares of Parent Common Stock deliverable in respect thereof, pursuant to this Agreement.

SECTION 2.12 Withholding Rights. Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the Share Consideration otherwise payable pursuant to this Agreement to any holder of Shares such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and the rules and regulations promulgated thereunder, or any provision of a Tax Law. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Shares in respect to which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be.

SECTION 2.13 Stock Transfer Books. The stock transfer books of the Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of Shares thereafter on the records of the Company. On or after the Effective Time, any Certificates presented to the Exchange Agent or Parent for any reason shall be converted into the Share Consideration with respect to the Shares formerly represented thereby, any cash in lieu of fractional shares of Parent Common Stock to which the holders thereof are entitled pursuant to Section 2.7 and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.5.

SECTION 2.14 Affiliates. Notwithstanding anything to the contrary herein, no shares of Parent Common Stock or cash shall be delivered to a person who may be deemed an "affiliate" of the Company in accordance with Section 6.11 hereof for purposes of Rule 145 under the Securities Act of 1933, as amended (the "Securities Act"), or for purposes of qualifying the Merger for "pooling of interests" under APB 16 and the applicable SEC rules and regulations until such person has executed and delivered to Parent the written agreement contemplated by Section 6.11.

SECTION 2.15 Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, Shares that are issued and outstanding immediately prior to the Effective Time and which are held by stockholders who did not vote in favor of the Merger (the "Dissenting Shares"), which stockholders comply with all of the relevant provisions of Section 262 of the DGCL (the "Dissenting Stockholders"), shall not be converted into or be exchangeable for the right to receive the Share Consideration, unless and until such holders shall have failed to perfect or shall have effectively withdrawn or lost their rights to appraisal under the DGCL. If any Dissenting Stockholder shall have failed to perfect or shall have effectively withdrawn or lost such right, such holder's Shares shall thereupon be converted into and become exchangeable for the right to receive, as of the Effective Time, the Share Consideration without any interest thereon. The Company shall give Parent (i) prompt notice of any written demands for appraisal of any Shares, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by the Company relating to stockholders' rights of appraisal, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. Neither the Company nor the Surviving Corporation shall, except with the prior written consent of Parent, voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment. If any Dissenting Stockholder shall fail to perfect or shall have effectively withdrawn or lost the right to dissent, the Shares held by such Dissenting Stockholder shall thereupon be treated as

though such Shares had been converted into the right to receive the Share Consideration pursuant to Section 2.1(b).

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the disclosure schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), the Company hereby represents and warrants to each of Parent and Merger Sub as follows:

SECTION 3.1 Organization and Qualification; Subsidiaries.

(a) The Company and each of its subsidiaries is a corporation or legal entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization and has all requisite corporate, partnership or similar power and authority to own, lease and operate its properties and to carry on its businesses as now conducted.

(b) Section 3.1 of the Company Disclosure Schedule sets forth a list of all subsidiaries of the Company. The Company does not own, directly or indirectly, beneficially or of record, any shares of capital stock or other securities of any other entity or any other investment in any other entity.

(c) Each of the Company and its subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing does not have and would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

(d) The Company has heretofore made available to Parent accurate and complete copies of the certificate of incorporation and bylaws (or other similar organizational and governing documents), as currently in effect, of the Company and each of its subsidiaries.

SECTION 3.2 Capitalization of the Company and Its Subsidiaries.

(a) The authorized capital stock of the Company consists of: (i) 30,000,000 shares of Company Common Stock and (ii) 10,000,000 shares of Preferred Stock, par value \$.01 per share, of which 2,500,000 shares are designated Series A Preferred Stock, par value \$.01 per share ("Series A Preferred Stock"), and 850,000 shares are designated Series B Preferred Stock, par value \$.01 per share ("Series B Preferred Stock"). As of the date hereof, there are issued and outstanding 3,647,822 shares of Company Common Stock, 2,468,194 shares of Series A Preferred Stock and 710,282 shares of Series B Preferred Stock, and there are no shares held in the Company's treasury. A true and complete list of record holders of the issued and outstanding Company Common Stock, Series A Preferred Stock and Series B Preferred Stock as of the date hereof is set forth in Section 3.2 of the Company Disclosure Schedule. As of and immediately prior to the Effective Time, all outstanding shares of Series A Preferred Stock will be converted, in accordance with their terms, into shares of Company Common Stock, and all outstanding shares of Series B Preferred Stock will be converted, in accordance with their terms, into shares of Company Common Stock. All of the issued and outstanding Shares have been validly issued, and are duly authorized, fully paid, non-assessable and free of preemptive rights. As of the date hereof, 2,364,858 shares are reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding Company Stock Options issued pursuant to the Company Option Plans. Since December 31, 1998, no shares of the Company's capital stock have been issued other than pursuant to Company Stock Options already in existence on such date. Except as set forth above, as of the date hereof, there are no outstanding (i) shares of capital stock or other voting securities of the Company; (ii) securities of the Company or any of its subsidiaries convertible into or exchangeable for shares of capital stock or voting securities of the Company; (iii) options or other rights to acquire from the Company or any of its subsidiaries, and no obligations of the Company or any of its subsidiaries to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the

Company; and (iv) equity equivalents, interests in the ownership or earnings of the Company or other similar rights (including, stock appreciation rights) (collectively, "Company Securities"). There are no outstanding obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any Company Securities. There are no stockholder agreements, voting trusts or other agreements to which the Company or any of its subsidiaries is a party or to which it is bound relating to the voting of any shares of capital stock of the Company (other than the Voting Agreement). Section 3.2 of the Company Disclosure Schedule sets forth true and complete information regarding the current exercise price, the date of grant and the number of Company Stock Options granted for each holder of Company Stock Options. Following the Effective Time and conversion of the Company Stock Options into options to acquire shares of Parent Common Stock in accordance with Section 2.2, in accordance with the Company Option Plans, no holder of Company Stock Options will have any right to receive shares of common stock of the Surviving Corporation upon exercise of the Company Stock Options.

(b) All of the outstanding capital stock of the Company's subsidiaries is owned by the Company, directly or indirectly, free and clear of any Lien or any other limitation or restriction (including, any restriction on the right to vote or sell the same, except as may be provided as a matter of Law). There are no securities of the Company or its subsidiaries convertible into or exchangeable for, no options or other rights to acquire from the Company or its subsidiaries, and no other contract, or obligation (whether or not contingent) providing for the issuance or sale, directly or indirectly of, any capital stock or other ownership interests in, or any other securities of, any subsidiary of the Company. There are no outstanding contractual obligations of the Company or its subsidiaries to repurchase, redeem, or otherwise acquire any outstanding shares of capital stock or other ownership interests in any subsidiary of the Company.

SECTION 3.3 Authority Relative to This Agreement; Consents and Approvals.

(a) The Company has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. No other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, in respect of the Merger and this Agreement, the Company Requisite Vote). This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid, legal, and binding agreement of the Company, enforceable against the Company in accordance with its terms, except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) The Board of Directors of the Company (the "Company Board") has, by unanimous vote of those present (who constituted 100% of the directors then in office), duly and validly authorized the execution and delivery of this Agreement and approved the consummation of the transactions contemplated hereby, and taken all corporate actions required to be taken by the Company Board for the consummation of the transactions, including the Merger, contemplated hereby and has resolved (i) this Agreement and the transactions contemplated hereby, including the Merger, taken together, to be advisable and fair to, and in the best interests of, the Company and its stockholders; and (ii) to recommend that the stockholders of the Company approve and adopt this Agreement. The Company Board has directed that this Agreement be submitted to the stockholders of the Company for their approval. The affirmative approval of the holders of (A) Shares representing a majority of the votes that may be cast by the holders of all outstanding Shares (voting as a single class) and (B) Shares representing a majority of the Series A Preferred Stock (voting as a separate class), in each case as of the record date for the Company (the "Company Requisite Vote"), are the only votes of the holders of any class or series of capital stock of the Company necessary to adopt this Agreement and approve the transactions contemplated hereby, including the Merger.

SECTION 3.4 Financial Statements; Accounts Receivable.

(a) The Company has made available to Parent (i) copies of the audited balance sheets of the Company as of December 31, 1998, December 31, 1997 and December 31, 1996, together with the related audited statements of income, stockholders' equity and changes in cash flow for the fiscal years ended December 31, 1998, December 31, 1997 and December 31, 1996, and the notes thereto, and (ii) copies of the unaudited balance sheet of the Company, as of March 31, 1999 (the "Interim Balance Sheet"), together with the related unaudited consolidated statements of income and changes in cash flow for the three-month period ended on such date (such audited financial statements and unaudited interim financial statements being hereinafter referred to as the "Financial Statements"). The Financial Statements, including the notes thereto, (A) were prepared in accordance with generally accepted accounting principles applied on a consistent basis ("GAAP") throughout the periods covered thereby, and (B) present fairly in all material respects the financial position, results of operations and changes in cash flow of the Company as of such dates and for the periods then ended (subject, in the case of the unaudited interim Financial Statements, to normal year-end audit adjustments).

(b) The accounts receivable of the Company and its subsidiaries as set forth on the Interim Balance Sheet or arising since the date thereof have arisen solely out of bona fide sales and deliveries of goods, performance of services and other business transactions in the ordinary course of business consistent with past practice; to the Company's knowledge, are not subject to valid defenses, set-offs or counterclaims; and, to the Company's knowledge, are collectible at the full recorded amount thereof less, in the case of accounts receivable appearing on the Interim Balance Sheet, the recorded allowance for collection of doubtful accounts on the Interim Balance Sheet. The allowance for collection of doubtful accounts on the Interim Balance Sheet has been determined in accordance with GAAP consistent with past practice.

SECTION 3.5 No Undisclosed Liabilities. There are no material liabilities of the Company or any of its subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determinable or otherwise, other than: (a) liabilities disclosed, provided for or reserved against in the Financial Statements; (b) liabilities arising in the ordinary course of business after the date of the Interim Balance Sheet, which are not material to the financial position of the Company; and (c) liabilities under this Agreement.

SECTION 3.6 Absence of Changes. Since December 31, 1998, the Company and its subsidiaries have conducted their business in the ordinary and usual course consistent with past practice and there has not been:

(a) any event, occurrence or development which has had or would have, individually or in the aggregate, a Material Adverse Effect on the Company;

(b) any declaration, setting aside or payment of any dividend or other distribution in respect of any shares of capital stock of the Company or any subsidiary, or any repurchase, redemption or other acquisition by the Company or any of its subsidiaries of any Company or subsidiary securities;

(c) any amendment of any term of any outstanding security of the Company or any of its subsidiaries that would materially increase the obligations of the Company or any such subsidiary under such security;

(d) (i) any incurrence or assumption by the Company or any subsidiary of any indebtedness for borrowed money (or any renewals, replacements, or extensions that do not increase the aggregate commitments thereunder) except (A) in the ordinary and usual course of business consistent with past practice or (B) in connection with (x) any acquisition or capital expenditure permitted by Section 5.1 or (y) the transactions contemplated hereby, or (ii) any guarantee, endorsement, or other incurrence or assumption of liability (whether directly, contingently or otherwise) by the Company or any of its subsidiaries for the obligations of any other person (other than any wholly owned subsidiary of the Company), other than in the ordinary and usual course of business consistent with past practice;

(e) any creation or assumption by the Company or any of its subsidiaries of any material Lien on any material asset of the Company or any of its subsidiaries other than Permitted Liens or those material Liens created or assumed in the ordinary and usual course of business consistent with past practice;

(f) any making of any loan, advance or capital contribution to or investment in any person by the Company or any of its subsidiaries other than (i) any acquisition permitted by Section 5.1, (ii) loans, advances, or capital contributions to or investments in wholly owned subsidiaries of the Company or (iii) loans or advances to employees of the Company or any of its subsidiaries made in the ordinary and usual course of business consistent with past practice;

(g) (i) any contract or agreement entered into by the Company or any of its subsidiaries on or prior to the date hereof relating to any material acquisition or disposition of any assets or business or (ii) any modification, amendment, assignment, termination or relinquishment by the Company or any of its subsidiaries of any contract, license or other right (including, any insurance policy naming it as a beneficiary or a loss payable payee) that has had or would have, individually or in the aggregate, a Material Adverse Effect on the Company, other than, in the case of (i) and (ii), transactions, commitments, contracts or agreements in the ordinary and usual course of business consistent with past practice and those contemplated by this Agreement;

(h) any material change in any method of accounting or accounting principles or practice by the Company or any of its subsidiaries, except for any such change required by reason of a change in GAAP;

(i) any (i) grant of any severance or termination pay to any director, officer or employee of the Company or any of its subsidiaries; (ii) entering into of any employment, deferred compensation or other similar agreement (or any amendment to any such existing agreement) with any director, officer or employee of the Company or any of its subsidiaries; (iii) increase in benefits payable under any existing severance or termination pay policies or employment agreements; or (iv) increase in compensation, bonus or other benefits payable to directors, officers or employees of the Company or any of its subsidiaries other than, in the case of clause (iv) only, increases prior to the date hereof in compensation, bonus or other benefits payable to employees of the Company or any of its subsidiaries in the ordinary and usual course of business consistent with past practice or merit increases in salaries of employees at regularly scheduled times in customary amounts consistent with past practices;

(j) any adoption, entering into, amendment, alteration or termination of (partially or completely) any Benefit Plan or Employee Arrangement except as contemplated by this Agreement or to the extent required by applicable Law;

(k) any entering into of any contract with an officer, director, employee, agent or other similar representative of the Company or any of its subsidiaries that (i) is not terminable, without penalty or other liability, upon 60 calendar days' or less notice or (ii) involves payments in excess of \$25,000 (or in excess of \$75,000 in the case of executive search firms); or

(l) any (i) making or revoking of any material election relating to Taxes, (ii) settlement or compromise of any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes, or (iii) change to any material methods of reporting income or deductions for federal income tax purposes.

SECTION 3.7 Information Supplied. None of the information supplied or to be supplied by the Company for inclusion in (i) the registration statement on Form S-4 to be filed with the SEC by Parent in connection with the issuance of Parent Common Stock as required by the terms of this Agreement pursuant to the Merger (the "S-4"), at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, will contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the proxy statement relating to the Company Stockholder Meeting to be held in connection with the Merger (the "Proxy Statement") will, at the date mailed to stockholders and at the time of the Company

Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event in respect of the Company, its officers and directors or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4, the Company shall promptly so advise Parent and such event shall be so described, and such amendment or supplement (which Parent shall have a reasonable opportunity to review) shall be promptly filed with the SEC and, as required by Law, disseminated to the stockholders of the Company.

SECTION 3.8 Consents and Approvals. Except for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Securities Act, state securities or blue sky Laws, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the filing and recordation of the Certificate of Merger as required by the DGCL, no filing with or notice to, and no permit, authorization, consent or approval of, any court or tribunal or administrative, governmental or regulatory body, agency or authority (a "Governmental Entity") is necessary for the execution and delivery by the Company of this Agreement or the consummation by the Company of the transactions contemplated hereby, other than filings, notices, permits, authorizations, consents and approvals, the failure of which to obtain does not have and would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

SECTION 3.9 No Default. Neither the Company nor any of its subsidiaries is in violation of any term of (i) its certificate of incorporation or bylaws (or other similar organizational or governing documents), (ii) any Material Contract, or (iii) any domestic or foreign law, order, writ, injunction, decree, ordinance, award, stipulation, statute, judicial or administrative doctrine, rule or regulation entered by a Governmental Entity ("Law") applicable to the Company, its subsidiaries or any of their respective assets or properties, the consequence of which violation (A) does have or would have, individually or in the aggregate, a Material Adverse Effect on the Company or (B) does or would prevent or materially delay the performance of this Agreement by the Company. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not (A) result in any violation of or conflict with, constitute a default under, require any consent, waiver or notice under any term of, or result in the reduction or loss of any benefit or the creation or acceleration of any right or obligation under, (i) the certificate of incorporation or bylaws (or other similar organizational or governing documents) of the Company or any of its subsidiaries, (ii) any Company Permit or Material Contract, or (iii) any Law applicable to the Company or its subsidiaries, or their respective assets or properties, or (B) result in the creation of (or impose any obligation on the Company or any of its subsidiaries to create) any Lien (other than Permitted Liens) upon any of the assets or properties of the Company or any of its subsidiaries pursuant to any such term, excluding from the clauses (A)(ii) and (iii) and (B) such events as would not have a Material Adverse Effect on the Company.

SECTION 3.10 Real Property.

(a) None of the Company or its subsidiaries owns any real property.

(b) Section 3.10 of the Company Disclosure Schedule sets forth all leases, subleases and other agreements (the "Real Property Leases") under which the Company or any of its subsidiaries is a party or pursuant to which the Company or any of its subsidiaries uses or occupies or has the right to use or occupy, now or in the future, any real property. The Company has heretofore made available to Parent true, correct and complete copies of all Real Property Leases (and all modifications, amendments and supplements thereto and all side letters to which the Company or any of its subsidiaries is a party affecting the obligations of any party thereunder). Each Real Property Lease constitutes the valid and legally binding obligation of the Company or its subsidiaries, enforceable in accordance with its terms, and is in full force and effect except that (a) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (b) the remedy of specific performance and injunctive and other

forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. To the knowledge of the Company, no termination event or condition or uncured default of a material nature on the part of the Company or any such subsidiary or the landlord exists under any Real Property Lease. Each of the Company and its subsidiaries has a good and valid leasehold interest in each parcel of real property leased by it free and clear of all Liens, except (i) Taxes and general and special assessments not in default and payable without penalty and interest, and (ii) Permitted Liens. No party to any such Real Property Lease has given written notice to the Company or any of its subsidiaries of or made a claim in writing against the Company or any of its subsidiaries in respect of any breach or default thereunder.

SECTION 3.11 Litigation. There is no suit, claim, action, proceeding or investigation pending or, to the Company's knowledge, threatened against the Company or any of its subsidiaries or any of their respective assets or properties which (a) has or would have, individually or in the aggregate, a Material Adverse Effect on the Company or (b) questions the validity of this Agreement or any action to be taken by the Company in connection with the consummation of the transactions contemplated hereby or could otherwise prevent or materially delay the consummation of the transactions contemplated by this Agreement. None of the Company or its subsidiaries is subject to any outstanding order, writ, injunction or decree which has or would have, individually or in the aggregate, a Material Adverse Effect on the Company. To the knowledge of the Company, there is no action, suit, proceeding or investigation pending or threatened against any current or former officer, director, employee or agent of the Company or any of its subsidiaries (in his or her capacity as such) which does or would give rise to a claim for contribution or indemnification against the Company or any of its subsidiaries.

SECTION 3.12 Permits. The Company and its subsidiaries hold all permits, licenses, variances, exemptions, orders, and approvals of all Governmental Entities necessary for the lawful conduct of their respective businesses, other than such permits, licenses, variances, exemptions, orders, or approvals the failure to hold which does not have and would not have, individually or in the aggregate, a Material Adverse Effect on the Company (the "Company Permits"). The Company and its subsidiaries are in material compliance with the terms of the Company Permits. To the Company's knowledge, no investigation or review by any Governmental Entity in respect of the Company or its subsidiaries is pending or threatened, and the Company has not received written notice from any Governmental Entity of its intention to conduct the same.

SECTION 3.13 Employee Plans.

(a) Section 3.13(a) of the Company Disclosure Schedule sets forth a true, correct and complete list of:

(i) all "employee benefit plans," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which the Company or any of its subsidiaries has any obligation or liability, contingent or otherwise (the "Benefit Plans");

(ii) all employees and consultants of the Company and its subsidiaries, including the base salary for each such person; and

(iii) all stock option plans or bonus plans or other plans or arrangements with any employee or consultant of the Company or its subsidiaries which is non-standard.

Benefit Plans and Employee Arrangements which cover current or former employees, officers, or directors (or their equivalent) of the Company or any of its subsidiaries are separately identified, by the applicable country, on Section 3.13(a) of the Company Disclosure Schedule.

(b) In respect of each Benefit Plan and each employment, consulting, termination, profit sharing, severance, change of control, individual compensation or indemnification agreements, and all bonus or other incentive compensation, deferred compensation, salary continuation, stock award, stock option, stock purchase, educational assistance or employee loan agreement under which the Company or any of its subsidiaries has any obligation or liability (contingent or otherwise) (the "Employee Arrangements"), a complete and correct copy of each of the following documents (if applicable) has been made available to

Parent: (i) the most recent plan and related trust documents, and all amendments thereto; (ii) the most recent summary plan description, and all related summaries of material modifications thereto; (iii) the most recent Form 5500 (including, schedules and attachments); (iv) the most recent Internal Revenue Service ("IRS") determination letter; (v) the forms of stock option grant agreements used to make grants under the Company Option Plans; (vi) each written employment, consulting or individual severance or other compensation agreement, and all amendments thereto; and (vii) the most recent actuarial reports (including for purposes of Financial Accounting Standards Board report nos. 87, 106 and 112). The Company has no stock purchase plans.

(c) None of the Benefit Plans is subject to Title IV of ERISA, constitutes a defined benefit retirement plan or is a multi-employer plan described in Section 3(37) of ERISA, and the Company and its subsidiaries do not have any obligation or liability (contingent or otherwise) in respect of any such plans. The Company and its subsidiaries are not members of a group of trades or businesses (other than the Company and its subsidiaries) under common control or treated as a single employer pursuant to Section 414 of the Code.

(d) The Benefit Plans and their related trusts intended to qualify under Sections 401 and 501(a) of the Code, respectively, so qualify. Any voluntary employee benefit association which provides benefits to current or former employees of the Company and its subsidiaries, or their beneficiaries, is and has been qualified under Section 501(c)(9) of the Code.

(e) All contributions or other payments required to have been made by the Company and its subsidiaries to or under any Benefit Plan or Employee Arrangement by applicable Law or the terms of such Benefit Plan or Employee Arrangement (or any agreement relating thereto) have been timely and properly made.

(f) The Benefit Plans and Employee Arrangements have been maintained and administered in all material respects in accordance with their terms and applicable Laws. The Company believes that no individual who has performed services for the Company or any of its subsidiaries has been improperly excluded from participation in any Benefit Plan or Employee Arrangement.

(g) There are no pending or, to the Company's knowledge, threatened actions, claims, or proceedings against or relating to any Benefit Plan or Employee Arrangement (other than routine benefit claims by persons entitled to benefits thereunder), and, to the knowledge of the Company, there are no facts or circumstances which could form the basis for any of the foregoing.

(h) The Company and its subsidiaries do not have any obligation or liability (contingent or otherwise) to provide post-retirement life insurance or health benefits coverage for current or former officers, directors, or employees of the Company or any of its subsidiaries except (i) as may be required under Part 6 of Title I of ERISA but which are being paid solely by the participant or the participant's beneficiary, (ii) a medical expense reimbursement account plan pursuant to Section 125 of the Code, or (iii) through the last day of the calendar month in which the participant terminates employment with the Company or any subsidiary of the Company.

(i) None of the assets of any Benefit Plan is stock of the Company or any of its affiliates, or property leased to or jointly owned by the Company or any of its affiliates.

(j) Except in connection with equity compensation, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment becoming due to any employee (current, former, or retired) of the Company or any of its subsidiaries, (ii) increase any benefits under any Benefit Plan or Employee Arrangement, or (iii) result in the acceleration of the time of payment of, vesting of, or other rights in respect of any such benefits.

(k) Each of the Benefit Plans covering employees outside of the United States is fully funded through adequate reserves on the financial statements of the Company or its subsidiaries, insurance contracts, annuity contracts, trust funds or similar arrangements or the liabilities of such Benefit Plans are fairly reflected on such financial statements.

SECTION 3.14 Labor Matters.

(a) The Company and its subsidiaries are not a party to any labor or collective bargaining agreement, and no employees of the Company or any of its subsidiaries are represented by any labor organization. Within the preceding three years, there have been no representation or certification proceedings, or petitions seeking a representation proceeding, pending or, to the Company's knowledge, threatened in writing to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority. Within the preceding three years, to the Company's knowledge, there have been no organizing activities involving the Company or any of its subsidiaries in respect of any group of employees of the Company or any of its subsidiaries.

(b) There are no strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances or other material labor disputes pending or threatened in writing against or involving the Company or any of its subsidiaries. There are no unfair labor practice charges, grievances or complaints pending or, to the Company's knowledge, threatened by or on behalf of any employee or group of employees of the Company or any of its subsidiaries which, if individually or collectively resolved against the Company or any of its subsidiaries, would have a Material Adverse Effect on the Company.

(c) There are no complaints, charges or claims against the Company or any of its subsidiaries pending or, to the Company's knowledge, threatened to be brought or filed with any Governmental Entity or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any individual by the Company or any of its subsidiaries.

(d) There has been no "mass layoff" or "plant closing" as defined by the Worker Adjustment and Retraining Notification Act, as amended ("WARN"), in respect of the Company or any of its subsidiaries within the six months prior to the date hereof.

(e) To the knowledge of the Company, all employees of the Company and its subsidiaries who are not U.S. citizens but who are assigned to the U.S. operations of the Company or any of its subsidiaries or otherwise travel, from time to time, to the United States on behalf of the Company or any of its subsidiaries possess all applicable passports, visas and other authorizations required by the Laws of the United States and have otherwise complied with all applicable immigration and similar Laws of the United States.

SECTION 3.15 Environmental Matters.

(a) For purposes of this Agreement:

(i) "Environmental Costs and Liabilities" means any and all losses, liabilities, obligations, damages (including, compensatory and punitive damages), fines, penalties, judgments, actions, claims, costs, and expenses (including, fees, disbursements and expenses of legal counsel, experts, engineers and consultants and the costs of investigation and feasibility studies and clean up, remedial, removal or treatment activities, or in any other way addressing any Hazardous Materials) arising from, under or pursuant to any Environmental Law;

(ii) "Environmental Law" means any applicable federal, state or local Law (including common Law), statute, rule, regulation, ordinance, decree or other legal requirement relating to the protection of natural resources, the environment and the public, or to pollution or the release or exposure to Hazardous Materials as such Laws have been and may be amended or supplemented through the Closing Date;

(iii) "Hazardous Material" means any substance, material or waste which is classified or otherwise regulated pursuant to any Environmental Law, including petroleum, petroleum by-products and wastes, asbestos and polychlorinated biphenyls;

(iv) "Release" means any release, spill, effluent, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching, or migration into the environment, or into or out of any property owned, operated or leased by the applicable party or its subsidiaries; and

(v) "Remedial Action" means all actions required under or taken pursuant to any Environmental Law to (A) clean up, remove, treat or in any other way ameliorate or address any Hazardous Materials or other substance in the environment; (B) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Material so it does not endanger or threaten to endanger the public health or welfare or the environment; (C) perform pre-remedial studies and investigations or post-remedial monitoring and care pertaining or relating to a Release; or (D) bring the applicable party into compliance with any Environmental Law;

(b) The operations of the Company and its subsidiaries have been and, as of the Closing Date, will be, in material compliance with all Environmental Laws, and the Company is not aware of any facts, circumstances or conditions, which would require significant capital expenditures to materially comply in the future;

(c) The Company and its subsidiaries are not subject to any outstanding written orders pursuant to any Environmental Law respecting (A) Environmental Laws, (B) Remedial Action or (C) any Release or threatened Release of a Hazardous Material;

(d) The Company and its subsidiaries have not received any written communication alleging, in respect of any such party, the violation of or liability (real or potential) under any Environmental Law;

(e) To the Company's knowledge, neither the Company nor any of its subsidiaries has any contingent liability in connection with the Release of any Hazardous Material (whether on-site or off-site);

(f) There is not now, nor to the Company's knowledge, has there been in the past, on or in any property owned, leased or operated the Company or its subsidiaries any of the following: (A) any regulated underground storage tanks or regulated surface impoundments, (B) except as disclosed in the LVI-697158 Final Report, any asbestos-containing materials or (C) any polychlorinated biphenyls;

(g) No judicial or administrative proceedings are pending or, to the Company's knowledge, threatened against the Company or its subsidiaries alleging the violation of or seeking to impose liability pursuant to any Environmental Law and there are no investigations pending or, to the Company's knowledge, threatened against the Company or any of its subsidiaries under Environmental Laws; and

(h) The Company has provided Parent with copies of all environmentally related assessments, audits, investigations, sampling or similar reports in its possession relating to the Company or its subsidiaries or any real property currently or formerly owned, operated or leased by or for the Company or its subsidiaries.

SECTION 3.16 Tax Matters.

(a) The Company and each of its subsidiaries, and each affiliated group (within the meaning of Section 1504 of the Code) of which the Company or any of its subsidiaries is or has been a member, has timely filed all federal income Tax Returns and all other material Tax Returns and reports required to be filed by it. All such Tax Returns are complete and correct in all material respects. The Company and each of its subsidiaries has paid (or the Company has paid on its subsidiaries' behalf) all Taxes due for the periods covered by such Tax Returns. The most recent consolidated Financial Statements reflect an adequate reserve for all Taxes payable by the Company and its subsidiaries for all Taxable periods and portions thereof through the date of such Financial Statements. The Company has previously made available to Parent copies of (i) all federal, state, local and foreign income and franchise Tax Returns filed by the Company and each of its subsidiaries for their Taxable years ended in 1998; and (ii) any audit report issued within the last five years (or otherwise in respect of any audit or investigation in progress) relating to Taxes due from or in respect of the Company or any of its subsidiaries. For purposes of this Agreement, "Tax" or "Taxes" means all Taxes, charges, fees, imposts, levies, gaming or other assessments, including, all net income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property, and estimated Taxes, customs duties, fees, assessments and charges of any kind whatsoever, together with any interest and any penalties, fines,

additions to Tax or additional amounts imposed by any taxing authority (domestic or foreign) and shall include any transferee liability in respect of Taxes, any liability in respect of Taxes imposed by contract, Tax sharing agreement, Tax indemnity agreement or any similar agreement. "Tax Returns" means any report, return, document, declaration, or any other information or filing required to be supplied to any taxing authority or jurisdiction (domestic or foreign) in respect of Taxes, including, information returns, any document in respect of or accompanying payments or estimated Taxes, or in respect of or accompanying requests for the extension of time in which to file any such report, return document, declaration, or other information.

(b) No material deficiencies for any Taxes have been proposed, asserted, or assessed against the Company or any of its subsidiaries that have not been fully paid or adequately provided for in the appropriate financial statements of the Company and its subsidiaries, no requests for waivers of the time to assess any Taxes are pending, and no power of attorney in respect of any Taxes has been executed or filed with any taxing authority. No material issues relating to Taxes have been raised by the relevant taxing authority during any presently pending audit or examination.

(c) No material liens for Taxes exist in respect of any assets or properties of the Company or any of its subsidiaries, except for statutory liens for Taxes not yet due.

(d) None of the Company or any of its subsidiaries is a party to or is bound by any Tax sharing agreement, Tax indemnity obligation, or similar agreement, arrangement, or practice in respect of Taxes (including any advance pricing agreement, closing agreement, or other agreement relating to Taxes with any taxing authority).

(e) None of the Company or any of its subsidiaries has taken or agreed to take any action that would prevent the Merger from constituting a reorganization qualifying under the provisions of Section 368(a) of the Code.

(f) There are no employment, severance or termination agreements, other compensation arrangements, or Employee Benefit Plans currently in effect which provide for the payment of any amount (whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement that would give rise to a payment which is nondeductible by reason of Section 280G of the Code.

(g) The Company and its subsidiaries have complied in all material respects with all Laws applicable to the payment and withholding of Taxes.

(h) No federal, state, local, or foreign audits or other administrative proceedings or court proceedings are presently pending in respect of any federal income or material state, local, or foreign Taxes or Tax Returns of the Company or its subsidiaries and neither the Company nor any of its subsidiaries has received a written notice of any pending audit or proceeding.

(i) Neither the Company nor any of its subsidiaries has agreed to or is required to make any adjustment under Section 481(a) of the Code for any taxable year ending after 1998.

(j) Neither the Company nor any of its subsidiaries has (i) in respect of any assets or property held or acquired by any of them, filed a consent to the application of Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by the Company or any of its subsidiaries; (ii) executed or entered into a closing agreement pursuant to Section 7121 of the Code or any similar provision of state, local, or foreign Tax Law; (iii) filed with any Governmental Entity any requests for rulings or determinations in respect of any Taxes within the last five years; or (iv) extended the time within which to file any Tax Return, which Tax Return has since not been filed, or extended or waived the statute of limitations for the assessment or collection of Taxes, which Taxes have not since been paid.

(k) No property owned by the Company or any of its subsidiaries (i) is property required to be treated as being owned by another person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform

Act of 1986; (ii) constitutes "Tax exempt use property" within the meaning of Section 168(h)(1) of the Code; or (iii) is "Tax exempt bond financed property" within the meaning of Section 168(g) of the Code.

(l) The Company and each of its subsidiaries are not currently, have not been within the last five years, and do not anticipate becoming a "United States real property holding company" within the meaning of Section 897(c) of the Code.

(m) No subsidiary of the Company owns any Shares.

(n) Section 3.16(n) of the Company Disclosure Schedule sets forth a list of all material types of Taxes paid and material types of Tax Returns filed by or on behalf of the Company and each of its subsidiaries. To the Company's knowledge, neither the Company nor any of its subsidiaries has received written notice, within the past two years, from a taxing authority in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns to the effect that the Company or any of its subsidiaries is or may be subject to Taxation by that jurisdiction.

(o) Neither the Company nor any of its subsidiaries is a party to any contract, agreement, or other arrangement which could result in the payment of amounts that could be nondeductible by reason of Section 162(m) of the Code.

(p) Neither the Company nor any of its subsidiaries has received any private letter rulings from the IRS or comparable rulings from other taxing authorities.

(q) Neither the Company nor any subsidiary has constituted either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

SECTION 3.17 Absence of Questionable Payments. Neither the Company nor any of its subsidiaries nor, to the Company's knowledge, any director, officer, agent, employee or other person acting on behalf of the Company or any of its subsidiaries, has used any corporate or other funds for unlawful contributions, payments, gifts, or entertainment, or made any unlawful expenditures relating to political activity to government officials or others or established or maintained any unlawful or unrecorded funds in violation of the Foreign Corrupt Practices Act of 1977, as amended, or any other domestic or foreign Law. Neither the Company nor any of its subsidiaries nor, to the Company's knowledge, any director, officer, agent, employee or other person acting on behalf of the Company or any of its subsidiaries, has accepted or received any unlawful contributions, payments, gifts or expenditures.

SECTION 3.18 Material Contracts.

(a) Section 3.18 of the Company Disclosure Schedule sets forth a list of all Material Contracts. The Company has heretofore made available to Parent true, correct and complete copies (or if oral, written summaries) of all written or oral contracts and agreements (and all amendments, modifications and supplements thereto and all side letters to which the Company or any of its subsidiaries is a party affecting the obligations of any party thereunder) to which the Company or any of its subsidiaries is a party or by which any of its assets or properties are bound that are material to the business, assets or properties of the Company and its subsidiaries taken as a whole, including, only to the extent any of the following are, individually or in the aggregate, material to the business, assets or properties of the Company and its subsidiaries taken as a whole, all: (i) employment, severance, product design or development, personal services, consulting, non-competition or indemnification contracts (including, any contract to which the Company or any of its subsidiaries is a party involving employees of the Company); (ii) licensing, merchandising or distribution agreements; (iii) contracts granting a right of first refusal or first negotiation; (iv) partnership or joint venture agreements; (v) agreements for the acquisition, sale or lease of material assets or properties of the Company (by merger, purchase or sale of assets or stock or otherwise) entered into since January 1, 1996; (vi) contracts or agreements with any Governmental Entity; (vii) loan or credit agreements, mortgages, indentures or other agreements or instruments evidencing indebtedness for

borrowed money by the Company or any of its subsidiaries or any such agreement pursuant to which indebtedness for borrowed money may be incurred; (viii) agreements that purport to limit, curtail or restrict the ability of the Company or any of its subsidiaries to compete in any geographic area or line of business; and (ix) commitments and agreements to enter into any of the foregoing (collectively, together with any such contracts entered into in accordance with Section 5.1, the "Material Contracts"). Neither the Company nor any of its subsidiaries is a party to or bound by any severance or other agreement with any employee or consultant pursuant to which such person would be entitled to receive any additional compensation or an accelerated payment of compensation as a result of the consummation of the transactions contemplated hereby.

(b) Each of the Material Contracts constitutes the valid and legally binding obligation of the Company or its subsidiaries, enforceable in accordance with its terms, and is in full force and effect except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. There is no material default under any Material Contract so listed either by the Company (or its subsidiaries) or, to the Company's knowledge, by any other party thereto, and, to the Company's knowledge, no event has occurred that with the giving of notice, the lapse of time, or both would constitute a material default thereunder by the Company (or its subsidiaries) or, to the Company's knowledge, any other party.

(c) No party to any such Material Contract has given written notice to the Company of or made a written claim (or, to the Company's knowledge, an oral claim) against the Company in respect of any breach or default thereunder.

SECTION 3.19 Insurance. Section 3.19 of the Company Disclosure Schedule sets forth a true and complete list of directors and officers liability and general liability insurance policies maintained by the Company or any of its subsidiaries. Such policies provide coverage for the operations conducted by the Company and its subsidiaries of a scope and coverage consistent with customary industry practice.

SECTION 3.20 Subsidies. No grants, subsidies or similar arrangements exist directly or indirectly between or among the Company or any of its subsidiaries, on the one hand, and any domestic or foreign Governmental Entity or any other person, on the other hand.

SECTION 3.21 Intellectual Property.

(a) As used herein, the term "Scheduled Intellectual Property" means domestic and foreign letters patent, patents, patent applications, patent licenses, software licenses, know-how licenses, trade names, trademarks, trademark registrations and applications, service mark registrations and applications and copyright registrations and applications. Section 3.21(a) of the Company Disclosure Schedule sets forth all of the Scheduled Intellectual Property owned or used by the Company and its subsidiaries in the operation of their respective businesses. The Company owns all right, title and interest in and to all Scheduled Intellectual Property identified in Section 3.21(a) of the Company Disclosure Schedule as being owned by the Company. Such Scheduled Intellectual Property and the goodwill of the Company's and its subsidiaries' respective businesses associated therewith, together with all copyrights (including, copyrights in Software), Systems, service marks, trade secrets, technical knowledge, know-how, confidential information, proprietary processes, formulae, "semiconductor chip product" and "mask works" (as such terms are defined in 17 U.S.C. 901), and related ownership, use and other rights (including rights of renewal and rights to sue for past, present and future infringements or misappropriations thereof), shall be collectively referred to herein as the "Intellectual Property."

(b) The Company and its subsidiaries own or have the right to use pursuant to license, sublicense, agreement or permission, free and clear of all claims or rights of others, all Intellectual Property necessary for the operation of the businesses of the Company and its subsidiaries as presently conducted. Each material item of Intellectual Property owned or used by the Company and its subsidiaries immediately

prior to the Effective Time will be owned or available for use by Parent and the Surviving Corporation immediately subsequent to the Effective Time. The Company and its subsidiaries have taken not less than reasonable actions to protect and preserve the confidentiality of all technical Intellectual Property not otherwise protected by patents, patent applications or copyrights. Each employee of the Company and its subsidiaries has executed a non-disclosure agreement which included an agreement to assign to the Company or its subsidiaries all rights to Intellectual Property originated or invented by such employee developed in the course of such employee's employment by the Company relating to the business of the Company and its subsidiaries. No trade secret or confidential know-how material to the business of the Company or any of its subsidiaries as currently operated has been disclosed or authorized to be disclosed to any third party, other than pursuant to a non-disclosure agreement that protects the Company's or such subsidiary's proprietary interests in and to such trade secrets and confidential know-how or under circumstances in which the third party is under a legal duty not to disclose such trade secrets and confidential know-how.

(c) To the Company's knowledge, neither the Company nor any of its subsidiaries has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of third parties, and neither the Company nor any of its subsidiaries has received any charge, complaint, claim or notice alleging any such interference, infringement, misappropriation or violation. No third party has, to the Company's knowledge, interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of the Company or its subsidiaries.

(d) Section 3.21(d) of the Company Disclosure Schedule identifies each material item of Intellectual Property that any third party owns and that any of the Company or any of its subsidiaries uses pursuant to license, sublicense, agreement or permission. To the Company's knowledge, in respect of each such item of used Intellectual Property:

(i) the license, sublicense, agreement or permission covering the item is legal, valid, binding, enforceable and in full force and effect;

(ii) the license, sublicense, agreement or permission will continue to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Effective Time;

(iii) no party to the license, sublicense, agreement or permission is in breach or default in any material respect, and no event has occurred which with notice or lapse of time would constitute a material breach or default or permit termination, modification or acceleration thereunder; and

(iv) no party to the license, sublicense, agreement or permission has repudiated any provision thereof.

(e) Neither the Company nor any of its subsidiaries has granted any licenses or other rights to use any of the Intellectual Property of the Company or any of its subsidiaries to any third party.

(f) Neither the Company nor any of its subsidiaries has entered into any agreement to indemnify any other person against any charge of infringement or misappropriation of any Intellectual Property.

(g) The Company owns all rights in the Company's existing websites.

SECTION 3.22 Software.

(a) The computer software owned by the Company or its subsidiaries or developed for the Company or its subsidiaries (the "Software") performs substantially in accordance with the documentation and other written material used in connection with the Software, is in machine readable form and includes all computer programs, Systems, materials, storage media, know-how, object and source codes, other written materials, know-how and processes related to the Software.

(b) To the Company's knowledge, no employee of the Company or any of its subsidiaries is, or is now expected to be, in default under any term of any employment contract, agreement or arrangement relating to the Software or noncompetition arrangement, or any other Material Contract or any restrictive

covenant relating to the Software or its development or exploitation. The Software was developed entirely by the employees of the Company or its subsidiaries during the time they were employees only of the Company or its subsidiaries, and the Company has made reasonable efforts to ensure that such Software does not include any (i) inventions, works of authorship, derivatives or contributions of such employees made prior to the time such employees became employees of the Company or its subsidiaries or (ii) intellectual property of any previous employer of such employee.

(c) All right, title and interest in and to the Software is owned by the Company or its subsidiaries, free and clear of all Liens (other than Permitted Liens), is fully transferable to Parent or the Surviving Corporation, as the case may be, and no person other than the Company or its subsidiaries has any interest in the Software, including, any security interest, license, contingent interest or otherwise. To the Company's knowledge, the Company's and its subsidiaries' development, use, sale or exploitation of the Software does not violate any rights of any other person. Neither the Company nor any of its subsidiaries has received any communication alleging such a violation. Neither the Company nor any of its subsidiaries has any obligation to compensate any other person for the development, use, sale or exploitation of the Software nor has the Company or any of its subsidiaries granted to any other person any license, option or other rights to develop, use, sell or exploit in any manner the Software whether requiring the payment of royalties or not.

(d) The Company and its subsidiaries have kept secret and have not disclosed the source code for the Software to any person other than certain employees of the Company and its subsidiaries who are subject to the terms of a binding confidentiality agreement in respect thereof. Each of the Company and its subsidiaries has taken appropriate measures to protect the confidential and proprietary nature of the Software, including the use of confidentiality agreements with all of its employees having access to the Software source and object code. There have been no patents applied for and no copyrights registered for any part of the Software, except for those owned by the Company or its subsidiaries. There are no trademark rights of any person in the Software, except for those owned by the Company or its subsidiaries.

(e) A complete copy of the Software, in both source code and object code form, will be delivered to Parent at the Closing.

SECTION 3.23 Year 2000.

(a) Based on an assessment of the Systems that are used or relied on by the Company or by any of its subsidiaries in the conduct of their respective businesses, the Company believes that no such System will malfunction, will cease to function, will generate incorrect data or will provide incorrect results when processing, providing and/or receiving (i) date-related data in, into or between the twentieth and twenty-first centuries or (ii) date-related data in connection with any valid date in the twentieth or twenty-first centuries.

(b) Based on an assessment of the products and services that are or have been sold, licensed, rendered or otherwise provided or offered by the Company or by any of its subsidiaries in the conduct of their respective businesses, the Company believes that no such products or services will malfunction, will cease to function, will generate incorrect data or will produce incorrect results when processing, providing and/or receiving (i) date-related data in, into or between the twentieth and twenty-first centuries or (ii) date-related data in connection with any valid date in the twentieth or twenty-first centuries; and, to the knowledge of the Company or any of its subsidiaries, neither the Company nor any of its subsidiaries is or will be subject to claims or liabilities arising from any such malfunction, cessation of function, generation of incorrect data or production of incorrect results.

(c) Neither the Company nor any of its subsidiaries has made representations or warranties concerning the ability of any product or service that is or has been sold, licensed, rendered or otherwise provided or offered by a person other than the Company or any of its subsidiaries, and no other representations and warranties concerning the Systems used or relied on by the Company or any of its subsidiaries, in the conduct of their respective businesses to operate without malfunction, to operate without ceasing to function, to generate correct data or to produce correct results when processing,

providing and/or receiving (i) date-related data in, into and between the twentieth and twenty-first centuries or (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. The Company has made available to Parent copies of (i) all customer agreements containing representations and warranties concerning the Year 2000 Compliance of the Company's products and services and (ii) the Company's standard memorandum to customers regarding Year 2000 Compliance of the Company's products and services, and the Company has made good faith efforts to make available to Parent other materials containing representations and warranties regarding the Year 2000 Compliance of the Company's products, services and Systems.

(d) Based on an inquiry of material suppliers and service providers of the Company and its subsidiaries, the Company believes that such suppliers and service providers will be able to timely ensure that its own (and its material suppliers' and service providers') Systems continue to operate without malfunction, to operate without ceasing to function, to generate correct data and to produce correct results when processing, providing and/or receiving (i) date-related data in, into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. The Company has not received notice that normal business operations of any customer will be disrupted in any material respects as a result of similar Year 2000 Compliance issues.

(e) For the purposes of this Agreement, "Systems" means, with respect to a person, any and all hardware, software and firmware used by the Company or any of its subsidiaries in the course of their respective businesses, including (i) any and all source and object code; (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise; (iii) billing, reporting and other management information systems; (iv) all descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing; (v) all content contained on any Internet site(s) maintained by such person or any of its subsidiaries; and (vi) all documentation, including user manuals and training materials, relating to any of the foregoing.

SECTION 3.24 Brokers. Other than BT Alex. Brown, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission or expense reimbursement in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company or any of its subsidiaries. A true and complete copy of the engagement agreement between the Company and BT Alex. Brown has been provided to Parent.

SECTION 3.25 Accounting Matters; Tax Treatment. Neither the Company nor, to the Company's knowledge, any of its affiliates or stockholders, has taken or agreed to take any action or is aware of any fact or circumstance that would (i) be reasonably likely to prevent the Merger from qualifying as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations or (ii) cause any representation contained in the certificates relating to tax-free reorganization treatment attached hereto as Exhibits C and D to be untrue.

SECTION 3.26 Product Liability; Recalls.

(a) (i) None of the Company or any of its subsidiaries has received any written notice, demand, claim, or inquiry and there is no action, suit, hearing, proceeding or investigation, of a civil, criminal or administrative nature (collectively, "Notices") pending, or to the Company's knowledge, threatened before any Governmental Entity in which a Product is alleged to have a Defect or relating to or resulting from any alleged failure to warn or from any alleged breach of express or implied warranties or representations, nor, to the Company's knowledge, is there any valid basis for any such demand, claim, action, suit, inquiry, hearing, proceeding, notice of violation or investigation; (ii) no Notice would, if adversely determined, have, individually or in the aggregate, a Material Adverse Effect on the Company; (iii) there has not been any recall, rework, retrofit or post-sale general consumer warning since December 31, 1998 (collectively, "Recalls") of any Product, or, to the knowledge of the Company, any investigation or consideration of or decision made by any person concerning whether to undertake or not to undertake any Recalls and the Company has received no Notices from any Governmental Entity or any other person in respect of the foregoing; and (iv) to the knowledge of the Company, there are currently no material defects in design, manufacturing, materials or workmanship, including, any failure to warn, or any breach of express or

implied warranties or representations, which involve any Product that accounts for a material portion of the Company's sales.

(b) As used herein, (i) "Defect" means a defect or impurity of any kind, whether in design, manufacture, processing, or otherwise, including, any dangerous propensity associated with any reasonably foreseeable use of a Product, or the failure to warn of the existence of any defect, impurity or dangerous propensity; and (ii) "Product" means any product designed, manufactured, shipped, sold, marketed, distributed and/or otherwise introduced into the stream of commerce by or on behalf of the Company or any of its past or present subsidiaries.

SECTION 3.27 Customers, Suppliers and Vendors. Section 3.27 of the Company Disclosure Schedule sets forth (a) a list of the ten largest customers of the Company and its subsidiaries (taken as a whole) based on sales during the fiscal year ended December 31, 1998, and the three months ended March 31, 1999, showing the approximate total sales by the Company and its subsidiaries to each such customer during such periods, and (b) a list of the ten largest suppliers and vendors of the Company and its subsidiaries (taken as a whole) based on purchases during the fiscal year ended December 31, 1998, and the three months ended March 31, 1999, showing the approximate total purchases by the Company and its subsidiaries from each such supplier or vendor during such periods. Since December 31, 1998, there has not been any material adverse change in the business relationship of the Company or any of its subsidiaries with any customer, supplier or vendor named in Section 3.27 of the Company Disclosure Schedule, and the Company has no reason to believe that there will be any such material adverse change in the future either as a result of the consummation of the transactions contemplated by this Agreement or otherwise.

SECTION 3.28 Takeover Statute. The Company has taken all action required to be taken by it in order to exempt this Agreement and the transactions contemplated hereby from, and this Agreement and the transactions contemplated hereby are exempt from, the requirements of any "moratorium," "control share," "fair price," "affiliate transaction," "business combination" or other antitakeover Laws of Maryland or Delaware (collectively, "Takeover Statutes"). Section 203 of the DGCL is not applicable, by virtue of paragraph (b)(4) thereof, to the Company or the transactions contemplated hereby.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Except as set forth in the disclosure schedule delivered by Parent to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule"), Parent and Merger Sub hereby represent and warrant to the Company as follows:

SECTION 4.1 Organization.

(a) Each of Parent and Merger Sub is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its businesses as now conducted.

(b) Each of Parent and Merger Sub is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing does not have and would not have, individually or in the aggregate, a Material Adverse Effect on Parent or Merger Sub.

(c) Parent has heretofore made available to the Company accurate and complete copies of the certificate of incorporation and bylaws of Parent and Merger Sub as currently in effect.

(d) Parent directly owns all of the issued and outstanding shares of capital stock of Merger Sub.

SECTION 4.2 Authority Relative to This Agreement.

(a) Each of Parent and Merger Sub has all necessary corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. No other corporate proceedings on the part of Parent or Merger Sub are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Merger Sub and constitutes a valid, legal and binding agreement of each of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with its terms, except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(b) The Board of Directors of Parent (the "Parent Board"), the Board of Directors of Merger Sub and Parent as the sole stockholder of Merger Sub have duly and validly authorized the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and taken all corporate actions required to be taken by such Boards of Directors and Parent as the sole stockholder of Merger Sub for the consummation of the transactions.

SECTION 4.3 SEC Reports; Financial Statements. Parent has filed all required forms, reports and documents with the SEC since December 31, 1997, each of which has complied in all material respects with all applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the dates such forms, reports, and documents were filed. Parent has heretofore made available to the Company, in the form filed with the SEC (including, any amendments thereto), (i) its Annual Report on Form 10-K for the fiscal year ended December 31, 1998, (ii) all definitive proxy statements relating to Parent's meetings of stockholders (whether annual or special) held since December 31, 1997 and (iii) all other reports or registration statements filed by Parent with the SEC since December 31, 1997 (the "Parent SEC Reports"). None of such Parent SEC Reports, including, any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of Parent included in the Parent SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC in respect thereof and fairly present, in conformity with GAAP on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments). Except as and to the extent disclosed in the Parent SEC Reports, since December 31, 1998, there has not been any event, occurrence or development which does or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Parent.

SECTION 4.4 Information Supplied. None of the information supplied or to be supplied by Parent or Merger Sub for inclusion or incorporation by reference in (i) the S-4 will, at the time the S-4 is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Proxy Statement will, at the date mailed to stockholders of the Company and at the time of the Company Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. If at any time prior to the Effective Time any event in respect of Parent, its officers and directors, or any of its subsidiaries should occur which is required to be described in an amendment of, or a supplement to, the S-4 or the Proxy Statement, Parent shall promptly so advise the Company and such event shall be so described, and any such amendment or supplement to the S-4 (which the Company shall have a

reasonable opportunity to review) shall be promptly filed with the SEC. The S-4 will comply as to form in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

SECTION 4.5 Consents and Approvals; No Violations. Except for filings, permits, authorizations, consents, and approvals as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, state securities or blue sky Laws, the HSR Act, the filing and recordation of the Certificate of Merger as required by the DGCL, no filing with or notice to, and no permit, authorization, consent, or approval of, any Governmental Entity is necessary for the execution and delivery by Parent or Merger Sub of this Agreement or the consummation by Parent or Merger Sub of the transactions contemplated hereby, except where the failure to obtain such permits, authorizations, consents, or approvals or to make such filings or give such notice do not or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent. Neither the execution, delivery, and performance of this Agreement by Parent or Merger Sub nor the consummation by Parent or Merger Sub of the transactions contemplated hereby will result in any violation of or conflicts with, constitute a default under, require any consent, waiver or notice under any term of, or result in the reduction or loss of any benefit or the creation or acceleration of any right or obligation under, (i) the respective certificate of incorporation or bylaws of Parent or Merger Sub, (ii) any of the terms, conditions, or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent or Merger Sub is a party or by which any of them or any of their respective assets or properties may be bound, or (iii) any Law applicable to Parent or Merger Sub or any of their respective assets or properties, except in the case of (ii) or (iii) for violations, breaches or defaults which do not or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent.

SECTION 4.6 No Prior Activities. Except for obligations incurred in connection with its incorporation or organization or the negotiation and consummation of this Agreement and the transactions contemplated hereby, Merger Sub has neither incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any person.

SECTION 4.7 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent or any of its subsidiaries.

SECTION 4.8 Accounting Matters; Tax Treatment. Neither Parent nor, to Parent's knowledge, any of its affiliates, has taken or agreed to take any action or is aware of any fact or circumstance that would (a) be reasonably likely to prevent the Merger from qualifying as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations, or (b) cause any representation contained in the certificates relating to tax-free reorganization treatment attached hereto as Exhibits C and D to be untrue.

ARTICLE V

COVENANTS RELATED TO CONDUCT OF BUSINESS

SECTION 5.1 Conduct of Business of the Company. Except as contemplated by this Agreement, during the period from the date hereof to the Effective Time, the Company will, and will cause each of its subsidiaries to, conduct its operations in the ordinary and usual course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, use commercially reasonable efforts to preserve intact its current business organizations, keep available the service of its current officers and employees, preserve its relationships with customers, suppliers and others having business dealings with it and preserve the goodwill of the Company and its subsidiaries through the Effective Time. Without limiting the generality of the foregoing, and except as otherwise expressly provided in this Agreement or in Section 5.1 of the Company Disclosure

Schedule, prior to the Effective Time, neither the Company nor any of its subsidiaries will, without the prior written consent of Parent:

(a) amend its certificate of incorporation or bylaws (or other similar organizational or governing instruments);

(b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities convertible into or exchangeable for any stock or any equity equivalents (including, any stock options or stock appreciation rights), except for the issuance or sale of Shares pursuant to outstanding Company Stock Options and the issuance of up to 50,000 Company Stock Options to new employees of the Company or existing employees through ordinary course performance reviews as contemplated by Section 5.3;

(c) (i) split, combine or reclassify any shares of its capital stock; (ii) declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock; (iii) make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to stockholders in their capacity as such; or (iv) redeem, repurchase or otherwise acquire any of its securities or any securities of any of its subsidiaries;

(d) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries (other than the Merger);

(e) alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any subsidiary of Company;

(f) (i) incur or assume any long-term or short-term debt or issue any debt securities, except for borrowings under existing lines of credit in the ordinary and usual course of business consistent with past practice; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, except in the ordinary and usual course of business consistent with past practice; (iii) make any loans, advances or capital contributions to, or investments in, any other person (other than to the wholly owned subsidiaries of the Company or customary loans or advances to employees in the ordinary and usual course of business consistent with past practice and in amounts not material to the maker of such loan or advance); (iv) pledge or otherwise encumber shares of capital stock of the Company or its subsidiaries; or (v) mortgage or pledge any of its material assets, tangible or intangible, or create or suffer to exist any Lien thereupon, other than as disclosed in the Company Disclosure Schedule and Permitted Liens;

(g) (i) except as may be required by Law or as contemplated by this Agreement, enter into, adopt or amend or terminate (partially or completely) any Benefit Plan, Employee Arrangement (including, the repricing of any stock options or the acceleration or vesting of any stock options), stock appreciation right, restricted stock, performance unit, stock equivalent or stock purchase agreement for the benefit or welfare of any director, officer or employee in any manner, (ii) except as contemplated by Section 5.3 or as required under existing agreements, increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (including, the granting of stock appreciation rights or performance units) or grant any completion bonuses or change of control payments in respect of the Merger or that will be affected thereby; or (iii) hire, promote or change the classification or status in respect of any employee or individual; provided, however, that Parent shall not unreasonably withhold or delay any consent sought to hire, promote or change the classification or status of any employee or individual;

(h) acquire, sell, lease or dispose of any assets outside the ordinary and usual course of business consistent with past practice or any assets which in the aggregate are material to the Company and its

subsidiaries taken as a whole, enter into any commitment or transaction outside the ordinary and usual course of business consistent with past practice or grant any exclusive distribution rights;

(i) except as may be required as a result of a change in Law or in GAAP, change any of the accounting principles or practices used by it;

(j) revalue in any material respect any of its assets, including, writing down the value of inventory or writing-off notes or accounts receivable other than in the ordinary and usual course of business consistent with past practice or as required by GAAP;

(k) (i) acquire (by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or any equity interest therein; (ii) enter into any material contract or agreement, other than in the ordinary and usual course of business consistent with past practice, or amend in any material respect any of the Material Contracts; (iii) authorize any new capital expenditure or expenditures which, individually, is in excess of \$100,000 or, in the aggregate, are in excess of \$200,000; or (iv) enter into or amend any contract, agreement, commitment or arrangement providing for the taking of any action that would be prohibited hereunder;

(l) make or revoke any Tax election, or settle or compromise any Tax liability, or change (or make a request to any taxing authority to change) any aspect of its method of accounting for Tax purposes;

(m) pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in excess of \$100,000 individually or \$200,000 in the aggregate, or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which the Company or any of its subsidiaries is a party;

(n) settle or compromise any pending or threatened suit, action or claim relating to the transactions contemplated hereby;

(o) take any action (including, any action otherwise permitted by this Section 5.1) that would prevent or impede the Merger from qualifying as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations or as a reorganization under Section 368 of the Code;

(p) enter into any agreement that limits or otherwise restricts the Company or any of its subsidiaries or any successor thereto (including the Surviving Corporation and its affiliates) from engaging or competing in any line of business or in any geographic area;

(q) fail to comply in any material respect with any Law applicable to the Company, its subsidiaries, or their respective assets which would, individually or in the aggregate, have a Material Adverse Effect on the Company;

(r) enter into any direct or indirect arrangements for financial subsidies;

(s) effect a "mass layoff" or "plant closing" as defined in WARN;

(t) enter into any contract with an officer, director, employee, agent, or other similar representative of the Company or any of its subsidiaries that is not terminable, without penalty or other liability, upon not more than 60 calendar days' notice, other than standard confidentiality and inventions agreements;

(u) enter into any contract, agreement or arrangement to port Software to any digital signal processor of any vendor other than Parent or its subsidiaries; or

(v) take, propose to take, or agree in writing or otherwise to take, any of the actions described in Sections 5.1(a) through 5.1(u) or any action which would make any of the representations or warranties of the Company contained in this Agreement untrue, incomplete or incorrect.

SECTION 5.2 Access to Information.

(a) Between the date hereof and the Effective Time, the Company will give Parent and Merger Sub and their authorized representatives (including, counsel, financial advisors and auditors) reasonable access at all reasonable times to all employees, plants, offices, warehouses and other facilities and to all books and records of the Company and its subsidiaries, will permit Parent and Merger Sub to make such inspections as Parent and Merger Sub may reasonably require and will cause the Company's officers and those of its subsidiaries to furnish Parent and Merger Sub with such financial and operating data and other information in respect of the business, properties and personnel of the Company and its subsidiaries as Parent or Merger Sub may from time to time reasonably request.

(b) Between the date hereof and the Effective Time, the Company shall furnish to Parent and Merger Sub (i) within five business days after the delivery thereof to management, such monthly financial statements and data as may be prepared for distribution to Company management and (ii) at the earliest time they are available, such quarterly and annual financial statements as may be prepared for the Company Board.

(c) Each of Parent and Merger Sub will hold and will cause its authorized representatives to hold in confidence all documents and information concerning the Company and its subsidiaries furnished to Parent or Merger Sub in connection with the transactions contemplated by this Agreement pursuant to the terms of that certain Confidentiality Agreement entered into between the Company and Parent dated April 14, 1999 (the "Confidentiality Agreement").

SECTION 5.3 Performance Reviews. Section 5.3 of the Company Disclosure Schedule sets forth a list of all employees of the Company scheduled to receive a performance review and associated standard salary and option adjustment between the date hereof and August 31, 1999. To the extent that this Agreement shall be extended beyond August 31, 1999 pursuant to Section 9.2(a) or the Company otherwise determines that it is in the best interest of the Surviving Corporation to conduct performance reviews in addition to those set forth in Section 5.3 of the Company Disclosure Schedule, the Company shall so notify Parent and Parent shall not unreasonably withhold or delay its consent to such additional performance reviews.

ARTICLE VI

ADDITIONAL AGREEMENTS

SECTION 6.1 Preparation of S-4 and the Proxy Statement. Parent and the Company will, as promptly as practicable, jointly prepare the Proxy Statement in connection with the vote of the stockholders of the Company in respect of the Merger. Parent will, as promptly as practicable, prepare and file with the SEC the S-4 in connection with the registration under the Securities Act of the shares of Parent Common Stock issuable upon conversion of the Shares and the other transactions contemplated hereby. Parent and the Company will, and will cause their accountants and lawyers to, use all reasonable best efforts to have or cause the S-4 declared effective as promptly as practicable after filing with the SEC, including causing their accountants to deliver necessary or required instruments such as opinions, consents and certificates, and will take any other action required or necessary to be taken under federal or state securities Laws or otherwise in connection with the registration process (other than qualifying to do business in any jurisdiction which it is not now so qualified or to file a general consent to service of process in any jurisdiction). Parent shall, as promptly as practicable after the receipt thereof, provide to the other party copies of any written comments and advise the other party of any oral comments, in respect of the S-4 received from the staff of the SEC. The Company will provide Parent with a reasonable opportunity to review and comment on any amendment or supplement to the Proxy Statement. The Company will use its reasonable best efforts to cause the Proxy Statement to be mailed to its stockholders at the earliest practicable date following effectiveness of the S-4.

SECTION 6.2 Letters of Accountants.

(a) The Company shall use reasonable best efforts to cause to be delivered to Parent a letter of KPMG LLP, the Company's independent auditors, dated a date within two business days before the date on which the S-4 shall become effective and addressed to Parent, in the form as contemplated under Section 7.1(f).

(b) Parent shall use reasonable best efforts to cause to be delivered to the Company a letter of Ernst & Young LLP, Parent's independent auditors, dated a date within two business days before the date on which the S-4 shall become effective and addressed to the Company, in the form as contemplated under Section 7.1(f).

SECTION 6.3 Meeting. The Company shall take all lawful action to (i) cause a special meeting of its stockholders (the "Company Stockholder Meeting") to be duly called and held as soon as practicable after the date of this Agreement for the purpose of voting on the approval and adoption of this Agreement and (ii) solicit proxies from its stockholders to obtain the Company Requisite Vote for the approval and adoption of this Agreement. The Company Board shall recommend approval and adoption of this Agreement and the Merger by the Company's stockholders and, except as permitted by Section 6.5(b), the Company Board shall not withdraw, amend, or modify in a manner adverse to Parent such recommendation (or announce publicly its intention to do so). Notwithstanding the foregoing, regardless of whether the Company Board has withdrawn, amended or modified its recommendation that its stockholders approve and adopt this Agreement, unless this Agreement has been terminated pursuant to the provisions of Article IX, the Company shall be required to hold the Company Stockholder Meeting.

SECTION 6.4 Reasonable Best Efforts.

(a) Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the Merger and the other transactions contemplated by this Agreement. In furtherance and not in limitation of the foregoing, each party hereto shall make an appropriate filing of a Notification and Report Form pursuant to the HSR Act in respect of the transactions contemplated hereby as promptly as practicable and in any event within ten business days of the date hereof and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and use its reasonable best efforts to take, or cause to be taken, all other actions consistent with this Section 6.4 necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) Each of Parent and the Company shall, in connection with the efforts referenced in Section 6.4(a) to obtain all requisite approvals and authorizations for the transactions contemplated by this Agreement under the HSR Act, or any other Antitrust Law, use its reasonable best efforts to (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party; (ii) keep the other party informed in all material respects of any material communication received by such party from, or given by such party to, the Federal Trade Commission (the "FTC"), the Antitrust Division of the Department of Justice (the "DOJ") or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby; and (iii) permit the other party to review any material communication given by it to, and consult with each other in advance of any meeting or conference with, the FTC, the DOJ or any such other domestic or foreign Governmental Entity or, in connection with any proceeding by a private party, with any other person, and to the extent permitted by the FTC, the DOJ or such other applicable domestic or foreign Governmental Entity or other person, give the other party the opportunity to attend and participate in such meetings and conferences. For purposes of this Agreement, "Antitrust Law" means the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition.

(c) In furtherance and not in limitation of the covenants of the parties contained in Sections 6.4(a) and (b), each of Parent and the Company shall use its reasonable best efforts to resolve such objections if any, as may be asserted by a Governmental Entity or other person in respect of the transactions contemplated hereby under any Antitrust Law. In connection with the foregoing, if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as violative of any Antitrust Law, each of Parent and the Company shall cooperate in all respects with each other and use its respective reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction, or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 6.4 shall (i) limit a party's right to terminate this Agreement pursuant to Section 9.2 so long as such party has up to then complied in all material respects with its obligations under this Section 6.4, or (ii) require Parent to dispose or hold separate any part of its or the Company's business or operations (or a combination of Parent's and the Company's business or operations), or comply with any other material restriction affecting its business or operations.

(d) The Company agrees that in connection with any litigation which may be brought against the Company or its directors relating to the transactions contemplated hereby, the Company will keep Parent, and any counsel which Parent may retain at its own expense, informed of the course of such litigation, to the extent Parent is not otherwise a party thereto. The Company agrees that it will consult with Parent prior to entering into any settlement or compromise of any such litigation, and that no such settlement or compromise will be entered into without Parent's prior written consent, which consent shall not be unreasonably withheld.

SECTION 6.5 Acquisition Proposals.

(a) The Company will not, nor will it permit any of its subsidiaries to, nor will it authorize or permit any officer, director or employee of or any investment banker, attorney, accountant or other advisor or representative of, the Company or any of its subsidiaries to, directly or indirectly, (i) solicit, initiate or encourage the submission of any Acquisition Proposal or (ii) participate in any discussions or negotiations regarding, or furnish to any person any information in respect of, or take any other action to facilitate, any Acquisition Proposal or any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal. The Company shall notify Parent of any Acquisition Proposal (including the material terms and conditions thereof (subject to confidentiality agreements existing as of the date hereof between the Company and any third party) and the identity of the person making it) as promptly as practicable after its receipt thereof, and shall provide Parent with a copy of any written Acquisition Proposal or amendments or supplements thereto (subject to confidentiality agreements existing as of the date hereof between the Company and any third party), and shall thereafter inform Parent on a prompt basis of the status of any discussions or negotiations with such a third party, and any material changes to the terms and conditions of such Acquisition Proposal, and shall promptly give Parent a copy of any information delivered to such person which has not previously been reviewed by Parent. Immediately after the execution and delivery of this Agreement, the Company will, and will cause its subsidiaries and will use its reasonable best efforts to cause its affiliates, and their respective officers, directors, employees, investment bankers, attorneys, accountants and other agents and representatives to, cease and terminate any existing activities, discussions or negotiations with any parties conducted heretofore in respect of any possible Acquisition Proposal and shall notify each party that it, or any officer, director, investment advisor, financial advisor, attorney or other agent or representative retained by it, has had discussions with during the 30 days prior to the date of this Agreement that the Company Board no longer seeks the making of any Acquisition Proposal. The Company shall take all necessary steps to promptly inform the individuals or entities referred to in the first sentence of this Section 6.5 of the obligations undertaken in this Section 6.5. "Acquisition Proposal" means an inquiry, offer or proposal regarding any of the following (other than the transactions contemplated by this Agreement) involving the Company or any of its subsidiaries: (w) any merger, consolidation, share exchange, recapitalization,

business combination or other similar transaction; (x) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of all or substantially all the assets of the Company and its subsidiaries, taken as a whole, in a single transaction or series of related transactions; (y) any tender offer or exchange offer for 20% or more of the outstanding Shares or the filing of a registration statement under the Securities Act in connection therewith; or (z) any public announcement of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

(b) The Company Board will not withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent, its approval or recommendation of this Agreement or the Merger unless the Company Board, after consultation with independent legal counsel, determines in good faith that such action is necessary to avoid a breach by the Company Board of its fiduciary duties to the Company's stockholders under applicable Law. Nothing contained in this Section 6.5(b) shall prohibit the Company from making any disclosure to the Company's stockholders which, in the good faith reasonable judgment of the Company Board, after consultation with independent legal counsel, is required under applicable Law; provided, that except as otherwise permitted in this Section 6.5(b), the Company may not withdraw or modify, or propose to withdraw or modify, its position with respect to the Merger or approve or recommend, or propose to approve or recommend, an Acquisition Proposal. Notwithstanding anything contained in this Agreement to the contrary, any action by the Company Board permitted by, and taken in accordance with, this Section 6.5(b) shall not constitute a breach of this Agreement by the Company. Nothing in this Section 6.5(b) shall (i) permit the Company to terminate this Agreement (except as provided in Article IX hereof) or (ii) affect any other obligations of the Company under this Agreement.

SECTION 6.6 Public Announcements. Each of Parent, Merger Sub and the Company will consult with one another before issuing any press release or otherwise making any public statements in respect of the transactions contemplated by this Agreement, including, the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable Law or by obligations pursuant to any listing agreement with the NYSE, as determined by Parent, Merger Sub or the Company, as the case may be.

SECTION 6.7 Indemnification. The Company shall, and from and after the Effective Time, the Surviving Corporation and Parent shall, indemnify, defend and hold harmless the present and former directors and officers of the Company or any of the subsidiaries of the Company (the "Indemnified Parties") against all losses, claims, damages, costs, expenses (including reasonable attorneys' fees and expenses), liabilities or judgments or amounts that are paid in settlement with the approval of the indemnifying party of or in connection with any threatened or actual claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of or pertaining to the fact that such person is or was a director or officer of the Company or any of the subsidiaries of the Company whether pertaining to any matter existing at or prior to the Effective Time and whether asserted or claimed prior to, at or after the Effective Time ("Indemnified Liabilities"), including all Indemnified Liabilities based in whole or in part on, or arising in whole or in part out of, or pertaining to this Agreement or the transactions contemplated hereby, in each case to the fullest extent a corporation is permitted under the DGCL as the same exists or may hereafter be amended (but, in the case of any amendment, only to the extent that such amendment permits broader rights than such law permitted prior to such amendment and only to the extent such amendment is not retroactively applicable) to indemnify its own directors or officers, as the case may be. Without limiting the foregoing, in the event any such claim, action, suit, proceeding or investigation is brought against any Indemnified Parties (whether arising before or after the Effective Time), (i) the Indemnified Parties may retain counsel satisfactory to them and the Surviving Corporation, and the Company or the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of reasonable documented expenses incurred, in either case to the fullest extent and in the manner permitted by the DGCL; and (ii) the Company or the Surviving Corporation will use all reasonable efforts to assist in the vigorous defense of any such matter, provided that neither the Company nor the Surviving Corporation shall be liable for any settlement effected without its prior written consent (which consent shall not be

unreasonably withheld). Any Indemnified Party wishing to claim indemnification under this Section 6.7, upon learning of any such claim, action, suit, proceeding or investigation, shall promptly notify the Company (or after the Effective Time, the Surviving Corporation) (but the failure so to notify shall not relieve a party from any liability which it may have under this Section 6.7 except to the extent such failure materially prejudices such party), and shall to the extent required by the DGCL deliver to the Company (or after the Effective Time, the Surviving Corporation) the undertaking contemplated by Section 145(e) of the DGCL. The Indemnified Parties as a group may retain only one law firm to represent them with respect to each such matter unless there is, under applicable standards of professional conduct, a conflict on any significant issue between the positions of any two or more Indemnified Parties. The Company, Parent and Merger Sub agree that all rights to indemnification, including provisions relating to advances of expenses incurred in defense of any action or suit, existing in favor of the Indemnified Parties with respect to matters occurring through the Effective Time, shall survive the Merger and shall continue in full force and effect for a period of not less than seven years from the Effective Time; provided, however, that all rights to indemnification in respect of any Indemnified Liabilities asserted or made within such period shall continue until the disposition of such Indemnified Liabilities.

SECTION 6.8 Notification of Certain Matters. The Company shall give prompt notice to Parent and Merger Sub, and Parent and Merger Sub shall give prompt notice to the Company, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time, (ii) any material failure of the Company, Parent or Merger Sub, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, (iii) any notice or other communication from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated by this Agreement, or (iv) any facts or circumstances arise that could reasonably be expected to result in a Material Adverse Effect; provided, however, that the delivery of any notice pursuant to this Section 6.8 shall not cure such breach or non-compliance or limit or otherwise affect the rights, obligations or remedies available hereunder to the party receiving such notice.

SECTION 6.9 Tax-Free Reorganization Treatment. The Company, Parent and Merger Sub shall execute and deliver to King & Spalding, counsel to the Company, and Weil, Gotshal & Manges LLP, counsel to Parent, certificates substantially in the forms attached hereto as Exhibits C and D at such time or times as reasonably requested by such law firms in connection with their respective deliveries of opinions in respect of the transactions contemplated hereby. Prior to the Effective Time, none of the Company, Parent or Merger Sub shall take or cause to be taken any action which would cause to be untrue (or fail to take or cause not to be taken any action which would cause to be untrue) any of the representations in such previously-agreed certificates.

SECTION 6.10 Employee Matters.

(a) Parent will cause the Surviving Corporation to honor the obligations of the Company or any of its subsidiaries under the provisions of all Benefit Plans and Employee Arrangements. After the Effective Time, the employees of the Company will be eligible to participate in the Benefit Plans or Parent's applicable employee benefit plans, as such plans may be in effect from time to time, and at Parent's sole discretion, will become employees of Parent. With respect to each such employee of the Company, service with the Company or any of its subsidiaries shall be counted for purposes of determining any period of eligibility to participate or to vest in benefits under any applicable benefit plan of Parent.

(b) The Company shall, not less than five days prior to the scheduled Closing Date, terminate its 401(k) retirement plan and completely distribute all participants' accounts thereunder.

(c) At or prior to the Effective Time, the Company shall enter into employment agreements in substantially the form attached as Exhibit E with each of the persons listed in Section 6.10(c) of the Company Disclosure Schedule.

(d) Employees of the Surviving Corporation shall not be required to pay any co-payments or deductibles on the TI health plan for the period beginning at the Closing Date and ending on December 31, 1999. To receive such treatment, the employee must be enrolled in the TI health plan and shall be required to pay any required premiums of the plan. Beginning January 1, 2000, employees of the Surviving Corporation enrolled in the TI health plan will be subject to the normal rules of the TI health plan.

SECTION 6.11 Affiliate Letters. Section 6.11 of the Company Disclosure Schedule sets forth a list of all persons who are, and all persons who to the Company's knowledge will be at the Closing Date, "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company will cause such list to be updated promptly through the Closing Date. As soon as practicable after the date hereof, but prior to the date of the Company Stockholder Meeting, the Company shall use commercially reasonable efforts to cause its "affiliates" to deliver to Parent a written agreement substantially in the form attached as Exhibit B.

SECTION 6.12 SEC and Other Filings. Each of Parent and the Company shall promptly provide the other party (or its counsel) with copies of all filings made by the other party or any of its subsidiaries with the SEC or any other state, federal or foreign Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

SECTION 6.13 Fees and Expenses. Whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except (a) Expenses incurred in connection with the filing, printing and mailing of the Proxy Statement and the S-4, which shall be shared equally by the Company and Parent, (b) the filing fees required under the HSR Act, which shall be shared equally by the Company and Parent and (c) if applicable, as provided in Section 9.5. As used in this Agreement, "Expenses" includes all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with, or related to, the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation, filing, printing and mailing of the Proxy Statement and the S-4 and the solicitation of stockholder approvals and all other matters related to the transactions contemplated hereby.

SECTION 6.14 Obligations of Merger Sub. Parent will take all action necessary to cause Merger Sub to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

SECTION 6.15 Listing of Stock. Parent shall use its reasonable best efforts to cause the shares of Parent Common Stock to be issued in connection with the Merger to be approved for listing on the NYSE on or prior to the Closing Date, subject to official notice of issuance.

SECTION 6.16 Antitakeover Statutes. If any Takeover Statute becomes applicable to the Merger, each of Parent and the Company shall take such actions as are commercially reasonable so that the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of any Takeover Statute on the Merger.

SECTION 6.17 No Solicitation. For a period of eighteen months following the date hereof, if this Agreement is terminated for any reason pursuant to Article IX, neither Parent nor any affiliates which it controls shall, directly or indirectly, actively solicit or induce any employee of the Company to leave such employment and become an employee of Parent or any of its affiliates if Parent was apprised of or had contact with such employee in connection with the transactions contemplated herein; provided, however, that nothing in this Section 6.17 shall prohibit (i) Parent or any of its affiliates from employing any person who initiates contact with them on his or her own initiative; (ii) any advertisement or general solicitation (or any hiring pursuant thereto) that is not specifically targeted at such employees; or (iii) the

solicitation or hiring of any person who is not so employed by the Company on the date Parent or its affiliates first solicit such person.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE MERGER

SECTION 7.1 Conditions to Each Party's Obligations to Effect the Merger. The respective obligations of each party to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by the party being benefited thereby, to the extent permitted by applicable Law:

(a) This Agreement shall have been approved and adopted by the Company Requisite Vote.

(b) Any waiting periods applicable to the Merger under the HSR Act shall have expired or early termination thereof shall have been granted without limitation, restriction or condition.

(c) There shall not be in effect any Law of any Governmental Entity of competent jurisdiction restraining, enjoining or otherwise preventing consummation of the transactions contemplated by this Agreement.

(d) The S-4 shall have been declared effective by the SEC and shall be effective at the Effective Time, and no stop order suspending effectiveness shall have been issued; no action, suit, proceeding or investigation by the SEC to suspend the effectiveness thereof shall have been initiated and be continuing; and all necessary approvals under state securities Laws or the Securities Act or Exchange Act relating to the issuance or trading of the Parent Common Stock shall have been received.

(e) The Parent Common Stock required to be issued hereunder shall have been approved for listing on the NYSE, subject only to official notice of issuance.

(f) The Company shall have received and delivered to Parent a letter from KPMG LLP dated as of the date the S-4 is declared effective and dated as of the Closing Date, stating that the accounting of the Merger as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations is appropriate if the Merger is consummated as contemplated by this Agreement. Parent shall have received and delivered to the Company a letter from Ernst & Young LLP, dated as of the date the S-4 is declared effective and dated as of the Closing Date, stating that accounting of the Merger as a "pooling of interests" under APB 16 and the applicable SEC rules and regulations is appropriate if the Merger is consummated as contemplated by this Agreement. Notwithstanding the foregoing, the satisfaction of this Section 7.1(f) shall not be a condition to the obligations of a party to effect the Merger if the failure to satisfy this condition results from any action taken or agreed to be taken by or on behalf of such party.

SECTION 7.2 Conditions to the Obligations of Parent and Merger Sub. The respective obligations of Parent and Merger Sub to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following additional conditions, any or all of which may be waived in whole or part by Parent and Merger Sub, as the case may be, to the extent permitted by applicable Law:

(a) The representations and warranties of the Company contained herein, to the extent qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true and, to the extent not qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true in all material respects, in each case when made and on and as of the Closing Date as though made on and as of the Closing Date (except for representations and warranties made as of a specified date, which need be true, or true in all material respects, as the case may be, only as of the specified date).

(b) The Company shall have performed or complied in all material respects with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the time of the Closing.

(c) The Company shall have delivered to Parent a certificate, dated the date of the Closing, signed by the President or any Vice President of the Company (but without personal liability thereto), certifying as to the fulfillment of the conditions specified in Sections 7.2(a) and 7.2(b).

(d) Parent shall have received an opinion of Weil, Gotshal & Manges LLP, dated the Effective Time, based on the representations of Parent and the Company substantially in the forms attached hereto as Exhibits C and D, to the effect that (i) the Merger will be treated for federal income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code; (ii) each of Parent, Merger Sub and the Company will be a party to the reorganization within the meaning of Section 368(b) of the Code; and (iii) no gain or loss will be recognized by the Company, Parent or Merger Sub as a result of the Merger.

(e) All authorizations, consents or approvals of a Governmental Entity (other than those specified in Section 7.1(b)) required in connection with the execution and delivery of this Agreement and the performance of the obligations hereunder shall have been made or obtained, without any limitation, restriction or condition that has or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company (or an effect on Parent and its subsidiaries that, were such effect applied to the Company and its subsidiaries, could have or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company), except for such authorizations, consents or approvals, the failure of which to have been made or obtained does not and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company (or an effect on Parent and its subsidiaries that, were such effect applied to the Company and its subsidiaries, has or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company).

(f) The Company shall have obtained the consent or approval of each person whose consent or approval shall be required under any of the Material Contracts listed in Section 3.9 of the Company Disclosure Schedule.

(g) Prior to the date of the Company Stockholder Meeting, Parent shall have received from the Company's "affiliates" a written agreement substantially in the form attached as Exhibit B.

(h) Holders of no more than that number of outstanding Shares of Company Capital Stock that, when taken together with all other relevant factors, could reasonably be expected to impair or compromise "pooling of interest" treatment, shall have exercised and not withdrawn, forfeited or otherwise permitted to lapse appraisal, dissenter's or similar rights under applicable Law with respect to their Shares in connection with the Merger.

(i) All outstanding shares of Series A Preferred Stock and Series B Preferred Stock shall have been converted into shares of Company Common Stock.

SECTION 7.3 Conditions to the Obligations of the Company. The obligations of the Company to consummate the transactions contemplated by this Agreement are subject to the fulfillment at or prior to the Effective Time of each of the following conditions, any or all of which may be waived in whole or in part by the Company to the extent permitted by applicable Law:

(a) The representations and warranties of Parent and Merger Sub contained herein, to the extent qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true and, to the extent not qualified by materiality or Material Adverse Effect, shall, taken as a whole, have been true in all material respects, in each case when made and on and as of the Closing Date as though made on and as of the Closing Date (except for representations and warranties made as of a specified date, which need be true, or true in all material respects, as the case may be, only as of the specified date).

(b) Parent shall have performed or complied in all material respects with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the time of the Closing.

(c) Parent shall have delivered to the Company a certificate, dated the date of the Closing, signed by the President or any Vice President of Parent (but without personal liability thereto), certifying as to the fulfillment of the conditions specified in Sections 7.3(a) and 7.3(b).

(d) The Company shall have received an opinion of King & Spalding, dated the Effective Time, based on the representations of Parent and the Company substantially in the forms attached hereto as Exhibits C and D, to the effect that (i) the Merger will be treated for federal income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code; (ii) each of Parent, Merger Sub, and the Company will be a party to the reorganization within the meaning of Section 368(b) of the Code; and (iii) no gain or loss will be recognized by a stockholder of the Company as a result of the Merger (except with respect to cash received in lieu of fractional shares of Parent Common Stock).

ARTICLE VIII

SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS; ESCROW PROVISIONS

SECTION 8.1 Survival of Representations, Warranties, Covenants and Agreements. Notwithstanding any right of Parent, Merger Sub or the Company (whether or not exercised) to investigate the affairs of Parent, Merger Sub or the Company, each party shall have the right to rely fully upon the representations, warranties, covenants and agreements of the other party contained in this Agreement or in any instrument required to be delivered pursuant to Article VII of this Agreement; provided, however, that, except in the case of fraud (i.e., an intentional breach of a representation, warranty, covenant or agreement, but excluding any negligent or reckless breach), no reliance can be made on, or claim made in respect of, any representation, warranty, covenant or agreement specific compliance with which was waived in writing, including the waiver of any related closing condition contained in Article VII. The covenants and agreements of the Company, Parent and Merger Sub contained in this Agreement or in any instrument delivered pursuant to this Agreement that by their terms apply or are to be performed in whole or in part after the Effective Time shall survive the Effective Time. The representations and warranties of the Company, Parent and Merger Sub contained in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Merger and continue until the filing of Parent's Annual Report on Form 10-K for the fiscal year ending December 31, 1999, except for the representations and warranties set forth in Sections 3.11, 3.13, 3.15, 3.16, 3.18, 3.21, 3.22, 3.23 and 3.26, which shall continue until the first anniversary of the Closing Date (the "Expiration Date"). Each of the parties hereto agrees that, except for the representations and warranties contained in this Agreement, none of Parent, Merger Sub or the Company has made any representations or warranties, and except for the representations and warranties contained in this Agreement, each of Parent, Merger Sub and the Company acknowledges that no representations or warranties have been made by, and it has not relied upon any representations or warranties made by, any of the parties hereto or any of their respective officers, directors, employees, agents, financial and legal advisors or other representatives (collectively, "Representatives") with respect to this Agreement and the transactions contemplated hereby, and the documents and instruments referred to herein, notwithstanding the delivery or disclosure to such party or its Representatives of any documentation or other information with respect to any one or more of the foregoing. The inclusion of any entry on the Company Disclosure Schedule shall not constitute an admission by, or agreement of, the Company that such matter is material to the Company.

SECTION 8.2 Escrow Provisions.

(a) Establishment of the Escrow Fund. "Escrow Amount" and "Escrow Fund" means the number of shares of Parent Common Stock obtained by multiplying (i) the aggregate number of shares of Parent Common Stock issuable by Parent at the Effective Time to holders of Company Capital Stock in

accordance with Sections 2.1(b) by (ii) 5%. As soon as practicable after the Effective Time, the Escrow Amount, without any act of any stockholder, will be deposited with Harris Trust and Savings Bank (the "Depositary Agent") (plus a proportionate share of any additional shares of Parent Common Stock as may be issued upon any stock splits, stock dividends or recapitalizations effected by Parent following the Effective Time). The Escrow Fund will be governed by the terms set forth herein and shall be maintained at Parent's sole cost and expense. The portion of the Escrow Amount contributed on behalf of each stockholder of the Company shall be in proportion to the aggregate number of shares of Parent Common Stock which such holder would otherwise be entitled under Section 2.1.

(b) Recourse to the Escrow Fund. The Escrow Fund shall be available (and shall be the sole and exclusive remedy after the Effective Time) to compensate Parent and the Surviving Corporation, and their respective officers, directors, employees, agents and affiliates, for any and all Losses (whether or not involving a Third Party Claim), incurred or sustained by Parent or the Surviving Corporation, their respective officers, directors, employees, agents or affiliates, directly or indirectly, as a result of any inaccuracy or breach of any representation, warranty, covenant or agreement of the Company contained herein which survived the Effective Time in accordance with this Agreement; provided, however, that Parent and the Surviving Corporation may not make any claims against the Escrow Fund unless the aggregate Losses incurred or sustained exceed \$100,000 (at which such time claims may be made for all such Losses incurred or sustained in excess of such amount). The stockholders of the Company shall not have any liability under this Agreement of any sort whatsoever in excess of the Escrow Fund.

(c) Escrow Period; Distribution of Escrow Fund upon Termination of Escrow Period. Subject to the following requirements, the Escrow Fund shall be in existence immediately following the Effective Time and shall terminate at 5:00 p.m., Dallas Time, on the Expiration Date (the period of time from the Effective Time through and including the Expiration Date is referred to herein as the "Escrow Period"); and all shares of Parent Common Stock remaining in the Escrow Fund shall be distributed as set forth in the last sentence of this Section 8.2(c); provided, however, that the Escrow Period shall not terminate with respect to such amount (or some portion thereof) that is necessary in the reasonable judgment of Parent, subject to the objection of the Stockholder Agent and the subsequent resolution of the matter in the manner as provided in Section 8.2(g) hereof, to satisfy any unsatisfied written claims under this Section 8.2 concerning facts and circumstances existing prior to the termination of such Escrow Period which claims are specified in any Officer's Certificate delivered to the Depositary Agent prior to termination of such Escrow Period. As soon as all such claims, if any, have been resolved, the Depositary Agent shall deliver to the stockholders the remaining portion of the Escrow Fund not required to satisfy such claims. Deliveries of shares of Parent Common Stock remaining in the Escrow Fund to the stockholders pursuant to this Section 8.2(c) shall be made ratably in proportion to their respective contributions to the Escrow Fund and Parent shall use all its commercially reasonable efforts to have such shares delivered within five (5) Business Days of such resolution.

(d) Protection of Escrow Fund.

(i) The Depositary Agent shall hold and safeguard the Escrow Fund during the Escrow Period, shall treat such fund as a trust fund in accordance with the terms of this Agreement and not as the property of Parent and shall hold and dispose of the Escrow Fund only in accordance with the terms hereof.

(ii) Any shares of Parent Common Stock, or other securities which, by their terms, are or may be exercisable, convertible or exchangeable for or into Parent Common Stock, that are issued or distributed by Parent ("New Shares") in respect of Parent Common Stock in the Escrow Fund which have not been released from the Escrow Fund shall be added to the Escrow Fund. New Shares issued in respect of shares of Parent Common Stock which have been released from the Escrow Fund shall not be added to the Escrow Fund, but shall be distributed to the record holders thereof. Cash dividends on Parent Common Stock shall not be added to the Escrow Fund, but shall be distributed to the record holders of the Parent Common Stock on the record date set for any such dividend.

(iii) Each stockholder shall have voting rights with respect to the shares of Parent Common Stock contributed to the account of such stockholder within the Escrow Fund (and on any voting securities added to the Escrow Fund in respect of such shares of Parent Common Stock).

(e) Claims Upon Escrow Fund.

(i) Upon receipt by the Depository Agent, at any time on or before the last day of the Escrow Period, but in each case prior to the expiration of the survival period for the applicable representation, warranty, covenant or agreement as set forth in Section 8.1, of a certificate signed by any officer of Parent (an "Officer's Certificate"): (A) stating that Parent has paid or properly accrued or reasonably anticipates that it will have to pay or accrue Losses, directly or indirectly, as a result of any inaccuracy or breach of any representation, warranty, covenant or agreement of the Company contained herein, and (B) specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid or properly accrued, or the basis for such anticipated liability, and the nature of the misrepresentation or breach of warranty, agreement or covenant to which such item is related (including the specific provision breached), the Depository Agent shall, subject to the provisions of Section 8.2(f) hereof, deliver to Parent out of the Escrow Fund, as promptly as practicable, shares of Parent Common Stock held in the Escrow Fund in an amount equal to such Losses.

(ii) For purposes of this Agreement, "Losses" shall mean all losses, expenses (including reasonable attorneys' fees and expenses), damages, liabilities, fines, penalties, judgments, actions, claims and costs.

(iii) For the purposes of determining the number of shares of Parent Common Stock to be delivered to Parent out of the Escrow Fund pursuant to Section 8.2(e)(i), the shares of Parent Common Stock shall be valued on a per share basis at the Average Parent Stock Price.

(f) Objections to Claims. At the time of delivery of any Officer's Certificate to the Depository Agent, a duplicate copy of such certificate shall be delivered to the Stockholder Agent and for a period of thirty (30) days after such delivery, the Depository Agent shall make no delivery to Parent of any Escrow Amounts pursuant to Section 8.2(e) hereof unless the Depository Agent shall have received written authorization from the Stockholder Agent to make such delivery. After the expiration of such thirty (30) day period, the Depository Agent shall make delivery of shares of Parent Common Stock from the Escrow Fund in accordance with Section 8.2(e) hereof, provided that no such payment or delivery may be made if the Stockholder Agent shall object in a written statement to the claim made in the Officer's Certificate, and such statement shall have been delivered to the Depository Agent prior to the expiration of such thirty (30) day period.

(g) Resolution of Conflicts. In case the Stockholder Agent shall object in writing to any claim or claims made in any Officer's Certificate, the Stockholder Agent and Parent shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Stockholder Agent and Parent should so agree, joint written instructions setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Depository Agent. The Depository Agent shall be entitled to rely on any such instructions and distribute shares of Parent Common Stock from the Escrow Fund in accordance with the terms thereof. If no such agreement can be reached after good faith negotiation, either Parent or the Stockholder Agent may commence litigation or, upon written consent of Parent and the Stockholder Agent, binding arbitration to resolve the dispute.

SECTION 8.3 Stockholder Agent of the Stockholders; Power of Attorney.

(a) Stockholder Agent. In the event that the Merger is approved by the stockholders of the Company, effective upon such vote, and without further act of any stockholder, John Puente and John Nehra shall be appointed as agents and attorneys-in-fact (the "Stockholder Agent"), either of which may take actions as Stockholder Agent without the joinder of the other, for each stockholder of the Company (except such stockholders, if any, as shall have perfected their dissenters' rights under Delaware Law), for

and on behalf of stockholders of the Company, to give and receive notices and communications, to authorize delivery to Parent of shares of Parent Common Stock from the Escrow Fund in satisfaction of claims by Parent, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand litigation or arbitration and comply with orders and awards of courts and arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the Stockholder Agent for the accomplishment of the foregoing. Such agency may be changed by the stockholders of the Company from time to time upon not less than thirty (30) days prior written notice to Parent; provided, however, that the Stockholder Agent may not be removed unless holders of a two-thirds interest in the Escrow Fund agree to such removal and to the identity of the substituted stockholder agent. Any vacancy in the position of Stockholder Agent may be filled by approval of the holders of a majority in interest of the Escrow Fund. No bond shall be required of the Stockholder Agent, and the Stockholder Agent shall not receive compensation for his services. Notices or communications to or from the Stockholder Agent shall constitute notice to or from each of the stockholders of the Company.

(b) Exculpation. The Stockholder Agent shall not be liable for any act done or omitted hereunder as Stockholder Agent while acting in good faith and in the exercise of reasonable judgment.

(c) Actions of the Stockholder Agent. A decision, act, consent or instruction of the Stockholder Agent shall constitute a decision for all of the stockholders for whom a portion of the Escrow Amount otherwise issuable to them are deposited in the Escrow Fund, and shall be final, binding and conclusive upon each of such stockholders, and the Depositary Agent and Parent may rely upon any such decision, act, consent or instruction of the Stockholder Agent as being the decision, act, consent or instruction of every such stockholder of the Company. The Depositary Agent and Parent are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholder Agent.

SECTION 8.4 Third-Party Claims. In the event Parent or the Surviving Corporation receives written notice of a third-party claim (a "Third Party Claim") which Parent reasonably expects may result in a demand against the Escrow Fund, Parent shall provide the Stockholder Agent with reasonably prompt written notice thereof. The Stockholder Agent, as representative for the stockholders of the Company, shall have the right to participate in or, by giving written notice to Parent, to assume the defense of any Third Party Claim at the expense of the Escrow Fund and by counsel selected by the Stockholder Agent (which counsel must be reasonably satisfactory to Parent), and Parent will cooperate in good faith (and shall be permitted to participate at Parent's expense) in such defense; provided, however, that the Stockholder Agent shall not be entitled to assume control of the defense of any Third Party Claim that (i) could reasonably be expected to have any impact on the ongoing operations or goodwill of the Surviving Corporation or Parent, the Intellectual Property or the Software or (ii) could reasonably be expected to result in Losses in excess of the Escrow Fund. Parent shall have the right in its sole discretion to settle any Third Party Claim contemplated by clause (i) or (ii) above; provided, however, that if Parent settles any such Third Party Claim without the Stockholder Agent's written consent (which consent shall not be unreasonably withheld or delayed), Parent may not make a claim against the Escrow Fund with respect to the amount of Losses incurred by Parent in such settlement; provided, further, that if the Stockholder Agent settles any Third Party Claim without Parent's written consent (which consent shall not be unreasonably withheld or delayed), such settlement shall be null and void. In the event that the Stockholder Agent has consented to any such settlement, the Stockholder Agent shall have no power or authority to object under any provision of this Article VIII to the amount of any claim by Parent against the Escrow Fund with respect to the amount of Losses incurred by Parent in such settlement as consented to by the Stockholder Agent.

SECTION 8.5 Depositary Agent's Duties.

(a) Limitation on Duties of Depositary Agent. The Depositary Agent shall be obligated only for the performance of such duties as are specifically set forth herein, and as set forth in any additional written escrow instructions which the Depositary Agent may receive after the date of this Agreement which are signed by an officer of Parent and the Stockholder Agent, and may rely and shall be protected in relying

or refraining from acting, in good faith, on any instrument reasonably believed to be genuine and to have been signed or presented by the proper party or parties. The Depositary Agent shall not be liable for any act done or omitted hereunder as Depositary Agent while acting in good faith and in the exercise of reasonable judgment, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith.

(b) Compliance with Orders. The Depositary Agent is hereby expressly authorized to comply with and obey orders of any court of law or Governmental Entity or regulatory authority, notwithstanding any notices, warnings or other communications from any party or any other person to the contrary. In case the Depositary Agent obeys or complies with any such order, the Depositary Agent shall not be liable to any of the parties hereto or to any other person by reason of such compliance, notwithstanding any such order being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction or proper authority.

(c) Limitations on Liability of Depositary Agent. The Depositary Agent shall not be liable:

(i) in any respect on account of the identity, authority or rights of the parties executing or delivering or purporting to execute or deliver this Agreement or any documents or papers deposited or called for hereunder; or

(ii) for the expiration of any rights under any statute of limitations with respect to this Agreement or any documents deposited with the Depositary Agent.

(d) Good Faith of Depositary Agent. In performing any duties under the Agreement, the Depositary Agent shall not be liable to any party for damages, losses or expenses, except for damages, losses or expenses attributable to the gross negligence or willful misconduct of the Depositary Agent. The Depositary Agent shall not incur any such liability for (i) any act or failure to act made or omitted in good faith, or (ii) any action taken or omitted in reliance upon any instrument, including any written statement or affidavit provided for in this Agreement that the Depositary Agent shall in good faith believe to be genuine, nor will the Depositary Agent be liable or responsible for forgeries, fraud, impersonations or determining the scope of any representative authority. In addition, the Depositary Agent may consult with legal counsel in connection with the Depositary Agent's duties under this Agreement and shall be fully protected in any act taken, suffered or permitted by the Depositary Agent in good faith in accordance with the advice of counsel. The Depositary Agent is not responsible for determining and verifying the authority of any person acting or purporting to act on behalf of any party to this Agreement.

(e) Non-responsibility of Depositary Agent. If any controversy arises between the parties to this Agreement, or with any other party, concerning the subject matter of this Agreement, its terms or conditions, the Depositary Agent will not be required to determine the controversy or to take any action regarding it. The Depositary Agent may hold all documents and shares of Parent Common Stock and may wait for settlement of any such controversy by final appropriate legal proceedings or other means as, in the Depositary Agent's discretion, the Depositary Agent may be required, despite what may be set forth elsewhere in this Agreement. In such event, the Depositary Agent will not be liable for any damages. Furthermore, the Depositary Agent may at its option, file an action of interpleader requiring the parties to answer and litigate any claims and rights among themselves. The Depositary Agent is authorized to deposit with the clerk of the court all documents and shares of Parent Common Stock held in escrow, except all costs, expenses, charges and reasonable attorneys' fees incurred by the Depositary Agent due to the interpleader action and which Parent and the Stockholder Agent, on behalf of the Stockholders, jointly and severally agree to pay. Upon initiating such action, the Depositary Agent shall be fully released and discharged of and from all obligations and liability imposed by the terms of this Agreement.

(f) Indemnification of Depositary Agent. Parent agrees to indemnify and hold the Depositary Agent harmless against any and all Losses incurred by the Depositary Agent in connection with the performance of the Depositary Agent's duties under this Agreement, including but not limited to any litigation from this Agreement or involving its subject matter.

(g) Resignation of Depositary Agent. The Depositary Agent may resign at any time upon giving at least thirty (30) days' written notice to the parties; provided, however, that no such resignation shall become effective until the appointment of a successor Depositary Agent which shall be accomplished as follows: the parties shall use their best efforts to mutually agree on a successor Depositary Agent within thirty (30) days after receiving such notice. If the parties fail to agree upon a successor Depositary Agent within such time, the Depositary Agent shall have the right to appoint a successor Depositary Agent authorized to do business in the State of Delaware. The successor Depositary Agent shall execute and deliver an instrument accepting such appointment and it shall, without further acts, be vested with all the estates, properties, rights, powers and duties of the predecessor Depositary Agent as if originally named as Depositary Agent. Upon such succession, the original Depositary Agent shall be discharged from any further duties and liability under this Agreement.

(h) Fees. All fees of the Depositary Agent for performance of its duties hereunder shall be paid by Parent. In the event that the conditions of this Agreement are not promptly fulfilled, or if the Depositary Agent renders any service not provided for in this Agreement, or if the parties request a substantial modification of its terms, or if any controversy arises, or if the Depositary Agent is made a party to, or intervenes in, any action or proceeding pertaining to the Escrow Fund or its subject matter, the Depositary Agent shall be reasonably compensated for such extraordinary services and reimbursed for all costs, attorneys' fees and expenses occasioned by such default, delay, controversy or action or proceeding.

ARTICLE IX

TERMINATION; AMENDMENT; WAIVER

SECTION 9.1 Termination by Mutual Agreement. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Merger by the Company Requisite Vote referred to in Section 7.1(a), by mutual written consent of the Company and Parent by action of their respective Boards of Directors.

SECTION 9.2 Termination by Either Parent or the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the Board of Directors of either Parent or the Company if:

(a) the Merger shall not have been consummated by August 31, 1999, whether such date is before or after the date of approval of the Merger by the Company Requisite Vote (the "Termination Date"); provided, however, that if any condition of Closing set forth in Section 7.1 that remains reasonably capable of satisfaction has not been fulfilled or waived prior to August 31, 1999, the Termination Date shall be automatically extended to September 30, 1999; provided further that if any such condition has not been fulfilled or waived prior to the Termination Date, as so extended, the Company and Parent shall negotiate in good faith an additional extension of the Termination Date, taking into consideration all relevant factors;

(b) the Company Requisite Vote shall not have been obtained at the Company Stockholder Meeting or at any adjournment or postponement thereof; or

(c) any Law permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable (whether before or after the approval of the Merger by the Company Requisite Vote);

provided, however, that the right to terminate this Agreement pursuant to this Section 9.2 shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the occurrence of the failure of the Merger to be consummated.

SECTION 9.3 Termination by the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval of the Merger by the Company Requisite Vote referred to in Section 7.1(a), by action of the Company Board if

there is a breach by Parent or Merger Sub of any representation, warranty, covenant or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in Section 7.3(a) or 7.3(b) to be incapable of being satisfied as of the Termination Date.

SECTION 9.4 Termination by Parent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by Parent, if:

(a) there is a breach by the Company of any representation, warranty, covenant or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in Section 7.2(a) or 7.2(b) to be incapable of being satisfied as of the Termination Date; or

(b) the condition regarding appraisal rights set forth in Section 7.2(h) is not satisfied.

SECTION 9.5 Effect of Termination and Abandonment.

(a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article IX, this Agreement (other than this Section 9.5, Sections 5.2(c) and 6.13, and Article X) shall become void and of no effect with no liability on the part of any party hereto (or of any of its directors, officers, employees, agents, legal and financial advisors, or other representatives); provided, however, that except as otherwise provided herein, no such termination shall relieve any party hereto of any liability or damages resulting from any willful breach of this Agreement.

(b) In the event that within 12 months of the termination of this Agreement pursuant to Section 9.2(a) (but only if terminated by the Company), 9.2(b), 9.4(a) (but only if terminated by reason of a breach of covenant or agreement) or 9.4(b) any Acquisition Proposal by a third party is entered into, agreed to or consummated by the Company, then the Company shall pay Parent a termination fee of \$22,500,000, in same-day funds, on the earlier of the date an agreement is entered into in respect of an Acquisition Proposal or an Acquisition Proposal is consummated.

(c) The Company acknowledges that the agreements contained in Section 9.5(b) are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty, and that, without these agreements, Parent and Merger Sub would not have entered into this Agreement. If the Company fails to promptly pay the amount due pursuant to Section 9.5(b), and, in order to obtain such payment, Parent commences a suit which results in a judgment against the Company for the fee set forth in this Section 9.5, the Company shall pay to Parent its costs and expenses (including attorneys' fees) in connection with such suit, together with interest from the date of termination of this Agreement on the amounts owed at the prime rate of Bank of America, N.A., in effect from time to time during such period plus two percent.

SECTION 9.6 Amendment. This Agreement may be amended by action taken by the Company, Parent and Merger Sub at any time before or after approval of the Merger by the Company Requisite Vote but, after any such approval, no amendment shall be made which changes the amount or form of the Share Consideration. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties hereto.

SECTION 9.7 Extension; Waiver. At any time prior to the Effective Time, each party hereto (for these purposes, Parent and Merger Sub shall together be deemed one party and the Company shall be deemed the other party) may (i) extend the time for the performance of any of the obligations or other acts of the other party, (ii) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document, certificate or writing delivered pursuant hereto, or (iii) waive compliance by the other party with any of the agreements or conditions contained herein. Any agreement on the part of either party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of such rights.

ARTICLE X
MISCELLANEOUS

SECTION 10.1 Entire Agreement; Assignment.

(a) This Agreement constitutes the entire agreement between the parties hereto in respect of the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties in respect of the subject matter hereof, other than the Confidentiality Agreement (which shall remain in effect).

(b) Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by operation of Law (including, by merger or consolidation) or otherwise; provided, however, that Merger Sub may assign, in its sole discretion, any or all of its rights, interests and obligations under this Agreement to any direct wholly owned subsidiary of Parent, but no such assignment shall relieve Parent or Merger Sub of its obligations hereunder if such assignee does not perform such obligations. Any assignment in violation of the preceding sentence shall be void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and permitted assigns.

SECTION 10.2 Notices. All notices, requests, instructions or other documents to be given under this Agreement shall be in writing and shall be deemed given, (i) five business days following sending by registered or certified mail, postage prepaid, (ii) when sent if sent by facsimile; provided, however, that the facsimile is promptly confirmed by telephone confirmation thereof, (iii) when delivered, if delivered personally to the intended recipient, and (iv) one business day following sending by overnight delivery via a national courier service, and in each case, addressed to a party at the following address for such party:

if to Merger Sub or to Parent, to: Texas Instruments Incorporated
7839 Churchill Way, M/S 3995
Dallas, Texas 75251

-or -

P.O. Box 650311, M/S 3995
Dallas, Texas 75265
Attention: Charles D. Tobin
Facsimile No.: (972) 917-3804

with copies to: Texas Instruments Incorporated
8505 Forest Lane, M/S 8658
Dallas, Texas 75243

-or -

P.O. Box 660199, M/S 8658
Dallas, Texas 75266
Attention: Richard J. Agnich
Facsimile No.: (972) 480-5061

and

Weil, Gotshal & Manges LLP
100 Crescent Court, Suite 1300
Dallas, Texas 75201-6950
Attention: R. Scott Cohen
Facsimile: (214) 746-7777

if to the Company, to: Telogy Networks, Inc.
20250 Century Blvd.
Germantown, Maryland 20874
Attention: Timothy Carlson
Facsimile: (301) 515-7687

with a copy to: King & Spalding
191 Peachtree Street, N.E.
Atlanta, Georgia 30303
Attention: William Roche
Facsimile: (404) 572-5100

if to the Stockholder Agent, to: John Puente
Telogy Networks, Inc.
20250 Century Blvd.
Germantown, Maryland 20874
(301) 299-9691

and

John Nehra
Catalyst Ventures
1119 St. Paul Street
Baltimore, Maryland 21202
(410) 752-0795

or to such other address or facsimile number as the person to whom notice is given may have previously furnished to the other in writing in the manner set forth above.

SECTION 10.3 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware, without giving effect to the choice of Law principles thereof.

SECTION 10.4 Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

SECTION 10.5 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and its successors and permitted assigns, and, except as provided in Section 6.7, nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 10.6 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected by such invalidity or unenforceability, nor

shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

SECTION 10.7 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in Delaware state court, this being in addition to any other remedy to which they are entitled at Law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of Delaware or any Delaware state court in the event any dispute arises out of this Agreement or any of the transactions contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated hereby in any court other than a federal or state court sitting in the State of Delaware.

SECTION 10.8 Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 10.9 Interpretation.

(a) The words "hereof," "herein," "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit, and schedule references are to the articles, sections, paragraphs, exhibits, and schedules of this Agreement unless otherwise specified. Whenever the words "include," "includes," or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." All terms defined in this Agreement shall have the defined meanings contained herein when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms. Any agreement, instrument, or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, or statute as from time to time, amended, qualified or supplemented, including (in the case of agreements and instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns.

(b) The phrases "the date of this Agreement," "the date hereof," and terms of similar import, unless the context otherwise requires, shall be deemed to refer to May 29, 1999.

(c) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

SECTION 10.10 Definitions. As used herein,

(a) "beneficial ownership" or "beneficially own" has the meaning provided in Section 13(d) of the Exchange Act and the rules and regulations thereunder.

(b) "Company Capital Stock" means, collectively, shares of Company Common Stock, Series A Preferred Stock and Series B Preferred Stock.

(c) "know" or "knowledge" means, (i) in respect of Parent, the knowledge of Parent's executive officers and (ii) in respect of the Company, the knowledge of Joe Crupi, Tim Carlson, William Simmelink, William Witowsky, Phillip Swan, Carolyn Linthicum, Edward Morgan and Nancy Goguen,

after due inquiry of Mary Gaughan, Julie Svoboda and the audit partner of KPMG LLP with respect to financial matters.

(d) "Lien" means, in respect of any asset (including, any security) any mortgage, lien, pledge, charge, security interest, or encumbrance of any kind in respect of such asset.

(e) "Material Adverse Effect" means in respect of any entity, any change, circumstance or effect that, individually or in the aggregate with all other changes, circumstances and effects, is or would be reasonably likely to be materially adverse to (i) the assets, properties, condition (financial or otherwise) or results of operations of such entity and its subsidiaries taken as a whole, or (ii) the ability of such party to consummate the transactions contemplated by this Agreement; provided, however, that in respect of the Company, none of the following shall be deemed by itself or themselves, either alone or in combination, to constitute a Material Adverse Effect: (a) a failure by the Company to meet internal earnings or revenue projections (provided, that the foregoing shall not prevent Parent or Merger Sub from asserting that any underlying cause of such failure independently constitutes such a Material Adverse Effect); (b) conditions affecting the semiconductor industry as a whole, the telecommunications industry as a whole or the U.S. economy as a whole; or (c) any disruption of customer relationship arising directly out of or resulting directly from actions contemplated by the parties hereto in connection with, or which is directly attributable to, the announcement of this Agreement and the transactions contemplated hereby.

(f) "Permitted Lien" means a statutory Lien not yet delinquent; a purchase money Lien arising in the ordinary course of business consistent with past practices; a Lien reflected in the financial statements of the applicable party; or a Lien which does not materially detract from the value or impair the use of the asset or property in question.

(g) "person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(h) "subsidiary" means, in respect of any party, any corporation, partnership or other entity or organization, whether incorporated or unincorporated, of which (i) such other party or any other subsidiary of such party is a general partner (excluding such partnerships where such party or any subsidiary of such party does not have a majority of the voting interest in such partnership) or (ii) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions in respect of such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its subsidiaries, or by such party and one or more of its subsidiaries.

[THE REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the date first above written.

TELOGY NETWORKS, INC.

By: /s/ JOSEPH A. CRUPI

Name: Joseph A. Crupi
Title: President and CEO

TEXAS INSTRUMENTS INCORPORATED

By: /s/ WILLIAM A. AYLESWORTH

Name: William A. Aylesworth
Title: Senior Vice President,
Treasurer
and Chief Financial
Officer

TNI ACQUISITION CORP.

By: /s/ MICHAEL J. HAMES

Name: Michael J. Hames
Title: President

This Agreement is countersigned by the undersigned Depositary Agent as of the date first above written to acknowledge and agree to the provisions of Article VIII that pertain to the Depositary Agent.

HARRIS TRUST AND SAVINGS BANK,
as Depositary Agent

By: -----
Name:
Title:

June 7, 1999

Texas Instruments Incorporated
8505 Forest Lane
P.O. Box 660199
Dallas, Texas 75266-0199

Ladies and Gentlemen:

We have acted as counsel to Texas Instruments Incorporated, a Delaware corporation (the "Company"), in connection with the preparation and filing by the Company with the Securities and Exchange Commission of a Registration Statement on Form S-4 (No. 333-_____) (the "Registration Statement") under the Securities Act of 1933, as amended, relating to the proposed offering of up to 5,000,000 shares of the common stock, \$1.00 par value, of the Company (the "Shares"), pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of May 29, 1999, by and among the Company, Telogy Networks, Inc., a Delaware corporation ("Telogy"), and TNI Acquisition Corp., a Delaware corporation and wholly owned subsidiary of the Company. The Shares are to be issued to the stockholders of Telogy in accordance with terms of the Merger Agreement in exchange for each such stockholder's shares of common stock, \$0.01 par value ("Telogy Common Stock") of Telogy.

In so acting, we have examined originals or copies, certified or otherwise identified to our satisfaction, of the Certificate of Incorporation of the Company, as amended, and such corporate records, agreements, documents and other instruments, and such certificates or comparable documents of public officials and of officers and representatives of the Company, and have made such inquiries of such officers and representatives as we have deemed relevant and necessary as a basis for the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such latter documents. As to all

Texas Instruments Incorporated
June 7, 1999
Page 2

questions of fact material to this opinion that have not been independently established, we have relied upon certificates or comparable documents of officers and representatives of the Company.

Based on the foregoing, and subject to the qualifications stated herein, we are of the opinion that:

1. The Company is a corporation validly existing and in good standing under the laws of the State of Delaware.

2. The Shares have been duly authorized and, when issued and delivered to the stockholders of Telogy in exchange for shares of Telogy Common Stock in accordance with the terms of the Merger Agreement, will be validly issued, fully paid and nonassessable.

The opinions expressed herein are limited to the corporate laws of the State of Delaware and we express no opinion as to the effect on the matters covered by this letter of the laws of any other jurisdiction.

We hereby consent to the filing of this letter as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the Proxy Statement/Prospectus forming a part of the Registration Statement.

Very truly yours,

/s/ WEIL, GOTSHAL & MANGES LLP

FORM OF VOTING AGREEMENT

In consideration of Texas Instruments Incorporated, a Delaware corporation ("Parent"), TNI Acquisition Corp., a Delaware corporation ("Merger Sub"), and Tology Networks, Inc., a Delaware corporation (the "Company"), entering into on the date hereof an Agreement and Plan of Merger dated as of the date hereof (the "Merger Agreement") which provides, among other things, that Merger Sub, upon the terms and subject to the conditions thereof, will be merged with and into the Company (the "Merger") and each outstanding share of Company Capital Stock (as defined in the Merger Agreement) will be converted into the right to receive the Share Consideration (as defined in the Merger Agreement) in accordance with the terms of the Merger Agreement, each of the undersigned holders (each, a "Stockholder") of shares of Company Capital Stock agrees with each of Parent, Merger Sub and the Company as follows:

1. During the period (the "Agreement Period") beginning on the date hereof and ending on the earlier of (i) the Effective Time (as defined in the Merger Agreement), (ii) 90 days after the termination of the Merger Agreement in accordance with Section 9.4(a), if the termination resulted from a breach of a covenant or agreement by the Company, or 9.4(b) and payment in full of all amounts (if any) payable to Parent or Merger Sub pursuant to Section 9.5 of the Merger Agreement, and (iii) the date of the termination of the Merger Agreement for any other reason, each Stockholder hereby agrees to vote the shares of Company Capital Stock set forth opposite its name in Schedule A hereto (the "Schedule A Securities") to approve and adopt the Merger Agreement and the Merger (provided that the Stockholder shall not be required to vote in favor of the Merger Agreement or the Merger if the Merger Agreement has, without the consent of the Stockholder, been amended in any manner that is material and adverse to such Stockholder) and any actions directly and reasonably related thereto at any meeting or meetings of the stockholders of the Company, and at any adjournment thereof or pursuant to action by written consent, at or by which such Merger Agreement, or such other actions, are submitted for the consideration and vote of the stockholders of the Company so long as such meeting is held (including, any adjournment thereof) or written consent adopted prior to the termination of the Agreement Period.

2. During the Agreement Period, each Stockholder who owns shares of Series A Preferred Stock, par value \$.01 per share, of the Company or Series B Preferred Stock, par value \$.01 per share, of the Company (collectively, "Preferred Stock") hereby elects, and agrees to participate in any further required election, to effect the automatic conversion of the Preferred Stock into common stock of the Company pursuant to paragraph 4(m) of the Preferred Stock certificate of designation, such conversion to be effective immediately prior to the Effective Time (as defined in the Merger Agreement). The foregoing election shall automatically expire upon the termination of the Merger Agreement pursuant to Article IX thereof.

3. During the Agreement Period, each Stockholder hereby agrees that such Stockholder shall not enter into any voting agreement or grant a proxy or power of attorney with respect to the Schedule A Securities in any manner inconsistent with the obligations of such Stockholder under this Agreement or take any other action that is inconsistent with the obligations of such Stockholder under this Agreement, including any action that would prevent, or materially delay the consummation of, the transactions contemplated by the Merger Agreement.

4. During the Agreement Period, each Stockholder will not, directly or indirectly, (i) take any action to solicit, initiate or encourage any Acquisition Proposal (as defined in the Merger Agreement) or (ii) engage in negotiations or discussions with, or disclose any nonpublic information relating to the Company or any of its subsidiaries or afford access to the properties, books or records of the Company or any of its subsidiaries to, or otherwise assist, facilitate or encourage, any person that the Stockholder reasonably believes may be considering making, or has made, an Acquisition Proposal.

5. Each Stockholder hereby represents and warrants to Parent and Merger Sub that as of the date hereof:

(a) Such Stockholder (i) owns beneficially all of the shares of Company Capital Stock set forth opposite the Stockholder's name in Schedule A hereto, (ii) has the full and unrestricted legal power, authority and right to enter into, execute and deliver this Voting Agreement without the consent or approval of any other person, and (iii) has not entered into any voting agreement or other similar agreement with or granted any person any proxy (revocable or irrevocable) in respect of such shares (other than this Voting Agreement).

(b) This Voting Agreement is the valid and binding agreement of such Stockholder.

(c) No investment banker, broker or finder is entitled to a commission or fee from such Stockholder or the Company in respect of this Voting Agreement based upon any arrangement or agreement made by or on behalf of the Stockholder.

6. If any provision of this Voting Agreement shall be invalid or unenforceable under applicable law, such provision shall be ineffective to the extent of such invalidity or unenforceability only, without in any way affecting the remaining provisions of this Voting Agreement.

7. This Voting Agreement may be executed in two or more counterparts each of which shall be an original with the same effect as if the signatures hereto and thereto were upon the same instrument.

8. The parties hereto agree that if for any reason any party hereto shall have failed to perform its obligations under this Voting Agreement, then the party seeking to enforce this Voting Agreement against such non-performing party shall be entitled to specific performance and injunctive and other equitable relief, and the parties hereto further agree to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive relief. This provision is without prejudice to any other rights or remedies, whether at law or in equity, that any party hereto may have against any other party hereto for any failure to perform its obligations under this Voting Agreement.

9. This Voting Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

10. Each Stockholder will, upon request, execute and deliver any additional documents deemed by Parent to be reasonably necessary or desirable to complete and effectuate the covenants contained herein.

11. This Agreement shall terminate upon the termination of the Agreement Period.

12. Except pursuant to the terms of this Agreement, no Stockholder shall, without the prior written consent of Parent, directly or indirectly, (i) grant any proxies or enter into any voting trust or other agreement or arrangement in respect of the voting of any Schedule A Securities in respect of the matters described in Section 1 above or (ii) acquire, sell, assign, encumber or otherwise dispose of, or enter into any contract, option or other arrangement or understanding in respect of the direct or indirect acquisition or sale, assignment, transfer, encumbrance or other disposition of, any Schedule A Securities during the term of this Agreement. In the event any Stockholder desires to transfer any Schedule A Securities, such Stockholder must first obtain a written agreement from the proposed transferee pursuant to which the proposed transferee agrees to be bound by the terms of this Agreement. No Stockholder shall seek or solicit any such acquisition or sale, assignment, encumbrance or other disposition of the Schedule A Securities or any such contract, option or other arrangement or understanding with respect to such securities, and each Stockholder agrees to notify Parent promptly if such Stockholder shall be approached or solicited, directly or indirectly, by any person in respect of any of the foregoing.

13. Each Stockholder agrees not to exercise any rights (including, without limitation, under Section 262 of the DGCL) to demand appraisal of any Schedule A Securities which may arise in respect of the Merger.

14. Parent, Merger Sub and the Company understand and agree that this Agreement pertains only to each Stockholder and not to any of its affiliates, if any, or advisers.

15. Parent, Merger Sub and the Company severally and not jointly represent and warrant to each Stockholder that there is no agreement, understanding or commitment, written or oral, to pay any consideration directly or indirectly in connection with the Merger or otherwise to or for the benefit of any holder of Company Capital Stock or options thereon other than as set forth in the Merger Agreement (except, in the case of directors, employees, agents, customers, suppliers or contractors of the Company who are also holders, such consideration as is payable by the Company in the ordinary course of business, and except for amounts payable to officers, directors or employees in connection with or pursuant to any options or option, stock purchase, stock ownership or other employee benefit plans). All other voting agreements signed with existing stockholders of the Company prior to or concurrently herewith are substantially identical to this Voting Agreement.

16. Neither Parent, Merger Sub nor the Company will enter into any agreement with any other stockholder of the Company having a purpose or effect substantially similar to that of this Voting Agreement on financial terms (in respect of such other stockholder) more favorable than the terms of this Voting Agreement.

17. Any Stockholder who is also a director of the Company will not, by execution of this Agreement, be precluded from exercising his fiduciary duties under applicable Law in his capacity as a director with respect to the Company.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Voting Agreement as of May 29, 1999.

TEXAS INSTRUMENTS INCORPORATED

By: _____
Name:
Title:

TNI ACQUISITION CORP.

By: _____
Name:
Title:

TELOGY NETWORKS, INC.

By: _____
Name:
Title:

[STOCKHOLDERS]

By: _____
Name:
Title:

By: _____
Name:
Title:

[FORM OF EMPLOYMENT AGREEMENT]

TEXAS INSTRUMENTS INCORPORATED

_____, 1999

[Name]

Telogy Networks, Inc.
20520 Century Boulevard
Germantown, Maryland 20874

Re: Employment

Dear [Name]:

This letter confirms our proposal relating to your employment following our acquisition of Telogy Networks, Inc. ("Telogy") in accordance with that certain Agreement and Plan of Merger, dated as of May 29, 1999, among Telogy, Texas Instruments Incorporated ("TI") and TNI Acquisition Corp. (the "Merger Agreement"). This letter shall be null and void if such acquisition is not consummated.

1. Position; Employment Term. From the Closing Date (as defined in the Merger Agreement) through January 31, 2003, unless sooner terminated in accordance with the terms hereof ("Employment Term"), you will be employed either by Telogy or by TI, as TI may reasonably determine, as [Title] of Telogy, subject to the following terms and conditions. You agree to devote your full working time and efforts, to the best of your ability and experience, to the performance of your services, duties and responsibilities with TI and its subsidiaries. Such services, duties and responsibilities shall be performed principally in Maryland (unless otherwise agreed by you and TI).

2. Compensation. During the Employment Term, you shall receive a base salary at an annual rate of \$***** per year, payable in accordance with the applicable payroll practices and subject to increases at the sole discretion of TI. In addition, with respect to 1999, you shall be entitled to a minimum aggregate bonus of \$***** payable in the first quarter of 2000, provided that you are employed by Telogy or TI, as the case may be, on such payment date.

3. Employee Benefits and Policies. During the Employment Term, you will participate in employee benefit plans generally provided to similarly situated employees in accordance with the terms thereof from time to time. You will be entitled to and shall abide by all applicable employment and personnel policies in effect from time to time.

4. Stock Options. We will recommend to the Compensation Committee of the Board of Directors of TI that you be granted on or about the Closing Date (as defined in the Merger Agreement) a non-qualified option under the Texas Instruments 1996 Long-Term Incentive Plan (the "Plan") to purchase an aggregate of **** shares of common stock of TI, par value of \$1.00 ("TI Stock"), at an exercise price equal to the fair market value of TI Stock as of the date of grant. We will further recommend to the Compensation Committee of the Board of Directors of TI that, with respect to 2000, you be granted a non-qualified option under the Plan to purchase an aggregate of no less than **** shares of TI Stock, at an exercise price equal to the fair market value of TI Stock as of the date of grant. Each stock option shall have a term of ten (10) years and shall vest, in twenty-five percent (25%) increments, on each of the first four (4) anniversaries of the date of grant. Except as otherwise provided in this letter agreement or any stock option grant agreement, the stock options granted pursuant to this paragraph 4 shall be subject to the terms of the Plan.

5. Required Employee Forms. As a condition of employment with TI or any of its subsidiaries, you shall promptly execute and deliver to TI an Employee Trade Secrets Information Acknowledgement, an Assignment of Invention and Company Information Agreement, a Release of Records and such other documents as TI reasonably may require from time to time with respect to its new employees or similarly situated employees.

6. Death or Disability. Upon your death or total disability during the Employment Term, your employment with TI and its subsidiaries and the Employment Term shall automatically end. You shall be entitled to your accrued and unpaid salary through your date of death or total disability, and death or disability benefits and other employee benefits in accordance with the terms of the applicable benefit plans. As currently permitted under the terms of the Telogy stock option plans, TI shall cause any stock options outstanding as of the date hereof that are not vested on the date of your death or total disability during the Employment Term to become fully vested on such date. For purposes of this letter agreement, "total disability" means any physical or mental condition which constitutes a disability for purposes of TI's long term disability plan.

7. Termination of Employment. Prior to the end of the Employment Term, Telogy or TI, as the case may be, may terminate your employment only for Cause (as defined below), and the Employment Term shall end on the date of such termination. For purposes of this letter agreement, "Cause" means any of the following: (a) your conviction of, or plea of nolo contendere to, a felony involving dishonesty or moral turpitude; (b) your use of illegal drugs; (c) your material breach of the provisions of this letter agreement; (d) your material breach of any other written agreement between you and Telogy or TI, as the case may be, or otherwise executed by you, including but not limited to the any intellectual property agreements; (e) your material fraud or dishonesty in connection with your employment; (f) your willful neglect to perform your duties or responsibilities in connection with your employment; or (g) your commission of a major infraction as described in Telogy's or TI's written policies with respect to employee discipline; provided, that any of the events specified in clauses (c) through (g) of this paragraph 7 continues beyond ten (10) days after a written demand for substantial performance is delivered to you by Telogy or TI, as the case may be.

8. Voluntary Resignation. You may resign your employment with Telogy or TI, as the case may be, at any time, provided that you furnish thirty (30) days' prior written notice thereof, and the Employment Term shall end on the date of such termination. You shall be entitled to your accrued and unpaid salary through the date of such termination, and employee benefits in accordance with the terms of the applicable benefit plans. In the event that you resign your employment under this paragraph 8, any option granted under the Telogy Networks, Inc. Amended and Restated 1990 Option Plan shall terminate in accordance with its terms upon the earlier of (i) thirty (30) days after such termination of employment or (ii) the expiration date of such option.

9. Waiver. You hereby waive the provisions in Sections 17(b) and (c) of the Telogy Networks, Inc. Amended and Restated 1990 Stock Option Plan to the extent it provides "(i) Optionee is not offered employment, in substantially the same job capacity and duties, with the Surviving Company" and acknowledge and agree that, pursuant to discussions among you, TI and Telogy, this letter agreement constitutes an offer of employment after the merger that is substantially the same with respect to your job capacity and duties before the merger. Unless your employment is sooner terminated in accordance with the terms hereof, TI agrees to use its good faith efforts to maintain or cause to be maintained your title of [Title] of Telogy and substantially the same duties as of the Effective Time (as defined in the Merger Agreement) for a period of twelve (12) months from the Closing Date (as defined in the Merger Agreement).

10. Noncompetition. For a period of two (2) years from the end of the Employment Term, you undertake that, without the express prior written consent of the Board of Directors of Telogy, you will not, directly or indirectly, individually or through any affiliate, engage, participate, make any financial investment in, or become employed by or render advisory services to any business, whether in corporate, proprietorship, or partnership form or otherwise, engaged in any activities that are directly competitive with any business conducted at any time during the Employment Term, or under development at the end of the Employment Term, by Telogy and its subsidiaries ("Prohibited Business"). Notwithstanding the foregoing, holding up to three percent (3%) of the shares of a company whose securities are publicly traded on a recognized stock exchange, or the National Market of the National Association of Securities Dealers Automated Quotation System or any other nationally recognized over-the-counter market, shall not be deemed to be a breach of this undertaking.

11. No-Hire. For a period of two (2) years from the end of the Employment Term, you shall not, directly or indirectly, hire or solicit (for the benefit of you or any third party) the employment of any person employed by TI or Telogy or any subsidiary thereof or otherwise encourage any such employee to terminate his or her employment with TI or Telogy or any subsidiary thereof, in each case without the prior written consent of the Board of Directors of Telogy.

12. Confidentiality. For a period of at least five (5) years from the end of the Employment Term, you undertake not to disclose to any person, or use or otherwise exploit for your own benefit or for the benefit of anyone other than TI, Telogy or any of their subsidiaries, any Confidential Information (as defined below). You shall have no obligation to keep confidential any Confidential Information if and to the extent disclosure thereof is specifically

required by law, judicial or governmental order, or other legal process; provided, however, that in the event such disclosure is required, you shall, to the extent reasonably possible, provide TI or Telogy, as the case may be, with prompt notice of such requirement, prior to making any disclosure, so that TI or Telogy, as the case may be, may seek an appropriate protective order or waive compliance with this provision in respect of such disclosure. For purposes of this letter agreement, "Confidential Information" means any confidential information in respect of the conduct or details of the business of TI, Telogy and any of their subsidiaries, including, without limitation, methods of operation, customer lists, products (existing and proposed), prices, fees, costs, strategic and other plans, customer projects, designs, technology, inventions, trade secrets, know-how, software, marketing methods, policies, personnel, suppliers, competitors, markets, or other specialized information or proprietary matters of TI, Telogy and any of their subsidiaries. The term "Confidential Information" does not include, and there shall be no obligation hereunder in respect of, information that (i) is generally available to the public on the date of this letter agreement or (ii) becomes generally available to the public other than as a result of a disclosure by you in violation of this letter agreement.

13. Enforcement. You agree that (i) any breach of the provisions of paragraph 10, 11 or 12 of this letter agreement would cause irreparable damage to TI and Telogy for which monetary damages and other remedies at law would be inadequate and (ii) TI and Telogy shall have the right, without the posting of any bond whatsoever, in addition to any rights and remedies existing in their favor, to enforce their rights and your obligations under this letter agreement not only by an action or actions for damages, but also by an action or actions for specific performance and/or injunctive relief or other equitable relief in order to enforce, or prevent any violations of, the provisions of this letter agreement.

14. Acknowledgements. You acknowledge and that the prohibited activities and the scope and duration of the obligations set forth in paragraphs 10, 11 and 12 of this letter agreement (i) are reasonable and no broader than necessary to protect the legitimate business interests of Telogy and the goodwill thereof acquired by TI and (ii) do not and will not impose an unreasonable burden upon you.

15. Amendment and Waiver. This letter agreement may be amended and any provision of this letter agreement may be waived, provided that any such amendment or waiver will be binding upon a party only if such amendment or waiver is set forth in a writing executed by the parties hereto.

16. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given upon the earlier of delivery thereof if by hand or upon receipt if sent by mail (registered or certified mail, postage prepaid, return receipt requested) or on the second next business day after deposit if sent by a recognized overnight delivery service or upon transmission if sent by telecopy or facsimile transmission (with request of assurance of receipt in a manner customary for communication of such type) as follows:

If to Telogy or TI, to:

Texas Instruments Incorporated
7839 Churchill Way
P.O. Box 650311M/S 3995
Dallas, Texas 75265
Attention: Charles D. Tobin
Facsimile No.: (972) 917-3804

with copies to:

Texas Instruments Incorporated
8505 Forest Lane, M/S 8658
Dallas, Texas 75243

- or -

P.O. Box 660199, M/S 8658
Dallas, Texas 75266
Attention: Richard J. Agnich, Esq.
Facsimile No.: (972) 480-5061

and

Weil, Gotshal & Manges LLP
100 Crescent Court, Suite 1300
Dallas, Texas 75201-6950
Attention: R. Scott Cohen, Esq.
Facsimile No.: (214) 746-7777

If to you, to:

[Name]

Attention: -----
Facsimile No.: -----

17. Entire Agreement. This letter agreement and the documents referred to herein contain the entire agreement between the parties hereto in respect of the subject matter hereof, and supersede any prior understandings, agreements, or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. Notwithstanding the foregoing, however, this letter agreement shall not supersede, and is in addition to, any agreements between Telogy and you entered into in connection with your employment by Telogy or its subsidiaries.

18. Counterparts. This letter agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

19. Governing Law. This letter agreement shall be governed by and construed in accordance with the laws of the State of Maryland without regard to the conflicts-of-laws rules thereof. You hereby consent to the enforcement of this letter agreement in any state or federal court in the State of Maryland and consent to personal jurisdiction in those courts.

20. Headings. The article and section headings contained in this letter agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not affect in any way the meaning or interpretation of this letter agreement.

21. Severability. Whenever possible, each provision of this letter agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this letter agreement is held to be invalid, illegal, or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality, or unenforceability will not affect any other provision or any other jurisdiction, but this letter agreement will be reformed, construed, and enforced in such jurisdiction as if such invalid, illegal, or unenforceable provision had never been contained herein. In lieu of such invalid, illegal, or unenforceable provisions, the parties hereto agree that there shall be automatically substituted therefor, and direct any court so construing this letter agreement to add, as a part hereof, a provision as similar in terms to such invalid, illegal, or unenforceable provisions as may be possible and be valid, legal, and enforceable.

22. Successors and Assigns. This letter agreement and the rights and duties hereunder shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. You shall not assign, delegate, or otherwise transfer (whether voluntary, by operation of law, or otherwise) this letter agreement or any right or obligation hereunder without the prior written consent of TI and Telogy.

* * *

Please indicate your agreement to the terms and conditions of employment with Telogy or TI, as the case may be, set forth herein, including your covenants regarding noncompetition, no-hire and confidentiality, by affixing your signature to the enclosed copy of this letter and returning the same to the undersigned as soon as possible.

Very truly yours,

TEXAS INSTRUMENTS INCORPORATED

By: _____

I agree to the foregoing terms and conditions:

_____ Date

_____ [Name]

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Independent Auditors" in the Registration Statement (Form S-4), and related Proxy Statement/Prospectus, of Texas Instruments Incorporated for the registration of 5,000,000 shares of its common stock, and to the incorporation by reference therein of our report dated January 19, 1999, with respect to the consolidated financial statements and schedule of Texas Instruments Incorporated included in its Annual Report (Form 10-K) for the year ended December 31, 1998, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Dallas, Texas
June 4, 1999

CONSENT

Board of Directors
Telogy Networks, Inc.

We consent to the use in this Registration Statement on Form S-4 of Texas Instruments Incorporated of our report dated January 27, 1999, except for Note 17 which is as of May 29, 1999, with respect to the Balance Sheets of Telogy Networks, Inc. as of December 31, 1998 and 1997 and the related Statements of Operations, Stockholders' Deficit and Cash Flows for each of the years in the three-year period ended December 31, 1998, and the reference to our firm under the heading "Independent Auditors" in the proxy statement/prospectus.

/s/ KPMG LLP

McLean, VA
June 7, 1999